Bekaert in 2006

24 Close to the customer
33 Advanced wire products
40 Advanced materials
43 Advanced coatings
45 Strength through teamwork

Bekaert develops ingenious solutions to practical problems. Dramix® Booster, a proportioning device that automatically adds the right quantity of Dramix® steel fibers to the concrete mix, is a remarkable example of how the *better together* philosophy makes day-to-day operations more efficient.

Close to the customer

Steel industry changing fast

Bekaert was again confronted with extremely complex market conditions in 2006. One reason was that customers faced severe challenges and this translated into constant changes, with new customers coming onto the scene in different regions and different market segments and some existing customers leaving the market or merging to form larger groups. Others, meanwhile, relocated production to growth markets, with the BRIC countries – Brazil, Russia, India and China – in particular gaining in importance.

The steel industry had a turbulent year in 2006. In a market served by so many suppliers, a global wave of consolidations is ongoing. The steel market has been redrawn by a succession of transactions, including Mittal's takeover of Arcelor and Tata's takeover of Corus. This trend is expected to continue at an even faster rate in the next few years.

Bekaert is a large user of wire rod, the company's most important raw material. In 2004–2005, demand for wire rod exceeded supply. In 2006, mainly Chinese players extended their capacity, while some European suppliers restricted their production at certain points in time. The raw-material markets became slightly less volatile but wire rod prices generally remained high, mostly driven by increasing global demand for steel. Bekaert faced rising costs of other raw materials such as zinc, and also higher energy costs around the world.

Wire rod is Bekaert's most important raw material. Bekaert buys wire rod in many different qualities and compositions to meet the most diverse production specifications.

Reinforcing Bekaert's global presence

Because it needs to be close to its customers to respond effectively to their needs and wishes and provide fast and efficient delivery, Bekaert follows them into countries with strong growth potential.

Bekaert also seeks to anticipate new opportunities and emerging markets through the strategic geographical distribution of its activities, which is why the company has been active for some time in most of the BRIC countries. The company has production plants in Brazil, India and China.

In Russia, where Bekaert's customer base has grown in recent years, the company signed a declaration of intent at the end of 2006 relating to the acquisition of Uralkord, which will give it a substantial steel cord production platform in that country. It will also give Bekaert the opportunity to work closely with the steel industry and thus anticipate the growing demand in Russia for top-quality products.

The company has also increased its production capacity in China, to strengthen its technological and logistics support for its customers. The technology center in Jiangyin (Jiangsu province) was developed into an efficient, customer-focused research department.

On the mature markets in North America and Europe, Bekaert invested selectively in niche markets with high added value, such as wires for offshore applications.

Maximum competitive advantage was derived last year from the company's unique global footprint. Bekaert strives not only to employ the most cost-effective production methods, but also to provide customers with the highest possible standard of operational service. In the context of focused *customer relationship management*, the company enters into dialog with customers on their product quality and production methods and processes. On the basis of open discussion, Bekaert then works with customers on improvements in planning and budgeting, logistics and vendor inventory management. Bekaert's approach is thus moving away from *product-out* and toward *market-in*.

Bekaert started intensive *voice of the customer* exercises with several of its customers last year with a view to defining mutual improvement programs. These exercises, in which small teams of people from the customer's organization and from Bekaert worked together on formulating action plans, resulted in practical improvements in cooperation between Bekaert and the customer in the space of only six to ten weeks. These exercises, which are part of Bekaert's total quality management program, are greatly appreciated by the customers. Bekaert will take this approach further in 2007.

Bekaert invested last year in in-depth studies of the markets of several major customers. It then entered into dialog with those customers, on the basis of market information and projections, with a view to jointly anticipating future trends.

Bekaert's long tradition of operational excellence still sets it apart from the competition. It now wants to gain that kind of competitive edge at the commercial level, and has made preparations for regular commercial benchmarking of its plants, so that it can adapt its sales organization to the customer's future requirements.

Through this close cooperation with its customers, Bekaert is better able to understand their needs, both declared and latent. To take maximum advantage of this competitive edge, the company made a study last year of ways of shortening the time needed to turn ideas into saleable solutions and appointed innovation managers for certain product groups in each region. As well as working to shorten the time to market, the innovation teams also promote more intensive internal cross-fertilization

Customer visit translates into even closer cooperation

'My *better together* moment in 2006? That was without doubt the visit we paid, together with our colleagues from the sales, production and support departments, to one of our important customers.

The purpose of our visit was to get to know one another better so that we could work with the customer more effectively. It wasn't a courtesy visit by any means. Because we took colleagues from several other departments with us, we were able to get acquainted with the customer's world very quickly. Concepts such as *voice of the customer* and *market-in* approach proved their worth in practice and together we worked out an action plan.

The visit had a significant effect on the motivation and involvement of everyone. They in turn are inspiring their own working environments with that sense of commitment and everyone is working enthusiastically on implementing the plan. And our contacts with the customer are much closer now. The customer gets in touch with the right person at Bekaert straight away and communication is much more open and direct.

What did we learn from our visit? First, that it's essential to listen to what customers really need and what keeps them busy. Only by listening closely to what customers have to say can we really understand them. And only by really understanding our customers can we find solutions that fully meet their needs.

I'm sure the customer we visited also appreciated our approach, because they included our *better together* baseline in their presentation…'

Alfred Sasko, Production, Sládkovičovo (Slovakia)

Small changes, big differences

Through close cooperation with customers, Bekaert is able to optimize its products and extend its technological lead. Some examples:

- Improvements in the ductility and elasticity of crane cable wire significantly boosted demand for this product last year.

