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C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Marc Grynberg - Umicore - CEO

Thank you, and good morning everybody and welcome to the presentation of Umicore's results for the first half of this year. I will talk about the overall business evolution as well as the outlook for the full year and then I will hand over to Filip who will cover the financials. I will then wrap up before handing the call over to you for any questions that you might have.

Before I proceed with the presentation itself perhaps I can draw your attention to the cover slide. This is a picture taken from a drone at the recent opening ceremony of our automotive catalyst production facility in Poland. The plant is now fully up and running and already contributing to the strong growth of the automotive catalyst business that I will comment on in a moment.

Let's look first at the overview. Recurring EBIT was up 3% year-on-year which considering the adverse metal price environment represented a solid performance overall. This reflected differing evolutions in the various business groups. Catalysis was the standout performer with recurring EBIT up by almost 30% as a result of strong growth in automotive catalysts.

In the other business groups of energy and surface technologies and recycling the very positive market fundamentals and operating performance were overshadowed by the weakness in metal prices.

In terms of investments we continued to execute our growth strategy with a focus on clean mobility and recycling. This was visible in our capital expenditures which in the first half included investments in Hoboken as part of the capability expansion program, the construction of a new automotive catalyst plant in Thailand and some capacity additions for rechargeable battery materials.

Recently we also announced a significant acceleration of our expansion in rechargeable battery materials for which production capacity will be tripled by the end of 2018.

Another highlight of the first half was the sale of the zinc chemicals business to OpenGate Capital for slightly more than EUR140 million, marking a major step in our strategic move to divest the zinc related activities.

Non-recurring elements amounted to EUR68 million and were mainly related to the fine imposed last month by the French Competition Authority. I would like to stress again that we dispute the allegations of the Authority, that we disagree with its finding and that we will appeal both the decision and the fine.

From a dividend perspective the interim dividend amounts to EUR0.60 and consistent with our dividend policy represents half of the annual dividend which was declared for 2015.

Looking ahead the outlook is positive. In catalysis we see the strong demand levels and the supportive product mix persisting in the automotive catalysts business. This will drive higher revenues and earnings for the business group on a full year basis. Looking ahead beyond 2016 a number of legislative steps have recently been taken that will create further growth potential in Europe and China in particular and this bodes very well for the business.

In energy and surface technologies we expect somewhat higher full year earnings than in 2015. This mainly reflects the continued growth in the rechargeable battery materials activities particularly resulting from the surging demand from the automotive segment. The longer term prospect for vehicle electrification continued to strengthen. As an example, last week most of you will have seen the European Union's strategy to promote low emission mobility with a strong accent on accelerating the transition to zero emission vehicles. This is yet another development that validates the strategic choices that we made years ago.

In recycling, the fundamentals of the supply environment remain very solid. Now that we have completed the bulk of the investments aimed at raising capacity in Hoboken production is starting to ramp up and we should see higher processed volumes this year. On top of this we have seen some recovery in gold and silver prices recently and this should support future earnings provided, of course, prices stay where they are today.

It is worth bearing in mind though, that prices for most other metals remain subdued at best.

On balance I expect to see full year recurring EBIT for 2016 in a range going from EUR345 million to EUR365 million. The top end of this guidance reaches slightly above the upper end of the range that I provided back in April and of course assumes that metal prices continue to prevail at their current levels.

For the sake of simplicity and comparability we have included the estimated zinc chemicals contribution for the full year and we'll adapt the numbers after the sale of the business has closed.

Let's now turn to the business review and comment on the evolution of the three business groups in the first half.

In catalysis we registered strong revenue growth and an increase in recurring EBIT of 27%. In catalysts for light duty vehicles Umicore's revenues continued to grow faster than the car production levels globally and with an overall positive product mix. The growth was particularly pronounced in Europe as a result of the continuing introduction of Euro 6b compliant diesel platforms and the success of more efficient direct injection gasoline engines to which Umicore is well exposed. The penetration of Euro 6b platforms is pretty much complete now and therefore you should expect the growth rate in Europe to normalize in the coming periods.

In China Umicore continued to outperform a fast growing market. In the past the evolution of our sales in China has been highly correlated to the success of global OEMs. As emission norms get tighter at a fairly rapid pace now, we see leading domestic brands increasingly adopting our latest emission control technologies. For this reason, they are starting to make up a more significant portion of the overall growth in Umicore's catalysts sales. As the Chinese market continues to grow in volume and complexity we will need to keep adding production capacity and technical capabilities in the region. With the investments that we recently completed in China we should be able to do so as and when needed and for a relatively limited incremental cost.

In the heavy duty segment the business is now fully ramped up and overall demand was higher particularly in Europe. In terms of the investments we completed the expansion of our testing lab close to Detroit in the US and the construction of the new catalyst plant in Thailand is nearing completion with commissioning scheduled for the third quarter of this year.

Let's now look at the evolution in energy and surface technologies. Although revenues and recurring EBIT were down 3% and 8% respectively, this masked the underlying positive evolution of the rechargeable battery materials business unit. The performance here was very good with particularly strong growth coming from the sales of NMC cathode materials for use in the automotive segment. Demand has accelerated at a pace that is even higher than we anticipated back at the time of our capital markets day less than a year ago.

