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Charlie Webb *Morgan Stanley - Analyst*

Philip Scholte *Kempen - Analyst*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Umicore Q3 2016 update conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Filip Platteeuw, CFO. Please go ahead, sir.

Filip Platteeuw - Umicore NV - CFO

Thank you and good morning everyone. And it's a pleasure for me to welcome you indeed to today's call where we'll update you on how revenues have progressed in the third quarter. In terms of overall evolution, Group revenues were up by 7% in the third quarter compared to the same period in 2015. This reflected strong revenue growth in all of the business groups and especially those businesses that are the key strategic growth focus for Umicore in the coming years.

In that context, all of the extensive growth projects that we have underway in catalysis, energy and surface technologies and recycling are on track. One specific comment regarding the Hoboken expansion is necessary here. We have brought forward the shutdown that was planned for early 2017 into December of this year. The reason for this is that we needed to advance work on the refractory lining of the smelter allowing us in turn to combine the implementation of some process improvements as we complete investments in certain auxiliary equipment at the end of this year. Now this will mean that the overall treated volumes for 2016 will be somewhat lower than anticipated, but with no change to the overall ramp-up expectation.

If we look now at the outlook, we have - by and large - seen the business evolve in line with our expectations back at the end of July. The only difference we see is the bringing forward of the Hoboken smelter shutdown into December. Despite this, we still expect full-year recurring EBIT to be within the previously guided range of EUR345 million to EUR365 million. Let me now walk you briefly through the revenue evolution of each of the business groups, starting with catalysis where revenues were up by 10%.

Revenues for automotive catalysts were well up year on year, benefiting from strong demand for our catalysts for both light and heavy-duty applications. The global light-duty vehicle market showed substantial growth of 5% year on year.



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Supported by a strong product and regional mix, Umicore's revenues grew faster than the market. Both in Europe and in China we strongly outperformed the market in volumes as well as in revenues. In Europe, the market saw diesel losing some ground to gasoline. Demand for our gasoline catalysts was strong, particularly for direct-injection gasoline engines. In China, we continued to benefit from a strong exposure to global car manufacturers. Conversely in North America, Umicore grew less than the market due to our lower exposure to Asian OEMs. In terms of major investments, the construction of the new plant in Thailand has been completed and the facility will start delivering products in the first quarter of 2017.

Turning now to energy and surface technologies, revenues in this segment were up by 8%. The main factor in the increase continued to be rechargeable battery materials. The demand for hybrids and electrified vehicles continues to gain significant traction and this is driving the sales of NMC cathode materials. We are now operating flat out to cater for customer orders. And as you know, we announced a major capacity expansion project earlier this year that aims to triple production by the end of 2018 with part of the additional capacities starting to come on-stream at the end of 2017, which should enable us to keep pace with this surging customer demand. The ongoing smaller capacity expansion in China will be commissioned before the end of this year.

Shipments of Umicore's high-energy LCO, lithium-cobaltite cathode materials for the high-end portable devices continued to be solid. Revenues for cobalt and specialty materials increased year on year. In the refining activity, the impact of lower nickel and cobalt prices was more than offset by volume growth, while in ceramics and chemicals we benefited from a greater contribution from distribution activities, both in Europe and in the US.

Revenues for electroplating were well up year on year reflecting higher sales volumes across product groups, and particularly for decorative applications.

Revenues for electro-optic materials were down year on year primarily due to reduced contribution from the recycling and refining activity.

And finally thin film products recorded lower revenues year on year as a result of competitive pressure in the large area coating activity.

Passing on to recycling now where we have revenues that were up 7%, revenues for precious metals refining were up year on year and this reflected higher process volumes resulting from the improved throughput of the Hoboken plant, and I will come back to this in a moment. Metal prices had no material impact on the revenues. Higher prices for gold, silver, and some PGMs were entirely offset by lower demand and prices for certain specialty metals.

The supply environment remains robust and we took in large quantities of complex residues from the non-ferrous refining and mining industries. As I mentioned at the outset, the smelter in Hoboken will be shut down for maintenance in December. This is somewhat earlier than originally planned and will impact process volumes for 2016. The shutdown will however facilitate the commissioning of the new investments and we expect the overall ramp-up of the new capacity to be in line with the plan.