- The company achieved a breakthrough with its Bekaert Bezinal® nail wire in 2006. Nails are traditionally produced by drawing them from wire and then galvanizing them. Working with the world's largest nail manufacturer, the company developed a technique for drawing finished nails from galvanized Bekaert Bezinal® wire. A study was conducted at the same time to verify that these nails were unaffected by the wood preservatives currently in use. This new technique can significantly reduce the customer's production costs.

Innovation: intensively customer-driven

In 2006, Bekaert again invested heavily in research and development. The company aims to derive maximum benefit from the synergy between its two core competences. Innovative coatings, for example, can often impart specific properties to advanced wire products, and existing wire products can find new applications in other market segments.

better together also means working closely with our customers in research and development. Mixed teams of specialists work together to develop a portfolio of advanced solutions. Their objective? To deliver the best results for our customers.

Bekaert's technology center focuses on a small number of key projects. Two-thirds of these are customer-specific innovation projects which will produce results in the relatively short term. The more long-term projects are aimed at making production processes more efficient and developing new product applications. Many of these projects are executed in close cooperation with other knowledge centers, mainly universities and research institutes but also companies in which Bekaert – by way of *corporate venturing* – has acquired holdings.

Bekaert expanded its technology-related activities in 2006 by establishing a technology center in China. Several laboratories were set up in Jiangyin (Jiangsu province) and the first tests were successfully performed on behalf of Chinese customers. The technology center in China will work closely with Chinese universities, including Tsinghua University in Beijing, with which the company has entered into cooperation agreements. Bekaert's intellectual property rights will be properly protected.

The company also has the necessary facilities to conduct research for its customers at various other Bekaert plants, such as those in San Diego (California, United States), Assen (Netherlands) and Jiangyin (Jiangsu province, China).

In-house process improvements reduce costs

In-house process optimization was one of Bekaert's success stories last year. Significant savings were generated by the *Plant 2006* project, in which staff from the technology center and the engineering department worked with their production colleagues on identifying precise process modifications that would reduce the capital expenditure required for new production plant.

Examples of innovation

The pace of the *Bekaert Innovation Process*, the object of which is to develop ideas and devise solutions quickly and in a structured manner using *Design for Six Sigma* tools, was stepped up throughout the organization.

These efforts produced results, in the form of projects with all the major tire manufacturers to further improve specific product qualities: better adhesion between rubber and steel cord, extended tire life and reduced steel cord fatigue.

Bekaert was again granted around 40 new patents last year, sustaining the growth in its patent portfolio over the past decade. Bekaert now holds a total of almost 2 200 patents which, as well as protecting its intellectual property, are also an acknowledgement of the leading role played by Bekaert at the technological level.

Closer focus on the environment

Concern for the environment is a key element of Bekaert's sustainability policy. The company's engagement is not confined to ensuring compliance with current statutory provisions and guidelines: it also proactively adapts products and processes to the requirements of future environmental legislation. Environmental considerations are taken fully into account in the development of new products, processes and equipment. Bekaert seeks to minimize the environmental impact of its activities, makes rational use of raw materials and energy. In the interests of good community relations, stakeholders are regularly informed of the company's efforts on behalf of the environment.

Bekaert develops a number of products, such as particulate filters and burners, which offer environment-friendly alternatives to the current solutions. In 2006, working closely with customers, the company also introduced the new Bekaert heating cord. This plastic-coated stainless steel cable with electrical resistance is used to armor a hose carrying a urea solution which is injected into the diesel engine exhaust to reduce emissions of particulates and oxides of nitrogen.

Market-driven innovation delivers results

‘My *better together* moment in 2006 was the market launch of Solar Gard Supreme automotive window film.

A product launch is always a special moment, because it’s really then we find out whether our combined efforts have been successful. Things have really changed in recent years, however. Demonstrating once again that our research and development is becoming increasingly customer-driven, this new product is the result of market research showing that what car owners really want is a non-fading, optically clear window film. To meet their needs, we put together a team of people from research and development, marketing, production and process improvement. Financial people and representatives from suppliers and customers were also closely involved in the project. The team went to work, adopting the Bekaert innovation process and the marketing roadmap methodologies.

The new Solar Gard Supreme window film was developed largely at our local research laboratory in San Diego (California, United States), but on several issues we joined forces with our colleagues at the technology center in Deerlijk (Belgium). We work more and more in an international framework.

We’re proud of the result. The new window film fully meets our customers’ expectations. Car owners like it because it’s clear and retains its color. Dealers like it because it’s good for business. And we like it because it gives us an edge over the competition.’

Kirit Naik, Research and Development, San Diego (California, United States)

Bekaert works constantly to develop more environment-friendly production processes. Preparations were made in 2006 for the *Green 2007* project to further reduce energy consumption through process optimization. The potential savings were identified and the project will be launched in 2007.

Record year for research support

To support the growing effort devoted to innovation, Bekaert has increasingly had recourse to external funding in recent years.

The company continued to receive active government support for research and development in 2006. Bekaert is especially grateful for the close cooperation with and valuable support given by the *Institute for the Promotion of Innovation by Science and Technology* in Flanders (IWT). Bekaert also benefits from tax incentives in Belgium in the form of reduced wage tax for researchers.

Open innovation speeds progress

To step up the pace of innovation and promote cross-fertilization with other knowledge centers, Bekaert works with eight strategic R&D partners around the world. These include the *Fraunhofer Gesellschaft* in Germany, the *Massachusetts Institute of Technology* in the United States and *TNO* in the Netherlands. The company has also signed contracts with around 40 high-tech companies internationally, in order to build technological expertise in clearly defined domains.