In the coming weeks we will bring on stream some extra capacity in China that will help us cater for the increased demand in the short term. In the longer run the fast growing demand for our materials requires an acceleration of our investment program and as we recently announced, we will spend some EUR160 million to triple production capacity in South Korea and China by the end of 2018.

In the other business units, we have a mixed picture. The main reason for the overall lower performance of the segment was the effect of lower cobalt and nickel prices on the revenues and margins of the cobalt and specialty materials activities.

In electroplating the business unit continued to perform very well with higher revenues recorded in both decorative and industrial segments.

In electro-optic materials revenues were rather stable and the overall performance benefited from recent productivity improvements.

In thin film materials revenues were lower due to lower order levels and product premiums.

In recycling revenues and earnings were down by 6% and 20% respectively. This was predominantly the result of lower metal prices. As I mentioned in the outlook section, there has been some recovery in gold and silver prices in recent weeks and we have taken advantage of this recovery to lock in a limited portion of our price exposure to these two metals for the coming two years. For the other metals prices remain very much depressed now.

In precious metals refining the underlying picture remains very positive. Processed volumes were slightly higher in the first half compared to 2015 and as I mentioned earlier, now that the bulk of the expansion investment has been completed production is ramping up and this should enable us to grow volumes in a more visible manner in the coming months. In addition, the supply mix remains supportive. Again this was an anemic metal price environment in the first half and this was the case for the three main baskets of metals that are relevant to us, gold and silver, PGMs and specialty metals.

In the other business units of the segment we saw lower demand in platinum engineered materials and technical materials activities while the becalmed metal market led to a lower contribution from precious metals management.

Revenues in jewelry and industrial metals were stable with higher volumes compensating the effect of lower metal prices. The contribution from discontinued operations was higher and this was due to a large extent in changes in depreciations because of IFRS 5.

The performance of the building products activities improved somewhat year-on-year due mainly to an improved product mix. This more than offset the lower revenues in zinc chemicals where the positive evolution in sales volumes contracted with a negative effect of a lower zinc price on recycling margins.

Looking at the safety performance you will have seen from this morning's release that unfortunately there was a fatality at one of our plants in Brazil in May. This was a result of a human error and the investigation has shown that there were no failings in terms of processes or procedures. Having said that we are making every effort to improve our performance and obviously ensure that such an error cannot be repeated.

Total number of employees has come down slightly with growth in automotive catalysts and rechargeable battery materials being offset by reductions in some other business units.

With this I would like now to pass the call over to Filip who will comment on the financial aspects.

Filip Platteeuw - Umicore - CFO

Thank you, Marc, and good morning everyone.

Marc already commented on the main earnings drivers and I would like to highlight the resilience of our financial performance in the first six months of this year.

Most metals that are relevant to our earnings saw substantial decline in price between the first half of last year and the first half of this year. Now in the past such material moves would have meaningfully reduced our overall Group performance. This year in contrast strong and profitable growth across several businesses and automotive catalysts and rechargeable battery materials in particular, managed to fully offset this headwind resulting in stable Group revenues and margins.

Our return on capital employed for the period stood at 14.6% just below the 15% target we set for ourselves and well above our funding cost.

Our recurring net earnings were lower year-on-year due to a lower financial result which last year benefited from significant ForEx tailwind.

Our recurring tax charge was stable year-on-year corresponding to recurring effective tax rate of 25.6%.

Our operating cash flow continued its upward trend that started in 2014 but is down compared to an exceptionally strong first half of 2015.

Our operational working capital increased EUR22 million over the period following the growth in our product businesses. End of June we also recognized the payable related to the EUR69 million fine imposed by the French Competition Authority related to the activities of building products in France. This fine is expected to be paid in the third quarter of this year. The net effect on our net working capital including this one-off payable amounts to a EUR47 million decrease over the period.

In the first six months of the year we spent EUR86 million on CapEx projects mainly in the fields of clean mobility and recycling. These include some auxiliary investments in Hoboken, a new plant in Thailand for automotive catalysts and ongoing capacity expansions in rechargeable battery materials.

Our CapEx spending is seen to accelerate in the second half of the year as we currently expect a full year CapEx spending above the EUR240 million number of last year.

Group R&D expenditure increased year-on-year reaching 5.8% of revenues over the period and continues to be focused on our strategic growth units in all three segments.

The waterfall chart on slide 16 shows a slightly lower net financial debt moving from EUR321 million at the end of 2015 to just below EUR300 million end of June.

Our operating cash flow more than covered our growth expenditures, a stable cash tax out compared to last year and the final payment of our full year 2015 dividend which will increase by 20% versus the year before as you will recall. This way we distributed close to full free cash flow after interest and taxes back to our shareholders.

Our capital structure remains very healthy as reflected by our leverage ratios. Our average weighted net interest rate increased slightly to 1.8% as we took on somewhat higher proportion of funding in high interest regions in response to our growth opportunities.

