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Umicore Full Year 2021 Results

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Operator: Hello, and welcome to the Umicore Full Year Results '21 Earnings Call. My name is Courtney, and I'll be your coordinator for today's event. Please note that this call is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any time, please press star zero and you will be connected to an operator.

And I will now hand you over to your host, Mathias Miedreich, CEO of Umicore, to begin today's conference. Thank you.

Mathias Miedreich: Thank you very much. Good morning, and thanks everybody for joining my first earnings call as CEO of Umicore and second call with all or many of you following the announcement of our partnership with Volkswagen for battery materials on December 2021. So welcome also on behalf of Filip, our CFO, who is today here with me.

I am four months into my role of leading this outstanding technology company, Umicore, with its highly talented and purpose-driven people in an exciting, challenging and dynamic time. So before diving into the details of our record '21 results, I wanted to give you a short insight into my own due diligence on Umicore's positioning.

I truly believe that Umicore has what it takes to be the leader in clean mobility materials and recycling, a pioneer in sustainability. The combination of its three highly synergistic business groups: Energy & Surface Technologies, Catalysis and Recycling, and with a proven DNA and, I think, this is very important, in managing major transformations, is really unique in the industry.

We have already made significant progress in preparing Umicore for its next chapter of growth. We are further strengthening our competitive leadership position in the different value chains that we are active in. And at the same time, we are developing the strategic directions for Umicore towards 2030. We have listened to your feedback. I have listened to your feedback on the need for more transparency and disclosure.

This presentation is, as we think, the start of a journey into this direction. And I'm looking forward to sharing even more with you on the upcoming Capital Markets Day that we have now planned for 22nd June.

So here you can see the agenda. We will go through all of the aspects of our '21 results and then also talk about the '22 outlook. Now let's look at the details of the '21 performance.

2021 was again a year of a record performance for the Group. We beat by far our 2020 results, thanks to strong underlying operational performance across all business groups. The results had a further boost from the exceptional precious metal prices, and we were able to fully utilise our unique business model, which allowed us to take maximum advantage of these price developments. Also in that aspect of our business, we have recorded a strong operational performance.

The numbers and the growth rates are impressive. Our revenues increased by more than 20%, while the profitability nearly doubled, resulting in strongly improved EBIT and EBITDA margins. Our free operating cash flow grew to a record level, close to €1 billion. This allowed us to

significantly reduce our net debt and further reduce our gearing ratio. Filip will elaborate on those numbers in more detail later in this presentation.

Now if you only want to remember one thing from our 2021 results, then it is that our top line in earnings grew not only substantially, but what's even more important, to a large extent, structurally in 2021.

So now let's talk about the structural performance. So this slide shows you the elements that are behind it. Excluding the year-on-year precious metal price effect, our '21 operating profit increased about €160 million versus 2020. That's an impressive growth of 30% purely through operational business performance, including volume growth, increasing margins structurally for our three business groups.

Precious metal prices contributed approximately €270 million compared to 2020. And we can split this roughly into three quarters in Recycling and one quarter – little less than one quarter in Catalysis. While this is an external factor, the fact that we are able to benefit from these precious metal price gains to this extent, results from our strong position in the value chain and our differentiating technology also offering superior value to our customers. This was particularly the case in Recycling.

Part of our active management on that front means also using mechanisms to manage volatility in this regard. For 2022, we are significantly hedged against precious metal prices, except of course, for rhodium, where we remain largely unhedged.

Now let us go deeper into business group by business group and let's start with the Catalysis business group. The underlying automotive market, no surprise, in 2021 was flat versus 2020, while 2020 already was the start of the COVID pandemic. It started well in the first half of 2021, but then the semiconductor shortage severely hit the output of the automotive industry year-over-year versus 2020. Even the combustion engine market, including hybrids, decreased about 2%.

Overall, 2019 as a reference, we have been seeing a contraction of the automotive market in 2021 by 16%. So, '21 was for sure not an easy year for the global automotive industry. Given this context, the performance of our Catalysis business group in 2021 is even more impressive. All three business groups delivered strong operational results. They grew revenues by one quarter while earnings increased over-proportionally and more than doubled.

The business unit Automotive Catalysts, outperformed the automotive market and gained market shares. This was especially the case in Europe and China in both the light-duty and heavy-duty segment.

While production of Chinese and European light-duty internal combustion engines has decreased by minus 5.4% and minus 5.9%, respectively, Umicore was able to increase revenues by 13% in China and 16% in Europe in this segment, reflecting those market share gains.

For us, this clearly confirms that we have the right product portfolio, the right technologies in place. Moreover, it is a very positive signal for the next wave of emission legislations like Euro 7 where we expect to further benefit from this strong product and innovation portfolio.

Looking at the heavy-duty diesel segment, the market share gains accelerated even stronger. Heavy-duty diesel sales in Europe, Umicore sales grew by 32% versus a market of plus 15%.

China revenues were up 34% in the market that contracted by 17%. That's a tremendous boost. But also we have to mention a strong final sprint in demand for the China V platforms in the first half of the year ahead of the nationwide implementation of China VI that drove up our revenues as well significantly.

So those significant top line gains in Automotive Catalysts have also been very successfully transformed into bottom line results. This includes the structural improvements on manufacturing footprints and improved efficiencies overall in operations that have already been launched in the course of the years 2020 and 2021. And with a resulting lower breakeven point, the margin-up that we have achieved in '21, will be largely sustainable for the coming years, putting our Automotive Catalysts activities in an excellent competitive position.

While the demand in Precious Metals Chemistry was strong with a good contribution to top and bottom line results, '21 was an outstanding year for the Fuel Cell Catalyst business. Sales volume nearly doubled in '21, further solidifying Umicore's market leadership position with now a 40% market share in the mobility segment. This performance was driven by strong demand from the existing programs, and as well as through business wins with several new customers, especially in China. Thanks to these achievements, the business unit is in a good position to also generate a growing contribution in earnings towards the business group.