In 2006, the company organized several *Sparring Days* on specific technological issues with *Rijksuniversiteit Gent* in Belgium and *Ecole Polytechnique Fédérale de Lausanne* in Switzerland. Bekaert also continued to collaborate with *Tsinghua University* of Beijing in China.

Bekaert was the first industrial company to sign a cooperation agreement with the *Holst Centre*, a Dutch research institute which develops technologies and technology platforms to help industry bring new products to market faster and more efficiently. The *Holst Centre* is a joint initiative by *TNO* (Delft, Netherlands) and *IMEC* (Leuven, Belgium), which contribute technology and research support.

Bekaert is participating in two of the *Holst Centre's* strategic programs: wireless autonomous transducer systems and systems-in-foil products and production processes. As part of the wireless autonomous transducer systems program, Bekaert will work with the *Holst Centre* on systems capable of generating and storing power of up to a few ten's of microwatts which are the key to the miniaturization and autonomous operation of wireless transducer systems. As part of the systems-in-foil program, new production processes will be developed to create electro-optic applications on thin flexible plastic foils.

The *open innovation* concept means that both the knowledge gained from and the cost of the joint development program are shared.

Tailor-made production lines

In its engineering department, Bekaert designs and develops production lines for the various plants. Thanks to Bekaert's in-house expertise and specialized knowledge and understanding of its particular production needs, its production plants are equipped with the most advanced machines and process equipment which, as well as reducing the total cost of ownership, is consistent with the company's technological leadership.

The central international spares inventory project which Bekaert launched in 2005 at its plant in Ingelmunster (Belgium) was extended in 2006 to include the Czech Republic, Slovakia and China. This system allows the department to keep inventory levels low while still ensuring just-in-time delivery.

Enhanced customer service

Dramix® steel fibers for concrete reinforcement have been one of Bekaert's success stories for many years, and 2006 was an exceptionally good year for the product.

In the mature markets in particular, Dramix® steel fibers are gaining ground over more traditional solutions such as steel rod and mesh reinforcement. Dramix® steel fibers offer many advantages: they are easy to mix into the concrete, they improve its ductility and they are more convenient to use in complex construction projects such as tunnels.

In 2006, Bekaert introduced the Dramix® Booster, a proportioning device developed in close cooperation with a number of customers. Installed at the readymix depot, the machine automatically adds the right dose of Dramix® steel fibers to the concrete.

Operational structure built for growth

In November 2006, Bekaert decided to reposition the advanced materials and coatings activities within the company, in order to support its growth strategy by sharpening the focus on technology and innovation, especially in domains where its unique combination of metal transformation and coating technologies is conducive to the development of solutions offering high added value.

Among the changes, responsibility for the industrial coatings activity platform was transferred to Dominique Neerinck, the Chief Technology Officer. By streamlining research and development effort more effectively and bringing it more closely into line with the market's needs, the company will be able to deploy its resources more efficiently and create synergy more quickly.

In specialized films, a field which has great growth potential, Bekaert possesses the technology and production capacity to achieve sustainable organic growth. Given the specific nature of this market, this activity platform will retain its separate organization, which will report to Bruno Humblet, Chief Financial Officer.

To derive maximum benefit from Bekaert's expertise in the areas of operational excellence and quality and to manage the entire internal value chain more efficiently, responsibility for the fiber technologies, combustion technologies and composites activity platforms has been transferred to Henri-Jean Velge, Group Executive Vice President.

Advanced wire products

All in all, 2006 was a good year for advanced wire products. The mature markets displayed mixed trends. While the European market remained more or less stable, conditions on the North American market were difficult. In China, the company reaped the fruits of the substantial investments it had made in increasing production capacity. In Latin America the company recorded further growth in its activities. Bekaert made further progress towards reinforcing its position in Russia.

Europe

The European economy was strong in 2006. The recovery of the German market had a beneficial effect on the other Western European countries and the Central and Eastern European markets continued to grow. With the strong euro making imports more attractive, Bekaert worked constantly to improve its competitiveness and defend its position.

The European automotive sector had a good first half, but weakened as the year progressed.

The construction sector performed well, helped by the recovery of the German economy. Bekaert was extremely successful with Dramix® steel fibers for concrete reinforcement. The crane cable, bridge cable and elevator cable markets, in which substantial replacement investment is expected in the next few years, also recorded vigorous growth.

High-quality high-pressure hydraulic hoses reinforced with Bekaert steel wire are used in a wide range of machines such as excavators, cranes and bulldozers in the construction and mining industries.

Demand for Bekaert's specialized products was higher in the offshore and telecom cable sectors. This included a number of large-scale energy projects, such as the DC cable between the Netherlands and Norway. From 2009, Norway will use this cable to export hydroelectric power to the Netherlands and import electricity from the Netherlands in the winter when not enough hydroelectric power is generated. With the offshore market expected to continue growing in the years ahead, Bekaert decided to consolidate its position as a leading supplier to the offshore industry.

In April, the company signed the contract for the acquisition of Cold Drawn Products Limited, a major supplier of specialized profiled wires for offshore applications in Western Europe. The company has a workforce of 170 at two production plants near Bradford in the United Kingdom. Cold Drawn Products Limited was quickly integrated into the organization and performed well last year. Bekaert is planning to extend its strong position in the European offshore market into other regions over the next few years.

While consolidating its position in certain niche products in Western Europe, Bekaert continued to wind down its activities in products with lower added value. For example, it disposed of its interests in the various European joint ventures which manufacture materials-handling products for logistics applications. This activity was related to the European fencing business, which Bekaert sold in 2005.