Finally, non-recurring items had a negative impact of EUR68 million on EBIT and EUR70 million on net result. The bulk of this amount relates to the EUR69 million fine imposed by the French Competition Authority in relation to the building products activities in France. As mentioned, related cash out is expected for the third quarter of the year.

A reversal of past impairments on permanently tied up inventories and some EUR7 million of restructuring costs explain the remainder.

With this I'll hand over back to Marc.

Marc Grynberg - Umicore - CEO

Thank you, Filip. Before turning to questions I would like to wrap up the key messages from today's results publication.

We have had a solid first half with revenues up slightly and recurring EBIT up by 3%. The outstanding performance of the automotive catalysts business was complemented by strong growth in rechargeable battery materials and this more than offset the negative impact of lower metal prices in the recycling activities across the Group. We have continued to lay the foundations for medium and longer term growth. A number of investments have been completed and have come on stream in the first part of this year while other investment projects such as the tripling of capacity in rechargeable battery materials are now underway.

Finally, should metal prices persist at their current levels I now anticipate that full year recurring EBIT would be in a range of EUR345 million to EUR365 million with a top end of the new guidance reaching slightly above the range that I provided back in April.

With this I would now like to open the call to questions and, like in previous conference calls, I would kindly ask you to only raise one question at a time and if you have follow on questions I would kindly ask you to put your name in the queue again so that we allow everyone to raise their questions. Thank you and let's now turn to the Q&A.

Q U E S T I O N S A N D A N S W E R S

Operator

Certainly. Thank you. (Operator instructions).

We will now take our first question which comes from Mutlu Gundogan from ABN AMRO. Please go ahead.

Mutlu Gundogan - ABN AMRO Bank - Analyst

Yes, good morning everyone. One question about the hedges. Can you tell us what you mean when you say that you hedged a limited proportion of contracts? A percentage would be nice or at least an indication.

Then relating to this, can you also explain what your view on the gold and silver price is? I mean why have you only hedged a limited proportion of gold and silver? Because I would have expected that you would not hedge at all if you're bullish or to hedge a larger proportion if you are bearish.

Marc Grynberg - Umicore - CEO

Good morning, Mutlu. Percentage we will not provide. I think it suffice what we've given in terms of guidance that it's a limited amount compared to our overall exposure.

Maybe it's good to remind why we do the hedges. We do the hedges mainly because it provides us a visibility at an attractive level. That's all the reasoning that we followed when we entered into hedges in previous periods. To give an outlook in terms of gold and silver prices I think is obviously very difficult because these are the metals exactly that are influenced by not just economic factors but more by non-economic factors. That's also the reason why you see that they're the only two metals that actually have increased while all the other metals are still very much subdued.

We will not venture into giving an outlook. It's suffice to say that the levels at which we have entered into hedges provide us with a good profitability for our business and provide us with a first I would say level of visibility in terms of future earnings.

Mutlu Gundogan - ABN AMRO Bank - Analyst Okay,

thank you.

Operator

Thank you. We'll now move to our next question which comes from Tony Jones of Redburn. Please go ahead.

Tony Jones - Redburn Partners - Analyst

Morning Marc, Filip. I have a question on catalysis. Could you talk about your visibility on demand, so how long can you see into second half, perhaps into 2017. And perhaps you could also give me some color on why the margin increased so strongly? I think it was up nearly 200 basis points in this period. Is there anything non-recurring in that or is it all about cost control? Thank you.

Marc Grynberg - Umicore - CEO

Good morning, Tony. The visibility that we have in catalysis is typically three months of very accurate visibility because that's the result of the call offs from the customers. Beyond three months we are working with forecast -- production forecast from the customers that they are adjusting regularly the function of how their models are selling in the market. It provides us with a fairly good degree of visibility I would say for the year, the second half.

Now coming to the margins there are no one-offs in there. It's not really a matter of cost control although cost control is of course a feature in every business that we operate. The reality is that margins have improved for a couple of main reasons. One is that we have ramped up a number of recent investments and are now operating at a very high degree of capacity utilization which means this creates operating leverage. That's one and secondly as we mentioned in the press release, our product mix has been very supportive to the margins. These are the two main elements that explain the margin uplift in catalysis.

Tony Jones - Redburn Partners - Analyst

Thank you. Can I just therefore assume that that's sustainable into second half so nothing's really going to change, you're operating at structurally higher margins?

Marc Grynberg - Umicore - CEO

I think this is a reasonable assumption to make indeed.

Tony Jones - Redburn Partners - Analyst Thanks,

Marc. That's great.

Operator

Thank you. We'll now take our next question which comes from Stephanie Bothwell from Bank of America Merrill Lynch.

Stephanie Bothwell - Bank of America-Merrill Lynch - Analyst

Yes, thanks. Good morning and thanks for taking the question. My question is on capital allocation specifically on M&A. Your gearing is obviously relatively low even factoring in the investments which you've committed to. Therefore, I was hoping that you could perhaps give us some color in terms of the criteria and the hurdle risk which you would look at before engaging in any M&A, the size of the acquisition perhaps that you feel comfortable with and also whether or not it would have to be complementary to your existing business lines, or whether you would consider adding a fourth leg to your existing business. Thanks.