On the next slide, let us return now to the Automotive Catalysts business with some more details in the frame of more transparency that we have said. As you can see the majority of our revenues are coming from the light-duty gasoline segment, where we have a very strong market position and accelerating even with the '21 wins that we have just laid out.

Our exposure to light-duty diesel is quite small, so the continued market decline of this segment will not have a major impact on our overall business. HDD represents about 20% of our revenues in 2021 with strong growth vectors to further benefit from the longevity of combustion engines in this market.

You may now better understand why we are quite confident about the future of our Automotive Catalysts business as we combine a strong position in the right market segments. It will remain there for the long run, even in fast electrification scenarios, and excellent cost position with a globally optimised production footprint and a low breakeven point and the right product and technology portfolio with a strong demand from our customers also for the next wave of emission legislation.

We will use the upcoming CMD to further detail our strategies and directions on Automotive Catalysts, but I think this is already a good summary of the situation.

Now let's move to the next business group, E&ST, Energy & Surface Technologies. Revenues and earnings were well up, primarily thanks to an outstanding performance in Cobalt & Specialty Materials. In Rechargeable Battery Materials, the volumes for electric vehicle NMC cathodes were up with a different regional performance.

Our market position in Europe is strong in this important market, and we grew our volumes in line with the regional market growth, with that defending our position in Europe. In China, we were not able to follow the market growth as our platform and customer mix proved not to be favourable in regards to market performance and disruption, as we had already laid out end of last year.

At the same time, in 2021, we entered into advanced customer qualification processes for high-nickel EV platforms with several Asian and European car and battery OEMs. We are confident that their outcome will allow us to ramp up our high-nickel cathode material revenues and that we will catch up in China once those programmes will be launched with significant volumes expected already in the course of the second half of 2023. I would come to that a little bit more in details in the next slides.

The Cobalt & Specialty Materials business unit had a very good 2021, especially compared to 2020 when in this sector the COVID impact was quite severe. And finally, also the Metal Deposit Solutions and Electro-Optical Material businesses generated higher revenues in 2021.

Within the spirit of increased transparency, again, you will find on this slide now more details on our Cathode Materials business. In 2021, our global capacity was 65-gigawatt hours, two-thirds of this in Korea, one-third in China. Our plan forward is to expand this to about 120 gigawatt hours in 2024, then more regionally balanced, of course, with our European capacity coming online already mid of this year.

Our high nickel-related cathode material revenues are planned to reach about 75% of total sales volume in 2024. And we are progressing well in adjusting our flexible production lines to high nickel, and of course, all newly added capacity will be high nickel-ready from the start of production, which is also the case in our Nysa plant. I will also deep dive on that in a second.

It is important to mention that these capacities do not yet include a potential North American footprint expansion that we are currently investigating, and also the plant capacities for the joint venture with Volkswagen in Europe has to be added to those numbers. We will share more details with you on our future plans for capacity expansions beyond 2024 and including all aspects of our business planning for the Rechargeable Battery Materials business unit in our upcoming Capital Markets Day.

I also wanted to give you a quick update on our cathode material Gigafactory in Nysa, where we are well on track to start production mid-2022 this year in Poland. The footprint of the Nysa site can accommodate a potential capacity of more than 200 gigawatt hours, and our current plan foresees around 40 gigawatt hours at the end of 2024 as an interim step.

I also wanted to highlight again that the manufacturing process in Nysa reflects the latest evolution of Umicore's proprietary cathode materials production system and process. This Gigafactory we said will be the industry-leading, one in terms of purity, quality and consistency and with that, represents a very important asset for Umicore. In addition, Nysa would be supplied with 100% green energy, green electricity from the start. So it is understandable why this occasion is also highly attractive for our customers.

Talking about customers is a good lead over to talk about the joint venture that we have announced to be closing with Volkswagen this year. After the announcement, we have been asked to provide more details about the planned partnership. As the joint venture agreement still needs to be finalised, we cannot give you all the details that you are looking for, but we have tried to at least give you some more insights to the guiding principles of this endeavour for the sake of clarity.

Again, it's important to mention that Volkswagen has chosen Umicore as a partner, as they see us as a leading player in this industry with a unique combination of three elements: state-of-

the-art technology portfolio including high nickel; a proven and well-established track record in mass scaling at highest quality; strong capabilities on the supply side, of course, with raw materials upstream, where the histories and roots of Umicore's are.

For Umicore, this means secured access to a large portion of the European electric vehicle market and with this significant economies of scale, even beyond the joint venture for the full cathode material business of Umicore. For us, the joint venture is also a possibility to valorise our technological innovations and industrial skills, while – and this is very important to mention – while protecting critical IP and knowhow on a large volume basis.

It also entails the combination of Umicore's expertise and VW's buying power on the raw materials side, unlocking opportunities that both partners could probably not unlock individually.

Lastly, there was a lot of question about investment. We can confirm that investments are shared between both partners. And also important to mention, with an agreed mechanism to allow those investments to be value creative for both partners. And I just want to remind everybody that value creative for Umicore means to earn a ROCE, have a ROCE which is earning more than the cost of capital just to make that clear.

Finally, I also wanted to highlight that with an ambition to reach capacity of up to 160 gigawatt hours in 2030, through this joint venture alone, we expect to add nearly three times of Umicore's 2021 cathode material capacity. And this is really significant if you just imagine the order of magnitude, the dimensions of that. This is really significant in my point of view and will be an important element of our growth forward.

Last but not least, Recycling, the Recycling business group. So, as already pointed out, precious metal prices have been exceptionally high in 2021 with a peak mainly in H1. I will not go into further details right now as I have already explained the impact of those prices on our earnings development.