The production facility for card clothing in Huddersfield (United Kingdom), which employed 52 people and supplied mainly short-staple carding wire, was run down. In the interests of cost-competitiveness, the activities were transferred to the carding product plant in Zwevegem (Belgium) and the new production facility in Wuxi (Jiangsu province, China).

Russia: a milestone

In recent years, Bekaert has succeeded in building a substantial customer base in Russia, for steel cord products for tires, for Dramix® steel fibers for concrete reinforcement and for other specialized wire products. Not having its own local production capacity, the company supplied its Russian customers mainly from its production plants in Central Europe.

Car and truck tire production in Russia has great growth potential, with demand rising for Bekaert's products among the Russian tire manufacturers.

In December 2006, Bekaert signed a declaration of intent to acquire Uralkord, which supplies around a quarter of the Russian market for steel cord products for tire reinforcement.

North America

Bekaert had to move swiftly to secure its position in North America in 2006. The peaks in the telecoms and energy sectors that had been experienced in previous years did not recur. The construction and housing sector slowed sharply, especially in the second half of the year, although demand in the agricultural sector remained fairly constant. Overall, industry in the United States had a difficult year.

Bekaert is acknowledged as setting the benchmark for steel cord for tire reinforcement and specialized wire products such as spring wire, fine cable wire, cables for side-window systems and wire for windshield wiper arms. Diamond-like coatings on engine components reduce friction, extend life and guarantee maximum performance.

The main impact was on Bekaert's activities in the automotive sector. The *big three* – Ford, Chrysler and General Motors – faced intense competition from Japan. Several spring manufacturers left the market.

Tire imports grew much faster than market demand and, in the summer of 2006, tire inventories in North America rose to a historically high level. The pressure on tire prices intensified and the tire industry underwent drastic restructuring. Practically all the major tire manufacturers announced plant closures, triggering protracted strikes. The strike at Goodyear in the fourth quarter had a significant impact on Bekaert. Already facing a steady decline in demand for steel cord products on the North American market, the company was forced to take rapid action. In November, the company announced plans for the phased shutdown of the steel cord production plant in Dyersburg (Tennessee), with the loss of 200 jobs.

Most industrial customers in the United States are now adopting a twin-track procurement policy, taking advantage of the flexibility which local players can provide, while at the same time engaging in global sourcing, buying a proportion of their raw materials wherever the price is most competitive. Bekaert adjusted its supply arrangements accordingly.

The company was able to advance its position in North America in some products. In January 2006, it acquired Delta Wire Corporation in Clarksdale (Mississippi), a major supplier of bead wire for tire reinforcement, with a workforce of 100. Bead wire is a thicker wire embedded in the tire where it contacts the rim. Unlike steel cord, bead wire is not easy to transport, so it cannot be imported so easily.

Environment-friendly progress

Bekaert achieved a breakthrough last year with steel wheel weights. These weights, which are attached to the rim to balance the wheel, have traditionally been made of lead or zinc. Lead is harmful to the environment and its use is avoided as far as possible in production processes, while zinc prices rose sharply in 2006. Bekaert's innovative weights, made from profiled steel wire, are just as easy to use but are more environment-friendly than lead and cheaper than zinc.

Asia

China is a good example of Bekaert's skill in identifying opportunities at an early stage. The company is currently active on the Chinese market on a large scale in virtually all of its business areas. In 2006 new plants in Shenyang (Liaoning province) and Jiangyin (Jiangsu province) were opened.

Bekaert had a presence in China long before that market embarked on its rapid growth trend, building its first steel cord plant there in the 1990s. In the intervening years, it has gained an understanding of the market and the culture and has forged increasingly close relationships with its Chinese customers and partners.

Bekaert now occupies a leading position in China in steel cord products for tire reinforcement. To meet market demand and resist the heightened competitive pressures, Bekaert increased its annual production capacity in China to 200 000 tonnes, which involved a substantial investment program. The production plant in Weihai (Shandong province) was extended and two new plants were built in very short order in Shenyang (Liaoning province) and Jiangyin (Jiangsu province). Jiangyin is home to the largest Bekaert steel cord plant in the world.

The Chinese plants have a total workforce of over 3 800. Bekaert invests heavily in recruiting and training talented people and works constructively with governments, authorities and partners.

Bekaert has consolidated its leadership of the Chinese market for steel cord for tire reinforcement. The opening of the new production plant in Shenyang (Liaoning province) helped to raise its annual output in China to 200 000 tons in 2006.

These efforts started to bear fruit in 2006. As expected, the Chinese steel cord market continued to grow with undiminished momentum. Bekaert succeeded in halting the growth of a number of competitors, regaining market share and significantly strengthening its position.

As well as meeting the heavy demand for capacity, Bekaert was able to adapt more effectively to the Chinese market. The Chinese management team is working hard to achieve *customer intimacy*. Customers are now serviced by technically experienced account managers, who can respond immediately to specific requirements and provide extensive customer support. As a result, Bekaert has been elevated to the status of preferred partner by major customers.

Customers in China also benefit from Bekaert's technological leadership. Bekaert works closely with Chinese wire rod suppliers and the technology centers in Deerlijk (Belgium) and Jiangyin (Jiangsu province) collaborate on developing wire products to meet the specific needs of the Chinese tire industry.

The market is expected to continue growing in the coming years. Given the pace of economic expansion which the country is experiencing, efficient transport is becoming increasingly important. Demand for trucks is rising and at present only 60% of truck tires in China are reinforced with steel cord. Chinese exports – of both steel cord and tires – are growing fast, and China is set to become the world's largest steel cord market in the foreseeable future.