Marc Grynberg - Umicore - CEO

Good morning, Stephanie. Let me indeed remind you of the acquisition criteria that we are using and have been using for a while.

First of all, we're looking for a strategic and competency sit with our business. I think that's relatively of use and most corporates would probably tell you the same. Obviously acquisitions -- and that's important to bear in mind in the case of Umicore---- continue to be optional because we have a number of organic growth programs and very significant organic growth potential and these are non-optional.

Acquisitions indeed can complement or could complement nicely organic growth, provided they fit with our strategy, with our competencies, with our sustainability driven business model and approach and leadership and of course provided they meet a certain number of financial criteria.

One of them is that through an acquisition we aim at value creation, so earning more than the cost of capital in the medium term. We would typically give ourselves two to three years to at least reach that threshold of earning at least the cost of capital. What we would seek in the shorter term which is less of a demanding hurdle considering today's funding cost would be earnings accretion.

This, in a nutshell, would be I would say how we would look at acquisitions and again considering that these are an option to complement our organic growth.

Whether we would be looking at adding a fourth leg or not I think would go too much into detail today and I don't think it's necessary to comment on that now.

Stephanie Bothwell - Bank of America-Merrill Lynch - Analyst Okay,

thank you.

Operator

Thank you. We'll now take our next question which comes from Wim Hoste of KBC Securities.

Wim Hoste - KBC Securities - Analyst

Yes, good morning everybody. A question regarding rechargeable battery materials and the legislative or regulatory framework in China and also in the US with regards to the ITC case and the setting of hearing dates. Can you maybe walk us through your reasoning behind those two elements? Thank you.

Marc Grynberg - Umicore - CEO

Good morning, Wim. Regarding the ITC case, I think there is not much to be said beyond that hearing will likely take place at the end of September and that a decision is expected towards mid-October. More than that we cannot say today.

I'm not sure I understand what you mean by the regulatory environment in China. Can you specify your question?

Wim Hoste - KBC Securities - Analyst

Well with regards to the list of qualified battery producers and some of the larger non-Chinese companies not being on that list for a while now, do you see that as a threat? Do you expect them to come on that list fairly soon? What's your view on that?

Marc Grynberg - Umicore - CEO

Well it's difficult for me to comment on the last part of your question which I think the two companies that you allude to would be in a better position to address. Suffice to say that for us the demand continues to grow fast in China and in other regions but in China in particular because at the end of the day we supply a large number of battery manufacturers including significant Chinese players in the industry including players that are on the list of approved suppliers by the Chinese authorities.

I would like to say at this stage that it doesn't change very much our view on how the market is going to develop going forward and what our position in that market is going to be.

Wim Hoste - KBC Securities - Analyst Okay,

understood. Thank you.

Operator

Thank you. We'll now take our next question from Peter Testa of One Investment. Please go ahead.

Peter Testa - One Investment - Analyst

Hi, thank you. It's related to recycling. Can you just help us understand as you're going through the ramp up process into the operation now, the fuller capacity at Hoboken to what extent there's been cost in H1 and to the extent to which now having the more flexible capacity you should see a mixed benefit in H2? Just to help us understand that transition through that ramp up please.

Marc Grynberg - Umicore - CEO

Yes, Peter. Let me elaborate a bit on that. Actually we had a significant wave of investment in the first part of this year to complete the expansion program and there's still a bit of investment to be done in the second part of the year in the auxiliary equipment. Considering that we had a shutdown in the first part of the year the volume increase year-on-year following the investments has been relatively limited due to the sheer availability of the facility and considering the down time that we had in the first part of the year.

With the ramp up continuing to gradually take its effect we should see a more visible, more pronounced volume uplift in the second part of the year so comparing H2 2016 to H2 2015 and overall this should lead to a higher volume for the full year compared to 2015. Of course, obviously, that effect will be even more pronounced going into next year.

Peter Testa - One Investment - Analyst

Okay and can you help us understand how having the extra more flexible capacity can help you manage on mix and the extent to which you may also be able to manage either margin, metal construct and things like that?

Marc Grynberg - Umicore - CEO

Indeed. The philosophy with which we run the business is the same in a way with the expanded capacity or before. That is that we maximize the margins. That means that considering the very supportive supply environment and despite the extra available capacity we continue to be in a position of turning down the less attractive feed materials for the plant.

That's a very significant element for us. I mentioned when we launched the investment project to expand capacity that we were banking on a growing market for complex secondary materials and this is proving to be a valid assumption today. We see a very supportive supply environment in terms of availability which enables us to optimize the mix and support the margins.

This is one of the reasons we continue to have a strong showing in that division despite the relatively severe impact of lower metal prices.

Peter Testa - One Investment - Analyst That's

great. Thank you very much.

Operator

Thank you. We'll take our next question from Adam Collins of Liberum. Please go ahead.