Let's now have a look at the performance of our recycling business group. Revenues and profitability for recycling grew to an all-time record level last year, driven by the exceptional metal price environment that we had already mentioned, but also based on a strong operational performance in all business units. Revenues grew by a third, while adjusted EBIT increased by nearly 60%.

In the Precious Metals Refining business unit, the further process improvement efforts paid off. The plant in Hoboken has been able to convert a very favorable environment into outstanding results, despite all the challenges and headwinds related to the necessary COVID-19 protocols hence the planned maintenance in second half of 2021.

Jewellery & Industrial Metals benefited from a strong surge in demand, especially in jewelry and platinum engineered products.

Finally, our Precious Metals Management team has been able to repeat the outstanding 2020 performance, and with that, contributed well to the business group results.

So, now after this brief insight into the performance of our activities in 2021, I would now like to hand over to Filip, who will give more details on the financials of the year.

Filip Platteeuw: Yes. Thank you, Mathias, and good morning, everyone. So as the key financials on this slide lay out, the Group's performance in 2021 was outstanding in the history of our company. Mathias already commented on the underlying drivers, so I will not repeat them here, except to say that these numbers reflect the convergence of a strong operational performance in almost all of our business units with a strong external tailwind in the form of record precious metal prices.

These combined factors far outweighed earnings headwinds such as high raw material costs, higher fixed costs related to our growth and additional R&D spending. And last but not least, these record earnings converted into very strong free cash flows reducing net debt by close to €0.5 billion year-on-year.

There's a few messages we want to highlight on this next slide that plots the Group's adjusted EBITDA and corresponding margin trend. Apart from visualising the outstanding performance in 2021, the top graph also shows that in recent years, Umicore consistently increased its EBITDA year-over-year. This graph starts in 2017 but this has actually been the case since 2014. Last year's EBITDA was three times that of 2014.

Now the underlying drivers have been different over time, which we see as a reflection of the value of Umicore's business portfolio. The strategy review we are preparing for the Capital Markets Day in June is predicated on continuing this earnings track record.

The second element to highlight on this slide is the seasonality in the 2021 results. The performance in the first half of the year was exceptional, with the combination of pretty much optimised operational efficiency across most of the Group, cost discipline and obviously peaking precious metal prices.

However, despite the tide turning on some of these external factors in the second half, second semester EBITDA still came in well above the levels of recent years. This seasonality was also reflected in the margin profile. As you know, metal results are particularly important to Umicore's Group margins, given they contribute in a quite direct way to the bottom line. While margins have therefore truly peaked in the first half, also second half Group margins were well above historic levels. Umicore has consistently increased its adjusted EBITDA margin year-over-year since 2014.

Now switching to cash flows. Close to 80% of the record €1.2 billion of cash flow from operations was converted into operating free cash flow. Net working capital was reduced across all the business groups and more so in Catalysis, amounting in total to €167 million of cash in. This includes the effects of lower PGM prices and slowing car sales towards the end of the year.

Cash spent on capex and capitalised development costs stabilised year-on-year amounting to €416 million compared to € 435 million in 2020. Energy & Surface Technologies accounted for approximately 60% of Group capex, driven mainly by the Rechargeable Battery Materials' European expansion, for which we do expect some capex carry-over effect into 2022.

In Catalysis and Recycling, capex spending was kept close to the low levels of 2020. With the exception of environmental and safety-related investments or strategic growth projects, the focus across the group is very much on further increasing the efficiency & productivity of our existing installations, which already contributed to the 2021 performance.

Looking ahead into 2022 : while working capital management remains a key area of focus, taking into account amongst others the price increases in metals and raw materials since the start of this year, we could see a meaningful increase in working capital compared to the level of end of 2021. As to capex, we currently expect a substantial year on year increase in 2022, mainly driven by the growth investments in Rechargeable Battery Materials and including the above-mentioned 2021 carry-over effect.

The operating free cash flow of close to one billion euros translated into a net financial debt reduction of close to half a billion euros. Net interest charges, cash taxes and dividends combined led to a cash out of just short of 400 million euros. Umicore in 2021 returned to a pre-pandemic dividend payout amounting to 181 million euros while the buyout of the minority shareholders of one of our important recycling entities in Germany drew 54 million of cash. Net financial debt end of year came in just below one billion which corresponds to strong leverage ratios. It is worth mentioning that Umicore recently concluded its first sustainability-linked loan in the form of a renewal of one of its existing revolving syndicated credit facilities that was successful extended to 500 million euros and was underwritten by 13 banks.

Looking at the full P&L, the operational line clearly drove the trend. Adjusted net finance costs were stable while adjusted tax charges increased almost proportionally to the pre-tax profit as reflected in a slightly lower effective tax rate of 23.1 % compared to 24.2 % in 2020. This resulted in a doubling of the adjusted net result and the adjusted EPS to 667 million euros and 2 euros and 77 cents respectively.

We recorded total adjustment to EBIT of minus 75 million euros of which 39 million were already accounted for in the first half. The most significant items in the second half were on the one hand additional restructuring costs in Catalysis related to a decision to stop a development programme in Precious Metal Chemistry and on the other hand additional environmental provisions, including related to the Hoboken green zone initiative and reflecting the strong interest in Umicore's voluntary offer to acquire houses neighbouring the plant. And this concludes my section.

Mathias Miedreich: Thank you very much, Filip. Next, I would like to introduce our update on our ESG implementation. ESG, important for Umicore beyond just initiative because it's at the heart of what we are doing.

Following the launch of our Let's Go for Zero initiative mid of last year we have been intensively working on the further rollout of the target into the full organisation and have signed up to key initiatives like the TCFD or SBTi.