In September, Bekaert signed a contract to acquire a minority 19.59% stake in Shougang Century Holdings Ltd. This company, which has been quoted on the Hong Kong Stock Exchange since 1992, numbers steel cord among its products. The two parties have defined the framework for closer cooperation in the provision of services and material supplies. This transaction represents a further step forward by Bekaert in building effective partnerships and consolidating its leading position on the Chinese market.

The company also strengthened its market position in other advanced wire products last year. Bekaert now has production plants for specialized wire products in Jiangyin (Jiangsu province) and building products in Shanghai and last year opened a new plant making *short-staple* carding products in Wuxi (Jiangsu province).

Latin America

Bekaert is active in Brazil, Chile, Peru, Ecuador, Colombia and Venezuela via joint ventures with local partners, the largest of which is based in Brazil.

Latin America has attractive growth potential, with per capita steel consumption of only about a fifth of that in Western Europe. Economically, the countries of Latin America had a good year in 2006, thanks to the rising demand for raw materials for the burgeoning Chinese market. The advanced wire products business profited from this growth and the production plant in Bahia (Brazil), which was built in 2005, benefited from investment in additional equipment.

Despite the higher level of activity, the company faced increasing competition from Asian imports and hence sustained pressure on prices. Sales benefited from currency movements, most notably in Brazil and Chile.

Bekaert has been active in Latin America for many years via joint ventures with local partners, with whom it works constantly to create win-win situations with its customers.

Good internal and external relations generate record growth

'The Peruvian economy grew strongly in 2006, and that translated into spectacular growth in demand for wire. My *better together* moment in 2006 was in March, when our plant achieved record production growth. March was a turning-point: we broke that record three times in the following months.

better together has certainly yielded results here. We have been joining forces through joint ventures in Latin America for many years to combine the market knowledge of our local partners and Bekaert's technological expertise. It has been a very successful formula, but we are now working even more closely with customers, so that we can respond as effectively as possible to their needs and build the strongest possible relationship with them.

better together also applies to our employees. For example, vacancies are always advertised internally first, and many of those in key positions are people who have worked their way up through the organization and have shop floor experience. They know the processes from top to bottom and are ideally equipped to work on improving quality still further, in constant dialog with colleagues, customers, suppliers and all other partners.

Cooperation, based on respect, with our colleagues, our local partners and our customers: that's the key to our success.'

Manuel Gallofre, Production, Callao (Peru)

Advanced materials

Exploiting its core competence in metal transformation, the company develops products based on ultra-thin metal fibers, around a fiftieth of the thickness of a human hair.

These are used by specialist manufacturers in innovative end-products, such as antistatic protective clothing for the chemical and electronics industries, textiles with built-in heating, heat-resistant textiles and conductive plastics.

The fibers are also used for filter media and in environment-friendly gas burners and burner systems. In these specific niche markets, Bekaert works closely with its customers and in many cases is moving higher in the value chain.

Working with the customer

Bekaert transforms ultra-thin metal fibers into metal-fiber media for filtration which, unlike most of the alternatives, can be reused and therefore have a far longer service life. Bekaert has grown to the position of world leader in this market and achieved good results in 2006. Bekaert products include gas filtration solutions for the chemical industry. Working in partnership with its customers, the company is developing filter media which will enable trucks to meet the EURO V particulate emission standards which come into force in October 2008.

Bekaert knits ultra-thin metal fibers, around a fiftieth of the thickness of a human hair, into filter media for gases, polymers and liquids.

Bekaert filter media are also used in the plastics industry for removing impurities from the molten material during the production process, to maintain the quality of the finished plastic fiber or film.

To consolidate its market leadership and tighten the focus on products with higher added value, Bekaert has announced an investment of € 18 million in Zwevegem (Belgium) to expand its production capacity for supplying the fast-growing markets for products based on stainless steel wire.

Helping the environment

Building on its expertise in fiber technologies, Bekaert has gained a leading position in the development of environment-friendly gas burners. These incorporate a textile knitted from metal fiber bundles with a special structure which promotes optimum combustion of the gas/air mixture. They operate at high efficiency with lower emissions of harmful gases such as CO and NO_x.

The development of these environment-friendly burners is the product of close partnerships which Bekaert has built up with its customers in the heating market. The company posted excellent results on this activity and broadened its market within Europe and outside. Bekaert Furinit® burners for residential applications are a great success.

In May 2006, Bekaert announced the acquisition of Aluheat B.V., a Dutch company located near Venlo (Netherlands) with a workforce of 25, which specializes in the newest environment-friendly technologies for condensing boilers in heating systems.

Acquiring supplementary technological expertise in environment-friendly heating systems enables Bekaert to identify its customers' needs more clearly and raise the pace of development of new niche products with high added value, and thus to respond more effectively to the increasingly rigorous environmental legislation in Europe and the United States.

For the paper industry, for example, Bekaert develops customer-specific systems for infrared drying of coatings on quality papers. The company faced a difficult 2006 in this market, which is largely project-based and relies on the industry undertaking major investment programs.

Internal cross-fertilization key to product quality

‘Setting up the new quality control laboratory was my *better together* moment in 2006. My colleague and I were responsible for the project. As lab staff, we’re involved in all steps in the production process because we carry out quality checks everywhere. When the lab was upgraded last year, our experience was useful because we knew how best to match the facilities to the various process steps.

In the course of the project, I was struck once again by how well everything interacts here. Everyone can give his or her views, which are listened to and given full consideration, and cooperation with the management and colleagues in other departments is excellent.

Putting your ideas into practice and working closely in a team is stimulating. We also get involved in other projects, because my colleagues and I know the production process from A to Z. For example, if we detect a flaw in a semi-manufacture, we contact our production colleagues immediately. They investigate and keep us informed of their findings and the action they take. Intensive cross-fertilization is the key to optimizing production processes and quality.’