Looking at the other business units, jewellery and industrial metals recorded higher revenues year on year, driven by a strong contribution from the recycling activity.

Revenues for platinum engineered materials were also up year on year driven by higher order levels for glass applications, while the contribution from precious metals management was stable.

Revenues for technical materials were slightly up year on year, although market conditions remain challenging.

And looking now at corporate and discontinued activities, while the contribution from element six abrasives was higher in the quarter on the back of a cautious improvement in demand from the oil and gas market, its full-year contribution remains significantly below that of last year. Revenues from discontinued activities were down in both zinc chemicals and building products, and cash flow-wise it is worth mentioning that a EUR69 million fine imposed by the French Competition Authority was paid beginning of October.

So wrapping up the key takeaways from the quarter, solid growth across all three business groups resulted in a 7% year on year revenue increase.



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Market developments in the activities that are at the center of our 2020 growth ambition stayed positive. And in this context our growth investments are all on track to deliver increased volumes and scale effects in the coming years. In terms of our full-year outlook, we still see recurring EBIT for 2016 coming in the range that we provided back in July of between EUR345 million and EUR365 million despite average precious metal prices being lower than in July and despite the fact that we are bringing the maintenance shutdown in Hoboken forward somewhat into the last month of 2016.



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And with that I would like to turn the call over to you for questions which Marc and I will be happy to take.

QUESTIONS AND ANSWERS**Operator**

Thank you. (Operator Instructions) Mutlu Gundogan, ABN AMRO.

Mutlu Gundogan - ABN AMRO - Analyst

If it's okay, I'd like to ask my questions one by one. The first question is on recycling. I assume that your volume growth is in line with the 7% revenue growth that you show. Can you explain to me why you did not have more volume growth because what we know is that you had an extended shutdown last year which alone should lead to double-digit volume growth this year, and on top of that you have benefited from the two shutdowns since then, so what am I missing?

Marc Grynberg - Umicore NV - CEO

Hello Mutlu, this is Marc. I think it's fine if you raise your questions one by one, but I would like to give everyone the opportunity to raise questions. So I would ask you after I've answered that first question to place your name back in the queue so that we can allow other people to raise their questions too.

The volume increase was pretty much in line with I would say a normal ramp-up scenario for this type of a facility. And I think you need to realize that 1 percentage point is equal to thousands of tons of materials to be processed. So we're not talking about peanuts here. So a 7% increase, you're not missing anything, we just have a different reading, 7% of increase of processing volumes is quite an achievement over a quarter. It's a pretty big impact and again this is very much in line with a normal ramp-up scenario for his type of facility. And indeed the revenue and the volume increases were pretty much in line which means that the mix has been fairly stable indeed.

Mutlu Gundogan - ABN AMRO - Analyst

I will definitely ask my questions then later, but just what am I missing because historically your normal shutdown would be three to four weeks. If you have an extended shutdown it pretty much means more than a month. So mathematically isn't that just one-third of extra volumes that you had this quarter alone?

Marc Grynberg - Umicore NV - CEO

No, because the timing of the shutdowns is not necessarily as you say and is not necessarily in one distinct quarter. It can be also sometimes on a straddle between two quarters. So I think it's not about mathematics it's about a ramp-up here of an industrial facility and the volume increase is pretty much in line with the ramp-up scenario -- a realistic ramp-up scenario for this type of industrial operation.

Mutlu Gundogan - ABN AMRO - Analyst

Okay. I'm not sure if I completely understand, but I'll get in touch with IR later on and leave the questions to someone else.



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Operator

Wim Hoste, KBC Securities.

Wim Hoste - KBC Securities - Analyst

I've also on recycling two questions. Firstly, can you confirm that there was no additional hedging undertaken in the course of the past few months? I did not find anything in the press release and I assume with the slight pressure of prices that we've seen since the Q2 results with -- or H1 results with that no additional hedges was taken, so if you can please confirm that?

And then secondly can you now highlight what -- in your plan what will the maintenance schedule be for 2017? My previous understanding was that there would be two shutdowns with one now brought forward. Is then the plan to do one shutdown in H2 2017? Can you confirm that please?

Filip Platteeuw - Umicore NV - CFO

Yes, so Wim, on the hedging I can confirm no additional hedging since we talked last time.