In parallel, we have implemented a fully-linked ESG governance system that will allow us to steer the progress in achieving our ESG targets and support our increased disclosures on ESG beginning with the 2021 annual report. As I said before, we will provide you also more details on our ESG implementation and the plan forward in our Capital Markets Day.

Let us come now to the outlook for 2022. We expect again a strong underlying performance in 2022 across all of our business groups, despite the cost inflation and provided that the geopolitical developments, the pandemic or supply chain constraints will not result in additional material disruptions to the economy or Umicore's operations.

Assuming current metal prices prevail for the remainder of the year, earnings, including the effect of the mentioned strategic hedging, would still include a significant precious metal price uplift versus 2020, albeit below the €270 million uplift of 2021.

In the presentation and our press release, you can also find our detailed guidance statement by business group. I will not cover this now, but we will, of course, be able to discuss potential questions on this later in the Q&A section.

During this presentation, we have started to also highlight some of the more mid-to long-term considerations for our businesses. We would like to invite you to a much deeper dive into our 2030 strategy during our Capital Markets Day that will take place on 22nd June.

During this event, we will further detail our views on the growth prospects in our key markets, Umicore's ambition and capability to fully capture the anticipated exponential growth in demand for Rechargeable Battery Materials, the value creation potential over the next decade of our

Automotive Catalysis activities, as well as the resilience and strong underlying performance of the Umicore businesses in less favourable precious metal price conditions, Umicore's ambition and plan to capture growth from the next wave of sustainability-driven market such as fuel cell catalyst, battery recycling and solid state batteries.

And finally, as already said, we will provide an update on our ambitious Let's go for Zero roadmap.

Now let me wrap up the key messages that we wanted to give you in this presentation. 2021 was a year of outstanding operational performance for Umicore across all business groups with structural improvements significantly beyond precious metal price effects. For 2022, as just laid out in our guidance statement, we see another year of strong underlying performance with the Group ahead of us benefiting from the sustainability of the measures that have been implemented throughout 2020 and 2021 already.

We have already made significant progress to prepare Umicore for the next chapter of growth, and we will share this plan forward as well as our long term strategy with you at our upcoming Capital Markets Day explaining why Umicore will be a clear net beneficiary of the unfolding electrification revolution.

Thank you very much for your attention. Filip and I will now be more than happy to answer the questions you might have. Thank you very much.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad. If you change your mind and wish to withdraw your question, please press star two. Please be advised that callers are permitted to one question per turn and should rejoin the question queue should you have any follow-up questions. So as a reminder, that was star one on your telephone keypad. And our first question comes in from the line of Wim Hoste calling from KBC securities. Please go ahead.

Wim Hoste (KBC securities): Yes. Thank you. Good morning. I would like to ask a question on Rechargeable Battery Materials. Can you maybe update on the pricing conditions both for the qualifications you were doing for high nickel and also, specifically the conditions – pricing conditions you are seeing in the Chinese markets where obviously pricing has been under pressure in the past few years? So that's my question.

Mathias Miedreich: Thank you very much for that question. So, of course, you understand we cannot disclose pricing conditions that we have with our customers. I can only say so much that, of course, the pricing is always driven by the value of the product and to our – as we think strong technology, we think that we also will achieve the right pricing level.

Now for China, obviously, the market, as we have said before, is a market that has a little bit of a different structure than Europe, where LFP technologies has been accelerating faster. So we still think that LFP will be in that mix, but you can assume the more the high nickel NMC technologies will come up that from a mix point of view, the average price point in China should also increase.

Operator: Thank you. The next question comes in from the line of Charlie Webb calling from Morgan Stanley. Please go ahead.

Charlie Webb (Morgan Stanley): Good morning, gentlemen. Thank you very much for the additional disclosure in the slides. Very useful. Maybe just a question around cash flow. Filip, obviously, you mentioned that capex is going to be stepping up significantly and we should expect perhaps what we had expected in the working capital unwind or increase in the second half of the inventories to fall into 2022. Just wondering if you could frame that in terms of magnitude and in terms of numbers where we should expect capex for 2022 to come out. And likewise, order of magnitude, what type of working capital, reversion of the benefit you had in 2021 should we expect in 2022? Just any kind of quantified or kind of ranges or magnitude you can present, that would be very helpful.

Filip Platteeuw: Good morning, Charlie. Thanks for the question. So, indeed, let's maybe start with capex. So you've seen that capex, as I mentioned, there's a carryover effect into 2022. So that will play a role. Then obviously we have the continued investments in Rechargeable Battery Materials which are there.

We also – you see in the other units, we've had in 2021 basically roughly the same kind of capex level of 2020, which was a very low year, so you can expect there's a bit of a recap coming there.

Coming to your question on quantification, I would say currently that, for example, for CapEx, I would say well above €500 million. That's the number I would mention today and we'll obviously update that as we go in the year.

Working capital, indeed, also we're very happy with the performance we had in 2021 and we work across the Group very hard on that. But it's fair to say that the picture, which is basically what you see end of the year, reflects the low or the lower metal prices compared to the average of 2021, also the low volumes in automotive. So we do expect to reverse that.

To put a number – and you will also have seen that some of the metal prices since the end of last year, whether it's precious metals or also, for example, lithium have increased quite substantially.

To put a number on that, I would refrain from doing that for the time being. I think we said in – or I said in my voice over substantial year-on-year increase, but I would leave it there. But again, we'll update you as we go into the year. And I also have to say that it will depend on the pricing evolution, the metal price evolution.

Operator: Thank you. The next question comes from the line of Chetan Udeshi calling from JP Morgan. Please go ahead.

Chetan Udeshi (JP Morgan): Yeah. Hi. Morning. Thank you for letting me ask a question. I just had two related questions actually. First, if I look at the sort of second half EBIT and do it – analyse it, we are somewhere under €700 million of EBIT on a run rate basis for second half 2021. And I'm just looking at the consensus for 2022, which is something like €850. I know you haven't given any specific guidance on 2022, but I just was curious to understand what are the key moving parts we should be thinking about when we think about the annualised run rate in second half and how that may change in 2022.