Ann-Marie Dewaele, Production, Wetteren (Belgium)

Advanced coatings

Advanced coatings are used to impart specific properties – such as anti-stick properties, low wear, resistance to radiant heat and hardness – to many materials, enabling customers to add unique value in numerous applications.

Unique expertise

In industrial coatings, Bekaert is world leader in sputter hardware and in rotatable sputter targets. Sputtering is a high-tech process used for the application, under vacuum, of coatings to substrates such as film or glass. Bekaert possesses expertise in sputtering various materials, mainly onto plastic film.

For the glass industry, Bekaert produces sputter hardware and rotatable sputter targets. This technology has become the standard process worldwide for applying specialized coatings to all kinds of glass.

Bekaert supplies special equipment which its customers use to apply complex coatings during their manufacturing processes to impart specific properties to the end-products. As well as project-specific hardware, Bekaert also supplies rotatable sputter targets: cylindrical tubes to which high-grade coatings are applied by a thermal spraying process. This process involves spraying very small particles of material, in a molten or semi-molten state, under pressure onto a carefully prepared surface.

Rotatable targets enable glass manufacturers to apply coatings to large areas of flat glass. Because rotatable sputter targets contain more usable material than flat targets, they have a longer life, which means less frequent coating line shutdowns and hence lower production costs for the customer.

The combination of expertise in sputter hardware and rotatable sputter targets makes Bekaert unique. This technology has set the global benchmark for applying thin inorganic coatings to glass. Bekaert continued to grow this business in 2006 and made an initial venture into the flat-screen market.

Diamond-like coatings offer exceptional benefits

With their unique combination of extremely low frictional resistance and extreme hardness, Bekaert diamond-like coatings find application in several niche markets. The company continued to advance its leadership in the Formula 1 and NASCAR world, where its coatings are used to reduce wear on engine components, reduce friction and hence increase power output.

In 2006, Bekaert developed customized diamond-like coatings for application to engine components in several series of high-performance motorcycles.

Good progress was also made last year in extending the use of diamond-like coatings to other new applications, such as components in computer chip production equipment. They are also applied to molds used in plastic bottle production and to reed dents for looms.

Saving energy

Bekaert also applies its coating technologies to polyester film, producing a range of window films for vehicles and buildings to keep out the sun's heat, filter out ultraviolet radiation and hold glass together in the event of breakage.

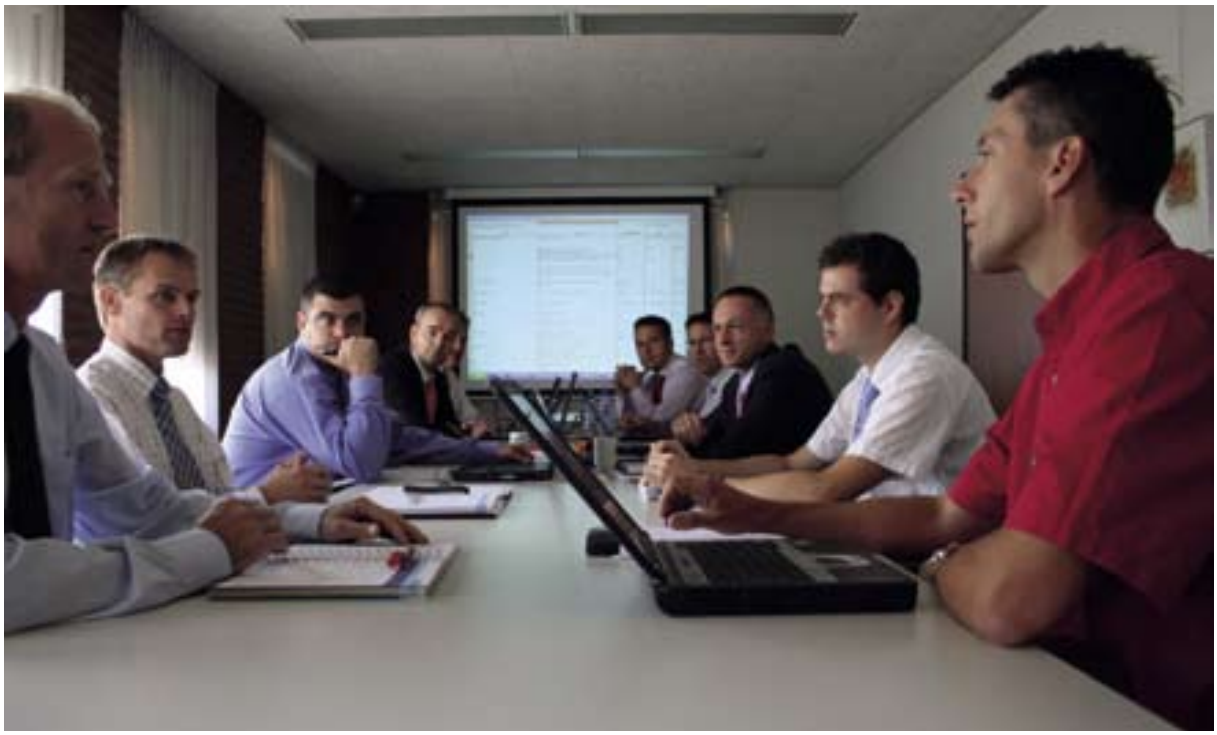
Fitting Bekaert window film raises comfort levels appreciably, while making useful energy savings by reducing the need for air-conditioning. The success of these films is also due in part to the other benefits they offer, in terms of reducing the risk of injury from glass shards if a window is broken and increasing break-in times.