Marc Grynberg - Umicore NV - CEO

And in terms of maintenance schedule, yes, it is a fair assumption to make that we will have one shutdown next year sometime in the second half indeed.

Operator

Stephanie Bothwell, Banc of America - Merrill Lynch.

Stephanie Bothwell - Banc of America - Merrill Lynch - Analyst

My question was actually on catalysis. I'm just trying to understand the very strong plus-10% top line growth that you had during the quarter. This is a quarter when we would have expected some of the impact of Euro 6B rolled off and you also flag in the release the decline of diesel market share. So therefore I'm trying to understand is that 10% top line growth been driven primarily from China and the relatively easy comps that you had there during the quarter or is there something else there that I'm missing as to why it was quite that strong?

Marc Grynberg - Umicore NV - CEO

Hi Stephanie, the spectacular growth in the third quarter is indeed to a large extent due to a very strong performance in China. And it's not because we have easy comps because actually we have outperformed the markets as you may have gathered from the comments in the press release. So the market in China has done extremely well compared to I would say a relatively weak third quarter in 2015, and we have outperformed that market and that has indeed supported overall performance plus we also mentioned in the press release our performance in Europe has been also extremely good despite the fact that diesel has indeed lost a little bit of market share against gasoline engine.

Operator

Adam Collins, Liberum.



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Adam Collins - *Liberum - Analyst*

I had a couple of questions too. Firstly, when will this Zinc Chemicals divestment close? And then the second one was really just point of information. During the quarter you announced a three-year consolidation program for the European production facilities in catalysis involving Germany, Poland, and Sweden. I wondered if you could just talk a little bit more about what the plan is there, what that might mean for restructuring costs near term and what you think of the operational benefits of doing that?

Filip Platteeuw - *Umicore NV - CFO*

Adam, I will take the first question. So the zinc chemicals divestment process is still basically still ongoing, so we signed in June and we're now working towards closing, so nothing to mention today.

Adam Collins - *Liberum - Analyst*

Okay, the guidance for the year, is that predicated on a year-end close?

Filip Platteeuw - *Umicore NV - CFO*

Well, what we've said is that the guidance indeed includes a full contribution of zinc chemicals, yes.

Adam Collins - *Liberum - Analyst*

Okay. Thanks.

Marc Grynberg - *Umicore NV - CEO*

Yes, and let me then take the other question, and I'm sorry for the broken voice, I'll do my best to get to the end of a response. The idea is indeed consolidate our AC production assets and footprints in Europe while at the same time accommodating the growth that we see in the Europe market, especially the growth towards the end of the decade with Euro 6C and D, emission norms that will be more stringent both for diesel and for gasoline engines and will require new cat solutions.

The plan will entail the closure of one of our sites in Rheinfelden in Germany with the additional capacities being installed both Bad Sackingen which is neighboring to Rheinfelden and a more recent site with more modern capabilities on one hand, on the other hand expansions in Poland will allow to cater for future demand towards the end of the decade. You may therefore expect a restructuring charge to be booked at some point in time. That will depend on the conditions regarding the closure of the Rheinfelden site and for the consequence for all colleagues there. I would say that it will be either still towards end of this year or sometime early next year, but again that is subject to the negotiation process that you typically have.

And once the plan will be fully implemented, then there will be a better absorption of our fixed cost base on one side because of the reduction of the number of sites and secondly significant growth towards the end of the decade as the new mission norms kick in.

Adam Collins - *Liberum - Analyst*

Okay. Thank you, Marc. Wish you better.



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Operator

Andrew Benson, Citi London.

Andrew Benson - Citi London - Analyst

And Marc, I just -- I couldn't really hear you very well on the last question and I know you're perhaps struggling a little bit, but anything you can do to help, that'd be great. You talk about the shift to diesel, but -- in Europe, but the growth elsewhere. Can you just give us some guidance on the value of the direct injection catalyst -- gasoline catalyst versus traditional gasoline engines, and just where you think you are in terms of market share in this new area? You talked about lower pricing for metals during the quarter which is why you haven't hedged anymore.

Can you try and you want to dimensionalize the adverse impact of that relative to the expectations? And normally when metal prices come off a bit the companies withhold material from being recycled. So I was wondering how your very strong performance sat with that general market trend that. You tend to get a withdrawal of volumes and appearance of decline. So it seems like you are doing pretty well there, so if you could explain that, that would be great.