And I think the related question is, should we assume the second half margin in the Catalysis business now to be more on normalised level? Or is it – is there a reason to believe it may be different than that in 2022?

Filip Platteeuw: Yeah. Good morning, Chetan. So I mean, on the seasonality, I think it's an important point that we tried to highlight when you look at 2021, indeed that the first half was really exceptional because you had this convergence of a lot of driving factors. The metal prices, the – I mean, the very efficient running of the plants in terms of the volumes going back. You had China V effect in Catalysis.

And in the second half, you saw a number of headwinds that I think we mentioned clearly, metal prices and then also the volumes in automotive, which means that the first half is not probably a good basis to extrapolate for 2022. But it also means that the second half is not necessarily the good basis because, as we said, we do expect in the automotive market to have a growth or a return to – let's say, to a better environment. We have the metal prices at current levels, which are higher than what we've seen in the second half. So be careful to extrapolate from, I would say, quarterly or half-year numbers when looking at 2022.

Your question on the margins. I think it's fair to say that without going really too much into details, that the margin evolution we've seen in Catalysis and also in the Group in general, indeed, I mean, was definitely driven by the external factors but is also structural. So you've seen a substantial increase also in the second half when you compare it to historic margins and that we consider to be structural because it's based on the underlying business and also the efforts we're making into the footprint adjustments, for example, we've done in Catalysis and the general cost discipline.

So there's definitely a structural element into that. And then you have the external factor, which kind of has further boosted that, particularly in the first half of the year.

Operator: The next question comes in from the line of Charlie Bentley calling from Jefferies. Please go ahead.

Charles Bentley (Jefferies): Thanks. Thanks, Mathias. Thanks, Filip. I just want to ask a couple of questions just on the capacities. Thanks for giving all of the detail there. So, on Nysa, just one thing. I mean, in the release it says that 20-gigawatt hours is after the second expansion by the end of '23. And in the presentation, it's 40-gigawatt hours in '24. So can you just square that for me, please?

And then also just in the other two regions, if I look at the kind of percentage split, it implies kind of a 25% capacity increase in Korea and 20% in China. I can – I guess, with China, like the – what gives you the ability and the confidence to be able to expand these capacities today, and is that all kind of consistent and underpinned in the existing capex plans? And when should we expect these to come in? Thanks.

Mathias Miedreich: Charlie, thank you. Very relevant question. And indeed the capacity expansion that you see, we talk about growing from 65 to 120. And of that, what – if you compare that to what is already the announced capacity or the underlying investments, you would come to around 100. So the additional 20 is kind of some news in our planning that we are sharing.

And with that, it also explains Nysa because we see the demand on our Nysa capacity being so strong that we are currently working on the plan to make it happen that we go a two-step approach to 20 gigawatt hours in 2023. And then at the end of '24, to come close to the 40 gigawatt hours, which gives us the total equation of 120. So it's a good catch and it's absolutely in line with our planning.

So on China, you're also right. We are not banking only to utilise all of the existing capacity in China. And this is based on the – it's a promising development we have also with our Chinese customers. When we said – when I was talking about the so-called advanced qualifications, where we're in where I think we already said in December, we will be able in the course of this year, maybe even, to a certain extent, already up to the Capital Markets Day to share more insights on that, what kind of customers, where, how much, etc.

But please bear with us for the moment. At this point in time, we – I cannot give you more granularity on that matter.

Operator: Thank you. The next question comes in from the line of Riya Kotecha calling from Bank of America. Please go ahead.

Riya Kotecha (Bank of America Merrill Lynch): Hi. Thanks for taking my question today. I just have one around the contracts that you're working on at ES&T. So I just want to know whether you can give us some detail on the nature of the contracts? So previously, they were structured in a take-or-pay form with a minimum offtake. And is it likely to be the same this time round? And then, what proportion of, say, your 2025, the 40 gigawatt hour are you sort of aiming to have contracted? Yeah. Thanks.

Mathias Miedreich: So let me repeat the question just to make sure I completely understand it. So first part of the question is what is the nature of the contracts of the – that we're expecting to close in the near future, is it take-or-pay or some other topic? And then your question was – can you repeat the second part of your question? What is the rate of – you're referring to 40 –

Riya Kotecha: How much your sort of capacity is going to be contracted?

Mathias Miedreich: Okay. Understood. So first of all, regarding the take-or-pay or the contractual conditions. As usual in this business, there's different customers with different appetites, with different contracts. So you cannot generalise that.

I think what we are doing – what we have been always doing is to protect Umicore in the way we're setting up these contracts could be in different forms. But this would be always at the top of our priorities.

Now in terms of what is the amount of contracts we have closed within the 25 capacity, also here, we would want to ask you to wait for our Capital Markets Day. As we said, we are in progress to be announcing some significant steps up in the direction. We cannot do that right now and we would like to share the math in full detail even beyond that time horizon in June. So if this would be okay for the moment, I would be happy to answer it like that.

Operator: Thank you. The next question comes in from the line of Martijn den Drijver calling from ABN AMRO. Please go ahead.

Martijn den Drijver (ABN AMRO): A question with regard to the green zone in the Hoboken site. You mentioned in press release €58 million due to the purchase of the houses in the surrounding area. Can you share with us what is the total plan in terms of housings and capex? And do you actually treat this as capex, meaning is it in the capex guidance? Or do you quantify – qualify this differently? Thank you.

Mathias Miedreich: Yes. I'm afraid without going too much into detail indeed on the numbers, so what we've taken in terms of provision for 2021 was €46 million of additional provision related to the Hoboken green zone. Remember, we already had approximately €50 million. So we have a provision of, if you allow me to round it, close to €100 million, €90 million, €100 million of provision related to this project.