To meet the growing consumer demand for energy-saving products, Bekaert has developed window films for buildings that drastically cut energy costs by reducing the need for air-conditioning, keeping heat out but letting light in.

A unique coating of various metals is applied to polyester film by an advanced sputtering process. This coating reflects certain undesirable wavelengths of sunlight while allowing the maximum amount of visible light to pass through: in other words, the film is spectrally selective. By keeping heat out and letting light in, the film enables the user to maintain a pleasant room temperature and higher comfort levels throughout the building. The Panorama® window films were developed at the research center in Deerlijk (Belgium) and are manufactured at the production plant in San Diego (California, United States).

In 2006, Bekaert recorded sustained growth in this activity, mostly in North America and Asia.

Strength through teamwork



Bekaert has respect for and faith in the capabilities of its 18 500 employees around the world, who are committed to the company's success.

Bekaert's 18 500-strong global workforce is committed to the company's success, working together and with customers in multifunctional and multicultural teams, on the basis of mutual respect and trust, seeking specific solutions and creating win-win situations. Through focusing on their customers' needs, they accumulate in-depth knowledge of markets, develop their professional skills and acquire advanced technological expertise.

HR policy based on the company's strategic objective

Since its HR policy is guided by its strategic objective of sustainable profitable growth, the company has to be very specific in the strategic choices it makes about how to manage its human capital.

Customers choose Bekaert because of its leadership status so Bekaert in turn expects leadership from its managers. It is essential, therefore, that the entire organization is fully acquainted with the company's objectives. Each employee needs to understand how his or her job contributes to achieving the business plan. Coherence of focus has a direct effect on performance. Results are the criteria on which teams and individuals are rewarded.

The specific composition of the workforce also affects how Bekaert perceives leadership. Around 7% of the company's global workforce are managers. They head international teams of highly qualified technical and professional people and invest a great deal of time in motivating them in line with the company's overall objectives and vision.

Bekaert believes that its performance is directly related to having well qualified and highly motivated individuals working for it. In pursuit of its strategic objective of sustainable profitable growth, the company seeks to establish a strong management and an effective team at every plant. The company has respect for and faith in the capabilities of its workforce all over the world. This approach is greatly valued, not only by Bekaert's employees, but also by partners, customers and local authorities.

The four pillars of HR policy

Bekaert's global HR policy is built on four pillars.

First is international diversity, because Bekaert can only achieve worldwide leadership by having competent and talented people in the various countries in which it operates. Bekaert aims to be an employer that can attract the best professionals in any specific market. Customers expect service from a strong local team, so the company relies on people who are familiar with local market conditions.

Second is a fair, performance-related and transparent remuneration system, with clear targets for employees at all levels against which results can be measured. Rewards for the individual or team can differ substantially, depending on actual results. Performance-related pay is therefore a key element in Bekaert's remuneration policy.

Third is professional teamwork. By working effectively in teams, Bekaert can make the most of all opportunities which arise, and one definition of success is how well people work together. A lot of management time is spent in assembling the best professional teams, but it is the personal attitude of each individual team player that eventually makes the difference to the result, so individual responsibility is and will remain crucially important. Because an organization's performance is directly related to having well qualified and highly motivated staff, Bekaert sees professional development as the individual's responsibility in the first instance. The training and development programs are therefore increasingly tailored to specific needs.

Fourth and last is leadership and commitment to people. Human resources management is not just a matter of specific HR programs. The real value comes from how the company makes its genuine belief – that each employee makes a difference to the customers – part of its day-to-day practice.

Growth and recruitment

Bekaert's rapid growth in countries such as China and Slovakia necessitated extra recruitment effort in 2006. The latest recruitment techniques were employed and full account was taken of the specific requirements of the various labor markets.

Thanks to its good contacts with the Chinese academic world, the company was able to recruit 40 engineers in 2006. Helped by its image as a good employer, the company was also able to recruit more than 1 300 operators in the past twelve months.

The Chinese market is clearly receptive to Bekaert's way of doing business. In 2006, Bekaert again invested heavily in training for its talented and motivated employees in China. Bekaert's workforce of over 3 800 is committed to enabling the company to play its full part in the Chinese economy.

In Slovakia's very tight and highly competitive labor market, Bekaert succeeded in recruiting employees for its plants in Hlohovech and Sládkovičovo by cooperating closely with the local authority.

To support Bekaert's efforts to recruit both local and international talent, an updated jobs website was launched in 2006 which candidates can use to apply online.

Job information days were organized at several plants in Belgium to give candidates an opportunity to get acquainted with the company. Extra efforts were made to attract recruits for the Zwevegem plant in Belgium from neighboring regions of northern France.

Emphasis on quality and safety helps new personnel to grow

‘Sharing my expertise with my colleagues makes every day a *better together* moment.

As a trainer, both *better* and *together* are especially important to me. *better* is key, because it places the focus on safety, quality, efficiency and organization, all elements which are essential if we are to meet the high quality standards that customers demand of us. *together* is equally important, because it means I can share my knowledge with many, many people. In 2006, for example, I trained several hundreds of new employees in Shenyang.

The heavy investment we make in training doesn’t just benefit our customers. It also helps new employees get acclimatized more quickly and they greatly value the training we provide. I see that every day: new trainees feel a sense of pride when they go back to work after completing their courses. They are pleased that they have learned so much and are proud to work for Bekaert.

As for me? I’m still developing, at both the personal and professional level, so I’m doing my bit for the growth of the business, the Chinese economy and the country itself. It gives me a good feeling, which I try to convey in the training courses I give. Incidentally, did you know that we provide around 70 000 hours’ training in China every year?’