Adam Collins - Liberum - Analyst

Yes, good morning. Another question on recycling division business conditions. Are you able to give us an idea of what the split is -- smelter volume was in the first half between the complex industrial residues and the end of life materials?

Then could you speak also more generally about how the terms of the new business compare to the existing base? You said that it continues to be industrial materials that you're targeting but just a general comment about what pricing and working capital terms are relative to the existing base.

Then just finally in the press release you talk about a negative first half outcome for the precious metals management side because of lower metal prices but there seemingly has been an improvement in volatility for both PGMs but particularly gold and silver. Could you just talk about why that hasn't had a positive impact? I had imagined that that would be the key driver behind PMM profit.

Marc Grynberg - Umicore - CEO

Good morning, Adam. Let me start with the mix. The increased volumes are mainly coming from industrial byproducts and in line with the assumption that we had made and communicated at the time we initiated the capacity expansion project. In terms of, I would say commercial terms, pricing in other words, the conditions are relatively stable to what we saw just prior to the expansion investments. That means that we have actually a fairly good combination of mix in terms of both availability and pricing so the expansion of volumes is not coming to the detriment of prices.

In terms of the precious metals management contribution, yes it was indeed lower than a year ago and indeed you're right, volatility has an influence on the trading results to a certain extent. At the same time the overall price level has also a very important influence on the margins that we make there. The latter was obviously predominant compared to the volatility effects.

Adam Collins - Liberum - Analyst

Right, understood. Prices have improved lately so I guess that will be a positive driver going into the second half.

Marc Grynberg - Umicore - CEO

Yes, although I would say for PGMs they remain fairly subdued but could be indeed a little bit of a supporting factor going into the second half, absolutely.

Adam Collins - Liberum - Analyst

Fine, okay. Just finally, Marc, on the point about the mix not being much different for the new business versus the old, of course at the moment you're only having conversations with customers about a smallish proportion of the new volume that you'll need to fill over time. To what extent is your experience now in relation to the new business secured meaning that you're more optimistic about the terms that will govern the entire volume once you're fully ramped around 2019? Are you more optimistic about the entirety of the new capacity coming on stream in terms of the terms of trade?

Marc Grynberg - Umicore - CEO

That's an important point indeed and I would like to clarify that my views are reflecting actually the discussions that are ongoing in relation to securing the 2017 volumes more than the spot situation today, which as you rightly pointed out is relatively small in terms of incremental volumes.

Adam Collins - Liberum - Analyst Okay,

thank you.

Operator

Thank you. We'll take our next question from Andrew Benson of Citi. Please go ahead.

Andrew Benson - Citigroup - Analyst

Thanks very much. I've got a few questions but I'll just stick to one now. Bloomberg and other news wires have reported that recently you submitted a bid for Atotech which Total has confirmed that they are seeking to divest. Can you just sort of confirm the accuracy of that report by Bloomberg?

Marc Grynberg - Umicore - CEO

Andrew, as you may know we are never commenting on market rumors and we're never commenting on M&A projects as a matter of fact and tradition and as a matter of law as well. So no I'm not going to answer that question like I've never answered such questions in the past.

Andrew Benson - Citigroup - Analyst

Okay, thanks. I'll put myself back in the queue. Thanks.

Operator

Thank you. We'll take our next question from Paul Walsh of Morgan Stanley. Please go ahead.

Paul Walsh - Morgan Stanley - Analyst

Yes, thanks very much. Morning, Marc. Morning, Filip. My question just relates to some of the movements down the P&L in the first half of the year. I noticed D&A was down to about EUR6 million year-on-year in the first half. Is the first half run rate the correct run rate for the full year, i.e. down year-on-year?

As we move further down the P&L could you just help me reconcile EBIT was up at 3% I think it was year-on-year and recurring earnings were down I think 14%, 15% so there's some interest items, underlying tax rate. Can you just help me understand how that's going to progress for the year as well? Thank you.

Marc Grynberg - Umicore - CEO

Yes, good morning, Paul. On the D&A there is still an effect in the first half year from IFRS 5. As you may recall last year as of the second half of the year we had to follow IFRS 5 for the discontinued operation which means that we stopped basically depreciating the zinc unit.

We still had depreciations in the first half of the year from that. If you compare the first half of this year which has no depreciation for the zinc units compared to the first half of last year which still had D&A, that explains part of the differential next to obviously the fact that we have high depreciation because we continue to invest. The impact of the IFRS 5 was about EUR9 million.

Paul Walsh - Morgan Stanley - Analyst

EUR9 million and just on that zinc business -- sorry, it's a bit tangential before you answer the second part of my question but in your guidance, your EBIT guidance what's the contribution you're assuming for discontinued items?

Marc Grynberg - Umicore - CEO

We don't specify the contribution for segment, Paul. It's important to note that the overall guidance includes the full year contribution of the discontinued operations.

Paul Walsh - Morgan Stanley - Analyst

Okay. Sorry, I interrupted you. On the delta on earnings versus the delta on EBIT it would be helpful for me just to be able to understand that from a recurring perspective.