On top of that – and so what we basically do is we have a voluntary offer to purchase the houses in the nearest zone next to the plant, and the intention is to demolish those houses and make it into what it says, which is a green zone. Then we have a second, I would say, layer of houses, where we purchase the houses, but where we will not demolish the houses, which means that we have a combination of cash out and that's what the provision is covering, in addition to, obviously, all the works that go into that. And then we have a small portion, which is capex-related, basically buying the houses that we will not demolish.

In total, I think the message we want to convey is that we take this whole topic enormously seriously. We spent a lot of money. So if I put it all together, we're above €100 million related to this project, and we actually have, in 2021, already cashed out quite a lot of money. So, you should think about €60 million, €70 million to realise this project. And I think what we are very happy to see is that, and the fact while we need to increase the provision is actually because we have a lot of pickup of the people living in that area that go into and accept basically a voluntary offer, which will accelerate and help us to realise this project, which we believe is very important.

It's only one part of the whole programme related to Hoboken and its emissions. But it's an important part of that project. So we're very happy. In a way, it's a real commitment of a lot of money. But we're happy that we're able to really implement that at speed.

Operator: Thank you. The next question comes from the line of Adam Collins calling from Liberum. Please go ahead.

Adam Collins (Liberum): Yeah. Hi. Good morning. I had a couple of related questions on metal price inflation. So, you talked about a quarter of the precious metal EBITDA wins in 2021 coming from Catalysis. Can you explain how that affects the business? And then on the cathode side, we've obviously seen quite a big price rise in both lithium and nickel in 2021. Could you just confirm that the business model there is similar to Catalysis in that there's full indexation of key metal imports? And if that's the case, to what extent has the move been big enough to optically impact margins in the coming year to the extent that you'll see a posture of cost that, which affects revenues but it's negligible margin?

Mathias Miedreich: Yes. Thank you, Adam. So first on the PGMs. I mean, the model is, and you know that in – so as we said, slightly more than three quarters is really in Recycling in terms of the impacts. I think that model is well-known and there's about a quarter which is related to Catalysis. And the best key reflect the fact that in Catalysis all of our three business units they work with PGM prices.

I mean, if you look at 2021 and you've seen the kind of spike in prices, it does mean that in terms of the price effect on our earnings, we do get some effect and that's basically the quarter of the €270 that you see in Catalysis. And that is because we have these businesses that operate with PGMs and that is part of our business model. And I would say it's really the exceptional nature of the PGM prices, and again, we're talking mostly in the first half of the year that have caused that.

In terms of the lithium, without going into the details, I think the principles, absolutely that the lithium cost is transferred to the customers. I think the point is that different than, for example, a cobalt price or a nickel price, where you have a very clear market preference at – for the lithium, that is sometimes I mean less obvious. You have a number of industries and indications. In a way it's more like a chemical than a metal, with sort of principle is indeed that that gets obviously transferred to the customer. But I would say the mechanism is somewhat less mechanical than what you would have on cobalt or nickel.

Operator: Thank you. The next question comes from the line of Ranulf Orr calling from Citi. Please go ahead.

Ranulf Orr (Citi): Hi. Good morning, everyone. Apologies, if I missed it at the start. But I was wondering if you could just provide a bit of additional context around the performance in Cobalt & Specialty Materials in 2021. I think you said it was an extraordinary year, and also provide some commentary around how much of that you expect to unwind in 2022? And if I could just tag on a second, I'd just be curious to know what the capacity for LCO is in your capacity guidance for battery materials? Thank you very much.

Mathias Miedreich: Yeah. Thank you for the question. So CSM, a comment to that. So as we said the up in performance was on, an absolute scale, good, but also especially compared to 2020. 2020, the end markets of the CSM business, which is in the cobalt and nickel chemicals, but also tooling materials was quite down due to COVID.

So if you make a year-over-year comparison, the increase in the performance is first of all, coming from revenue up, driven by the end markets, but also the price environment was quite favourable in 2021 for us in this regard.

So second part of the question. I think those – the volumes that you mentioned were rather neglectable in this capacity extension. So I don't know the exact number, but they are not material for sure in our projections.

Operator: Thank you. The next question comes in from the line of Georgina Fraser calling from Goldman Sachs. Please go ahead.

Georgina Fraser (Goldman Sachs): Hi. Thank you. Good morning. Thanks for taking my question. I noticed that your guidance for 2022, it hasn't changed much since your most recent update at the end of 2021. If anything, it might be seen as slightly more positive. And in the meantime, energy costs in Europe have skyrocketed. So I was just wondering if you could help us understand any potential impact from higher energy costs and what's Umicore's approach to managing them. Thank you.

Mathias Miedreich: Thank you, Georgina, for the question. So, yes, I'm afraid we live what all companies live through, which is context of accelerating inflation, so that goes for us as well, and that's included. We definitely wanted to include that in the outlook statement.

Energy cost is, as you rightly say, I think is the most important, the most significant part of that. If I try to quantify the impact – and again, based on what we know today and what we see today, I would say the total inflation effect year-on-year is probably something like €100 million, and energy cost is definitely the largest part of that.

Now, like also other companies, we clearly expect to have a substantial part of that cost inflation and generally translate into our prices. So – but energy cost definitely is an important factor. I mean, we have, as you know, a number of activities which are quite energy-intensive. We do have some hedges for energy, specifically for electricity and natural gas in Europe. But I would say, by and large, we're still exposed to the market price.

And unfortunately, having a lot of operations in Belgium doesn't help because we've seen quite a spike, particularly in electricity price in Belgium in this respect. So, we do expect to be able to transfer part of that with a general cost inflation into our prices.