Zhang Zhaojing (Logan), Training, Shenyang (Liaoning province, China)

Training and communication lay foundations for shared culture and growth

The company's growth is dependent on the talent of the employees and their ability to deal not only with present challenges but also with future ones. Recruitment involves more than just finding the right skills for a particular job. It is a matter of finding the kind of talent that has an innate ability to learn and copes well with change.

Because it is important for new recruits that they start to feel at home in the organization as soon as possible, the training which the company provides to familiarize them with their new working environment is greatly appreciated. At all plants, and in China in particular, major efforts are made to acquaint new recruits with the Bekaert culture as quickly as possible. The training courses provided by the company cover not only the job requirements, but also aspects which are necessary for the maintenance of a good working environment, such as safety and total quality management.

To facilitate international knowledge transfer, Bekaert actively promotes the international mobility of its personnel. Each year, over 60 Bekaert personnel are sent on international assignments which involve relocation to other countries. The pace of Bekaert's international growth is reflected in growing demand for short-term foreign assignments of between three and nine months to assist with new start-ups or expansion projects.

Learning should not end with the induction program. Various *Total Quality Management* and *Six Sigma* courses constitute the core of the training offered. Employees from all over the world have taken comprehensive courses in these areas. To promote cooperation between the members of international teams and help them to cope effectively with the challenges presented by new markets, a number of cross-cultural workshops were organized to study the differences commonly encountered when doing business in particular countries.

Learning at Bekaert combines the efforts of employees, their supervisors and the business organization as a whole. For the employee, the personal drive to learn is one of the critical skills. For the manager, the role of coach is becoming increasingly important. Good managers create the space and trust which are needed for individuals to learn or delegate responsibility as a means of motivating their team members. The effort invested in talent development is now assessed by management teams within Bekaert as part of their regular business reviews. Management teams around the globe see the development of their talent pools as a way to grow the business.

The various training courses are supported by more intensive communication between management and employees. For example, the members of the Bekaert Group Executive visited several plants in each of the different regions last year in order to engage in direct dialog with the employees. At the end of the year, the experience gained from courses at various plants was shared with all management employees worldwide at the *International Management Conference*. To keep them up to date with current strategy, regular meetings are held on this subject in the various regions. They then disseminate this information to their staff and it passes via a cascade system down to the shop floor.

Five critical management skills

Bekaert has identified five skills which are essential to the company and its success in the future. The company expects all its managers to practice these skills, which are assessed as part of the annual evaluation process. They form the basis for Bekaert's way of working.

The five skills are:
Customer focus: a skill that should be a part of everyone's approach, whether or not they are in daily contact with external customers.
Self-management: a desire for learning, the hallmark of every professional.
Innovation: an attitude that generates new ideas and challenges the status quo.
Performance-driven: delivering good results and achieving ambitious targets from year to year.
Focus on talent development: requires every supervisor to translate his or her team's skills into practice. As a coach, the supervisor must develop people and share the best of their talents with all divisions of the company.

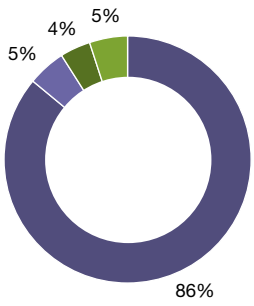
Safety is a top priority

Safety at work is key in Bekaert's operational excellence, and safety was again high on the agenda in 2006, above all at the plants where many new employees were starting work. The twin-track approach of raising employees' safety-awareness and intensifying the management focus yielded a significant improvement in safety performance. While many plants around the world achieved an excellent safety record, the champion in 2006 was the Itaúna plant in Brazil, where the employees celebrated no fewer than 2 000 accident-free days.

Key figures employees

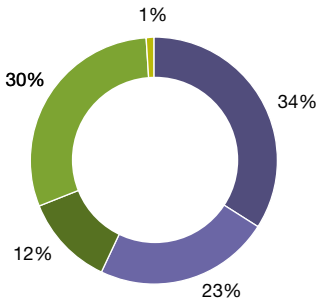
	2004[1]	2005	2006
Total number of employees	16 402	17 096	18 516
By segment			
Advanced wire products	13 684	14 099	15 910
Consolidated	*8 217*	*8 592*	*10 123*
Joint ventures and associates	*5 467*	*5 507*	*5 787*
Advanced materials	714	893	950
Advanced coatings	676	728	745
Other activities	1 328	1 376	911
By region			
Europe	6 947	6 934	6 322
Asia	1 984	2 684	4 350
North America	2 305	2 212	2 264
Latin America	5 075	5 171	5 487
Other regions	91	95	93
By category			
Blue collars	11 902	12 388	13 595
White collars	3 345	3 530	3 677
Management	1 155	1 178	1 244

Employees by segment



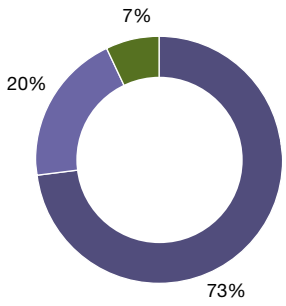
- Advanced wire products: 86%
- Advanced materials: 5%
- Advanced coatings: 4%
- Other activities: 5%

Employees by region



- Europe: 34%
- Asia: 23%
- North America: 12%
- Latin America: 30%
- Other regions: 1%

Employees by category



- Blue collars: 73%
- White collars: 20%
- Management: 7%

[1] The personnel figures for 2004 were restated and include only continuing operations. The discontinued operations represented 1 973 persons.