Marc Grynberg - Umicore - CEO

Yes, thank you for the question because I saw some note this morning referring to taxes. Actually tax is not the explanation because if you look at the tax charge -- I'm talking recurring now. If you look at the tax charge that's basically stable year-on-year and absolute number might increase in terms of the tax rate, effective tax rate but overall tax charge is relatively stable.

It's really financial income and it's related to ForEx related matters within the financial income where we've had some obviously important ForEx movements between different currencies last year and this year. Last year it was an important, I would say tailwind, while this year it's a negative and the difference between one and two is indeed quite important. An important part of that is related to intergroup dividend payments which also can have ForEx result aspect and typically those dividends are paid in the first half of the year, which means that, indeed, we have quite a differential. It's explained by the finance aspect and not by tax.

Paul Walsh - Morgan Stanley - Analyst Understood.

Thanks very much.

Operator

Thank you. We will now take a follow up question from Mutlu Gundogan of ABN AMRO. Please go ahead.

Mutlu Gundogan - ABN AMRO Bank - Analyst

Yes, thank you. A quick question on HDD. I know you don't want to talk about margins in a lot of detail but just can you tell us where we stand compared to the former business, the light duty business? Where do we stand in terms of profitability? Are they comparable at the moment since you're almost ramped up or is there still a significant benefit to gain?

Marc Grynberg - Umicore - CEO

Mutlu, suffice to say that the HDD business is fully ramped up so the margins are where they were supposed to be when we made the investment for that business. We have the full contribution, the full benefit from the revenues and the operating leverage considering the fact that it's fully ramped up.

Mutlu Gundogan - ABN AMRO Bank - Analyst Okay,

thank you.

Operator

Thank you. We'll now take our next question from Tony Jones of Redburn. Please go ahead.

Tony Jones - Redburn Partners - Analyst

Morning. My follow up is on recycling and going back to the volume growth and the phasing for Hoboken. There was a slide at your capital markets day where I think it split the 40% growth up into three years. Just wanted to check whether that still applies. Thank you.

Marc Grynberg - Umicore - CEO

Tony, sorry, the line was not -- there was a bit of background noise so I hope I understood your question. What you want to know is the three year ramp up that we had indicated was still valid. Is that right?

Tony Jones - Redburn Partners - Analyst

Yes, so I think it had three years of growth. I'm confused about the timing and whether that still applies and whether we just use that phasing from now.

Marc Grynberg - Umicore - CEO

No, indeed, that assumption is indeed correct. It's more or less a three year ramp up to arrive at full capacity utilization. That being said I would like also you to bear in mind that we are more focused or I should say obsessed by the margin optimization than by the volume maximization.

If trade-offs at a certain point in time ought to be made they will always be in favor of margin optimization and mix optimization. I don't expect these trade-offs to have to be made because the supply is relatively abundant but I just wanted to clarify that we focus on mix quality and margin optimization.

Tony Jones - Redburn Partners - Analyst

Thank you. Perhaps just a quick follow up for Filip there. How do we think about how you will account for any added costs?

Filip Platteeuw - Umicore - CFO

Which added costs are you referring to?

Tony Jones - Redburn Partners - Analyst

For the expansion. Is there any added depreciation or any cost impact at all or is it just going to purely be volume operational gearing?

Filip Platteeuw - Umicore - CFO

If you refer to any kind of exceptional accounting treatment or anything, no. The costs are in the operating costs and are in the numbers that you see. There's nothing specifically adding .

Marc Grynberg - Umicore - CEO

By definition if you invest EUR100 million in the plants you will have extra depreciation. That's a given.

Now let me also remind you, Tony, that what we said a few years ago when we initiated the project is that it would create more leverage effects and better utilization of the existing infrastructure overall so this would lead to some costs, unit cost improvement over time.

Tony Jones - Redburn Partners - Analyst Thank

you very much.

Operator

Thank you. We'll now take our next question from Stijn De Meester of ING.

Stijn De Meester - ING - Analsyt

Good morning and thanks for taking my question. As you said the impact of global cobalt and nickel price has somewhat masked the overall performance in energy and surface technologies. Could you give us some more information on the revenue and earnings split between the different business units and in particular to the contribution of rechargeable battery materials? Thank you.

Marc Grynberg - Umicore - CEO

Good morning, Stijn, and welcome to the call for your first call in your new capacity.

The nickel and cobalt price impact was fairly significant. You have seen nickel going to very low prices and prices seem to have stabilized now. But indeed this has more than overshadowed the good performance in the other units and in particular the strong volume growth in rechargeable battery materials.

Unfortunately, I cannot give you more details. We do not disclose the breakdown by business units and suffice to say that the growth in rechargeable battery materials was high enough for us to qualify it as very strong continuing growth.

Stijn De Meester - ING - Analsyt Okay,

thank you very much.

Operator

Thank you. We'll now take our next question from Massimo Bonisoli of Equita. Please go ahead.

Massimo Bonisoli - Equita SIM - Analyst

Good morning, Marc and Filip. Could you just give us some color and some generalized comment on the pricing environment for rechargeable battery materials for the automotive industry considering that one of the key challenges of the industry is the reduction of battery cost?