Operator: Thank you. The next question comes in from the line of Sebastian Bray calling from Berenberg. Please go ahead.

Sebastian Bray (Berenberg): Hello. Good morning and thank you for taking my question. It's on the guidance for Energy & Surface Technologies and what, if anything, has changed since December of last year and why. The wording that I have from December of last year in front of me is that the earnings of Energy & Surface Technologies segment are not expected to show a significant uplift for the period 2021 to 2023. And the wording used today was a slight increase year-on-year 2022 to 2021. Has there been any substantive change versus two, two-and-a-half months ago? And if so, is this partly the result of the fact that LFP prices in China have rallied more strongly than NMC because carbonate – lithium carbonate price input has gone up disproportionately versus hydroxide? Is there any impact from that? Thank you.

Mathias Miedreich: Sebastian, let me take your question. So the outlook we gave for 2022 is compliant with the statement that we did end of last year. So what we said is that we will grow earnings in the segment, however, under-proportionally versus the market expectations. So this hasn't changed. So we are working on that, of course, to improve it, but it's not something we could state today. So you can rest assured that the statement is the same.

And, no, it is not – in this sense, not related to the mix that we, of course, like as a general development in the market because it confirms a little bit what we've been saying before. But, no, there is no direct link.

Operator: Thank you. The next question comes in from the line of Geoff Haire calling from UBS. Please go ahead.

Geoff Haire (UBS): Good morning, and thanks for taking the question. I just had one question, or sorry, one question and one clarification. One of your competitors, Johnson Matthey, commented recently when the move to Euro 7 happens, they don't see any increase in the value add of what you get as a producer in revenue compared to Euro 6. Do you agree with that?

And secondly, just a clarification. Filip, you mentioned I think to Chetan's question that metal prices are up versus the second half than the first half of this year, which we can see. But I was under the impression that most of your metals are hedged with the exception – with main metals are hedged with the exception of rhodium. So, is it really what you're saying is that

rhodium prices have moved up and that should help make the first half maybe better than the second half?

Mathias Miedreich: Okay. Geoff, thank you. I will take the first question. The second one, Filip will take.

So regarding Euro 6 versus Euro 7. So there are two influencing factors. The first one is coming from the technology because if you have more stringent emission legislations, you need, simply said, more technology, be it more PGMs included or more complex system to treat. So that's for sure a level for more value up scenario.

Now, on the other hand, you have to also see and that's the reality where we are in; today, the OEMs are basically announcing that the Euro 7 probably will be the last emission legislation in front of us, the last major upgrade. And what they want to do is they want to give long-term contracts for the suppliers in the market to be the partners on the long run.

I think we are very well-positioned as we just said through the technologies that we have and the positive momentum we have on the import markets to gain market share. So we can already see that we are in a kind of good position in that ways. But of course, the downside, the second effect is, of course, the competition for these businesses where at the end of the day, the customers – which will mean also cost competition.

At the end of the day, the – what we see, the upside on the technology should be able to overcompensate potential of price pressures from this increased competition. So, our view is that Euro 7 is providing a value-up for the respective markets.

Filip Platteeuw: Okay. And the second question on the price evolution in rhodium. I think we can definitely confirm that rhodium price is an important element. I think we've said it before. You know that it's a significant part of the price delta in the past. And indeed rhodium price has come up quite a bit since the end of last year. You know that nobody knows what the price will do, but that there's a, let's say, structural supply demand equation behind PGMs, which is important and which is linked to intrinsically the outlook for the automotive industry.

So, yes, rhodium is a play, but I wouldn't want to – I think that the question of Chetan was more broader in terms of overall earnings. So I wouldn't want to just pin it to metal prices. I mean, it's everything. It's a mix also in terms of assumed volumes, etc. So, it's – but rhodium is clearly an important factor.

The other precious metal prices also play, but we have, let's say, largely hedged those. So that should be a much less important factor than rhodium. I think also maybe making a link with the question of Georgina on inflation. I mean, given that we are in metals and precious metals, I think you have the efforts to pass on cost inflation. First of all, try to manage cost inflation, then pass it on into your pricing. But clearly, metal prices and the fact that we have precious metal prices from that perspective is also an element into the overall equation.

But so, short answer, yes, rhodium definitely is important, but there's other factors than rhodium to look through the seasonality.

Operator: Thank you. The next question comes in from the line of Charlie Bentley calling from Jefferies. Please go ahead.

Charles Bentley: Great. Thanks. It's just one follow-up just on my last question. It's just on the utilisation rate. So can you give an indication of utilisation rates for your cathode capacity and also for China?

And then, second one is just on – this comment around Catalysis margin. So if I back out the €70 million of metal price benefit, the underlying margin is around 15%. If I look at consensus, it's looking for around 17% long term. What do you think is kind of a plausible long-term margin for this business? Johnson Matthey recently suggested that kind of 14% was a target goal. Is that how you see it or do you think you can do better than that? Thank you.

Mathias Miedreich: So I will take your first question, Charlie. Thank you. And then, Filip will answer the second one. So capacity, yes, I think we have tried to elaborate, I think, in December on it already. We have two footprints today, China and Korea. Our Korean capacities are quite well utilised as of today. The Chinese one is not, and this hasn't changed. And this is something which is also, as we have said before, a burden on our fixed cost, if you want, of the underutilisation.

But as – I repeat, as we said before the current prospect that we have on this advanced qualifications, we will boost only the high nickel value but also give us significant upside on our Chinese local business. And I think that's all I can disclose at this point in time.

And, Filip, now to the question of the sustainability of the margins.

Filip Platteeuw: Yeah. I think it's a good question for the Capital Markets Day to give a bit more of the perspective and the building blocks. But I would say without wanting to abate the question. And I'm not going to comment on what the other companies have raised. I think what we're trying to say is that the margins that we have seen in 2021 compared to, I would say, previous years and obviously jumping 2020, which was exceptional.