Marc Grynberg - Umicore - CEO

Good morning, Massimo. It's an environment where like in any other automotive business where you are supposed to contribute to the cost roadmap and the technology roadmap of your customers. Technology roadmap in this case means that you contribute to improving the energy density of the entire battery systems such that the cars can have either a longer range or for a similar range can have a lower cost per kilowatt hour.

So that's clear. And on the costs side costs roadmap is also part of how the qualification works in the automotive industry and clearly the purpose is to make up for typical cost downs by volume effect, scale effect, productivity improvements, et cetera. At a certain point in time clearly you should expect prices will reflect these typical price downs or cost downs in the automotive industry and that margins will in a visible manner show the scale up effects.

Massimo Bonisoli - Equita SIM - Analyst Okay,

thank you.

Operator

Thank you. We'll now move to our next question. It's a follow up question from Peter Testa of One Investment. Please go ahead.

Peter Testa - One Investment - Analyst

Hi, it was just a short question on capacity increases. Can you just help us understand how much of the Thai capacity steps up the catalysts business and how much the shorter term expansion in Chinese automotive battery capacity steps up that capacity please?

Marc Grynberg - Umicore - CEO

Yes, Peter. Actually I'm not going to quantify that with figures. Suffice to say that the capability that we will add in the second part of this year will be relatively small compared to the existing capacity today. That's part of our ongoing capacity additions while the program that we announced a couple of months ago will triple the entire capacity of our business unit. It's a completely different order of expansion, I would say, if you compare the ongoing line additions to what we will do by 2018.

Peter Testa - One Investment - Analyst

Okay but this expansion of existing facility is to meet customer demand, right?

Marc Grynberg - Umicore - CEO (Multiple

speakers).

Peter Testa - One Investment - Analyst

Rather than new facilities, yes, okay. The Thai capacity that you're stepping up in catalysts, how much that steps up the Asian capacity on catalysts?

Marc Grynberg - Umicore - CEO

Well that's -- the Thailand plant will be stepped in terms of our capacity addition because we have no presence so far in South East -- no production presence so far in South East Asia while the capacity additions that I referred to for China will be gradual and will be in sync with the market evolution in the country.

Peter Testa - One Investment - Analyst

Okay and if I could just ask on specialty metals, can you just help us understand whether on a sequential basis the specialty metals prices are roughly similar or are they still trending down and maybe the same on your realized prices on cobalt and nickel in the energy business?

Marc Grynberg - Umicore - CEO

Yes, the answer to that question, Peter, is that in both cases we see some degree of stabilization at the lower level that you have seen recently. I don't want to draw definitive conclusions or definite conclusions based on that observation today but it looks like prices may have bottomed out. Looks like.

Peter Testa - One Investment - Analyst Okay,

that's very helpful. Thank you.

Marc Grynberg - Umicore - CEO

Maybe I should say we do hope that they have bottomed out and that there is a little bit of upside potential but today suffice to say that they have stabilized.

Peter Testa - One Investment - Analyst Very

good. Thank you.

Operator

Thank you. We'll now move to another follow up question from Andrew Benson of Citi. Please go ahead.

Andrew Benson - Citigroup - Analyst

Thanks very much again. Just want to ask about the GDIs. You referred to it as being a factor in the growth in the catalysts business. Can you give as much information as you feel you can without any sort of competitive issues in terms of penetration currently, where you think it's going to go, where you judge your market share is and how you think that might evolve and perhaps just some financial dimension as well if you can please?

Marc Grynberg - Umicore - CEO

Andrew, the GDI is a very interesting development for us and for the catalyst industry in general because the GDI engines are typically more complicated to address in terms of treating the raw emissions. That means that GDI engines typically command a more complicated and more sophisticated catalyst system and at some premium to conventional gasoline engines today.

The good news is that in the longer run these GDI engines will also very likely require a particulate filter because as we indicated in the past it is now proven and admitted also by the industry that GDI engines emit very fine particulate matter that is not visible but that is harmful and that filter will be required to remove these harmful particulate emissions. Moving into let's say towards the end of the decade you will see more and more of these GDI platforms requiring a filter in addition to the current catalyst systems.

The development looks very promising and clearly where there is complexity we believe that we have a very competitive product offering and technology offering to our customers and that's why we mentioned that we're well exposed to these platforms and it's been good for the short term mix and will be even better moving I would say into particulate filters towards the end of the decade.

Andrew Benson - Citigroup - Analyst

Any sense of your market share and where that may go or is that roughly going to be in line with (inaudible).

Marc Grynberg - Umicore - CEO

It's an emerging segment so I don't think it would be relevant to comment or to extrapolate. It's probably too early but I don't see any reason to believe that we would have a fundamentally different position than in other applications.

Andrew Benson - Citigroup - Analyst Alright,

thanks very much.

Operator

Thank you. We'll now move to another follow up question from Mutlu Gundogan. Please go ahead. Your line is open.

Mutlu Gundogan - ABN AMRO Bank - Analyst

Yes, it's a difficult name. A question on what you just said about the recycling ramp up. At the capital markets day, you presented a slide with 40% growth over the three years, which is roughly I think 15% a year. Now in H1 you did hardly any volume growth so my first question related to this is, do you still expect 15% for 2016, i.e. 30% in the second half or should we expect higher growth than the 15% in 2017 or 2018?

Marc Grynberg - Umicore - CEO

Mutlu, if my recollection is correct I have not given a 15% per annum growth forecast. That's probably the result of some modeling by external observers. Suffice to say that the three-year ramp up remains valid and this being said you should expect that it is not linear and cannot be linear given the timing of the shutdowns and the investments.

As I mentioned earlier during the fall, the ramp up effects from a volume point of view will be somewhat more visible and more pronounced in the second part of the year and will continue through next year.

Marc Grynberg - Umicore - CEO

Mutlu Gundogan - ABN AMRO Bank - Analyst Okay.

Will you allow me a follow up question?

Yes, go ahead.

Mutlu Gundogan - ABN AMRO Bank - Analyst

Thank you very much. It's a question about rechargeable battery materials. I know you don't want to go too much into detail. You talk about strong growth. I mean historically that means only volume growth. Just wondering about the pricing at the moment given that the market is very tight. I mean are prices --

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Marc Grynberg - Umicore - CEO

No, I meant revenue growth clearly. We're talking about strong revenue growth not just volume. But of course the revenue growth is driven mostly by the strong demand and therefore by the volumes.

Hello?

Operator

I think Mutlu's line may have just gone mute for some reason. I'm not too sure why. We'll move to the next question which is from Geoff Haire of UBS. Please go ahead.

Geoff Haire - HSBC - Analyst

Good morning. I just wanted to ask a quick question. On the recycling business, the new capacity that you have, do you expect that the margins and returns will be the same as the old capacity that you have given the outlook that you have for the market?

Marc Grynberg - Umicore - CEO

Good morning, Geoff. You may recall from our previous presentations and discussions that we said that the margins and the mix may not be exactly the same because we are targeting mostly the industrial byproducts supply segment more than the end of life products and that's simply because some segments are growing naturally in terms of availability. Secondly, we mentioned that the capacity expansion investments would also result in better, I would say, leverage effect and the scale effect thereby reducing the processing cost per unit.

It's difficult to say how the two elements will combine and will converge in terms of margins. Suffice to say that for the time being we're pretty positive in terms of supply availability, margin potential and obviously the productivity elements that I referred to will show up gradually as we ramp up the capacity utilization.

Geoff Haire - HSBC - Analyst Okay,

thank you.

Operator

Thank you. We'll now take our final question from Junior Cuigniez of Degroof Petercam. Please go ahead.

Junior Cuigniez - Degroof Petercam - Analyst

Thanks. Another difficult name. Hi everybody. Can you compare your growth scenario for the electrification of the car versus last year's capital markets day? I remember back then that in your 2020 guidance it was based on a rather conservative scenario for the automotive electrification while you also presented to us a more optimistic picture. Can you maybe shed some light on how you see this market develop versus your views of last year? Thank you.

Marc Grynberg - Umicore - CEO

Good morning, Junior. Yes, I would also like in this context to refer to the discussion we had at the time we announced the tripling of capacity a couple of months ago where we clearly referred to the fact that the more optimistic scenario was becoming more of a base case for us indeed. That was the main change compared to the assumptions that were discussed with you at the time of the capital markets day back in September.

Between September and the earlier part of this year we've seen an acceleration in the market driven to a large extent or to a certain extent by the acceleration of this trend in China in particular, by the acceleration of the electrification of some of the bus fleets in a number of regions and again predominantly in China and by the fact that our business has been pretty successful in getting qualified for a number of these upcoming platforms.

Yes, overall we are now working on the basis of the more optimistic scenario that we presented back at the time.

Junior Cuigniez - Degroof Petercam - Analyst

Thanks. Maybe just as a follow up if I may, your view between Q1 and Q2 hasn't altered I suppose?

Marc Grynberg - Umicore - CEO

Sorry? Can you repeat that, Junior?

Junior Cuigniez - Degroof Petercam - Analyst

Yes, the view between the first quarter of the year and today hasn't altered on electrification?

Marc Grynberg - Umicore - CEO

No, indeed the view has not changed compared to what we communicated at the time of the announcement of the tripling of capacity, that's right.

Marc Grynberg - Umicore - CEO
Junior Cuigniez - Degroof Petercam - Analyst Alright,

thank you.

Operator

Thank you. That will conclude today's Q&A session. I would now like to hand the call back to Mr. Grynberg for any additional or closing remarks.

Thank you and I would like to thank everyone for your participation to this morning's conference call. As usual if you have follow on questions and I'm sure several of you will have follow up questions, please feel free to contact our investor relations team who will be available to address your questions. Of course I look forward together with Filip and our investor relations colleagues to meet with several of you in the coming days and elaborate on some of the subjects we touched upon today.

With this I would like to wish you a very pleasant day and wish you already a pleasant weekend and we'll talk soon. Bye bye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