But this margin uplift we consider to be structural because it's linked to, let's say, first of all, the product mix. But secondly, also all the efforts we're making in terms of making sure that our cost base is as competitive as possible. We've done a number of footprint adjustments. You know those that have benefited. We continuously work on operational efficiency of the plant as I think one element really, especially for Catalysis, and that will also be the case for Rechargeable Battery Materials, which is going to be very key. So there is a structural increase in margins. Without wanting to give a percentage, I think mid-teens is probably indeed a good estimate. But allow us to come back on that maybe in the Capital Markets Day to give you a bit more structure into that answer.

Operator: Thank you. We currently have no further questions in the queue. So as a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad now. Thank you. And we do have a follow-up question from the line of Riya Kotecha calling from Bank of America. Please go ahead.

Riya Kotecha: Hi. I've got one on Catalysis. Just want to understand why you aren't sort of more explicitly constructive on volumes going into 2022? I mean, IHS revises production guidance up for the fourth time this year, and last week some of your peers were more constructive on, say, the orders coming in. And then in terms of the pricing side, apart from China V, can you remind us as to what are the pricing levers we see over, say, the next two years? And when do you expect the benefit from China VI to come in? Thanks.

Mathias Miedreich: Yeah. Let me maybe answer the first question first and then the second. Regarding the outlook on the automotive market. So, indeed, we are a little bit cautious, if you want, maybe compared to other announcements, because we have seen the unpredictability of the chip crisis unfolding in the last year.

Now, if we would just judge on the momentum that we see in our orders over the last three months, we can be also slightly positive. So we see that there is an uplift on the orders that come from our customers. And given our quite substantial market share in this segment, it's a good indication also about the global automotive industry, where we see – indeed, see a pickup.

Now, we just want to wait the full global supply chain that is not only related to the semiconductors. If it comes now, again, under load, we are confident that Umicore will be able to follow in terms of production capacity. This might will be true for all of the participants in the supply chain. And from experience in automotive, we turn up the volume, if you will, quite significantly in a short time.

Some members of the supply chain will not keep up, and then we have unplanned disruption. So we stay more conservative on that. But I would agree to a positive sentiment that we see currently.

Second question on the China V versus China VI, etc. Just to explain this effect against. So, China VI nationwide on the heavy-duty was implemented in 2021. So in the first half of '21, there was sprint effect on catching still China V products, China V heavy-duty trucks, which, of course, by the technically concept are cheaper if you want than the China VI ones.

So now the implementation is fully there in China, and that means the effects or the effects achieved that you see from China VI are now in full swing already and will be there for 2022 and the following years.

Operator: Thank you. And the final question is a follow-up from the line of Adam Collins calling from Liberum. Please go ahead.

Adam Collins: Hi. Just a couple actually. So first of all, in recent years you've provided quantitative guidance in the range of about 10% at the 1Q AGM today. Is it your intention to continue on that?

And then on the capex side. Forgive me, I didn't hear your reply to Ranulf in relation to LCO. Is that an area you've exited now? And could you also just comment on where you stand in terms of LMP? There's been a suggestion in the past that you have a capability in high manganese. Just sort of sense on where you are with that.

Mathias Miedreich: Let me ask – let me answer. Thank you. Let me answer your last two questions, while Filip would take the first one. So LCO, capex, no, we're not exiting this business, but the shift of weight versus the other technologies is simply fast accelerating. So this is a statement on that.

And then in terms of how we call it, the HLM, this is – so the HLM technologies, we are as well in a quite active stage. This is a newer technology that is introduced on the market. We have taken all of the lessons learned and discussed in December from the high-nickel topics to stay very close to our customers, and it helps us actually that we are now much closer to the OEM customers through our announcement in the other activities that we did not announce.

And this helps us really to see what are the needs on this segment to really answer the question at the end of the day, the OEM, as I have said before, is not interested if a technology is called LFP or HLM. They want a product that fits into, from a performance and a price equation, into a certain market segment. And today, we have quite some activity on sampling, testing together with the customers, and you can be sure we would be announcing as soon as we have also a qualification on the sector, but quite busy right now with HLM.

Filip Platteeuw: And yeah, on the guidance, I mean, you're right to mention that, Adam, I think that 10% is kind of the range we've historically tried to use. I would say, the answer is we try to be as specific as we can based on the visibility that we have and all of the factors. So if we can be specific to that extent, we will do it. I think it's fair to say that like all companies, we're coming out of this special phase with COVID. So we have to recalibrate a bit.

You also see that – I mean, our earnings went from rounded €500 million to €1 billion. So the – let's say, the visibility factors both on the economic outlook and then also on things like metal prices will play a role to see how tight we make the guidance. But definitely we will try to make it as specific as we really feel comfortable doing based on the visibility we have.

Operator: Thank you. That was the final question in the queue. So I shall turn the call back across to yourself, Mathias, for any concluding remarks. Thank you.

Mathias Miedreich: Yeah. Thank you very much, operator. Thank you very much to all participants to this call. Very good questions, very good discussions. And, of course, we are looking forward to continue this now in the AGM that we will have in April. And of course, we hope to have a lot of participation from your side in our Capital Markets Day, that hopefully if the COVID-19 situation allows, we would be able to do as a physical event, especially myself, being new as a CEO, I would like to meet you personally to exchange the views on Umicore, the future, the different strategies together with the whole management board. So I'm looking forward to that.

And, of course, I'm looking forward to the roadshow in the coming days with each of you to go into more detail about our '21 business performance and '22 outlook. Thank you very much and have a great day and continued week.

Operator: Thank you for joining today's call. You may now disconnect your handsets. Hosts, please stay connected and await further instruction.

[END OF TRANSCRIPT]