Marc Grynberg - Umicore NV - CEO

Yes, Andrew, so let me start with the direct injection engines and what I would say at this stage that the value uplift from these engines from a catalyst value point of view I mean will actually come when the gasoline particulate filters will start to be fitted on those engines and that will start to a limited extent next year and will extend in the following years.

And once that will be the case, I would say that a direct injection gasoline engine will have more value than the current engines, but will not be as high as the fully-fledged Euro 6 diesel system, and so there will still be quite a distance in that respect. So the mix is not neutral in a way.

What remains with the comment on the metal prices is that metal prices -- precious metal prices actually dipped somewhat again after the results announcement that we made at the end of July and so overall the metal prices that we've had for let's say two-thirds of the third quarter have been somewhat less favorable than those prevailing when we guided the market to the range that we indicated back at the end of July.

And then finally to your last point, we have not observed any particular hoarding attitude driven by the low metal prices and that's probably because the low metal prices has been prevailing for quite a while now and probably a bit too long for people to keep hoarding on materials. So that has not been a very significant factor, we've not observed that and we don't believe it's been a very significant factor in terms of the supply picture and indeed I would say also that our performance has been pretty strong in that respect.

Andrew Benson - Citi London - Analyst

Perhaps, just a quick supplementary one. Given the two negative factors of the earlier shutdown, I know that's just a phasing issue and the slightly lower metal prices, is it really the volumes that are the major offsetting positive factor that allows you to reiterate unchanged guidance?

Marc Grynberg - Umicore NV - CEO

Yes, actually, let me maybe bring some clarification there. You're right there are two negatives compared to when we talked at the end of July or early August about the forecast. One is metal prices which are a bit lower indeed, and secondly the fact that the shutdown is being brought forward to December is another negative factor. And because of these two factors we should expect now the recurring EBIT to be rather in the lower half of the range that we guided to a few months ago.



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This being said, these effects are being partly offset by the stronger than expected performance in catalysis and in energy and surface technologies. So if I had to put it in other words, had we not had the rescheduled maintenance shutdown and the lower metal prices would have probably had a qualitative upgrade to the guidance by now.

Operator

[Jeff Fiell], UBS.

Jeff Fiell - UBS - Analyst

Sorry, my questions have been answered. Thank you.

Operator

Charlie Webb, Morgan Stanley.

Charlie Webb - Morgan Stanley - Analyst

Just one quick question from me. I was expecting I guess Q3 for especially metals to kind of have troughed. Given your commentary suggests maybe we've seen further deterioration in that market. Do you think we're now getting close to the trough or do you think there's still further downgrades there?

Marc Grynberg - Umicore NV - CEO

Yes, Charlie, I mean as you know specialty metals are always difficult to read, but what the levels that we have today and again it's a basket of metals seems indeed to be stabilizing, but at a low level.

Charlie Webb - Morgan Stanley - Analyst

Okay. Thank you.

Marc Grynberg - Umicore NV - CEO

And what is also important, I -- just to specify, you've seen that, we mentioned it in the [voice-over] that it's always a combination of demand and prices. So these go hand in hand. And we've seen lower demand for these metals. So stabilized metal prices and lower demand.

Operator

(Operator Instructions) Philip Scholte, Kempen.

Philip Scholte - Kempen - Analyst

I have a question on your battery materials side. In your prepared remarks you say you are delivering flat-out. Does that mean you are at full capacity actually right now and can you maybe shed some light on your views on where that capacity is and do you think that any time in the next coming quarters you will -- are you limited by capacity or do you think your current plans to expand in China are enough to keep this growth rate ongoing?



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Marc Grynberg - Umicore NV - CEO

Philip, we've been operating at full capacity for a while now and we still are, and that will continue to be the case also with the newer capacity that will shortly come on-stream. So we expect to be at full capacity for the foreseeable future, yes.

Philip Scholte - Kempen - Analyst

Right, but does that mean that growth will slow down or I mean -- or are you raising prices more aggressively?

Marc Grynberg - Umicore NV - CEO

Well, we are tripling capacity over two years' time. So I wouldn't call that -- I wouldn't dare to call that slow down in the growth, it's rather a very significant acceleration and we're adding capacity as quickly as we can to cater for the sharp increase in demand.

Operator

(Operator Instructions) Mutlu Gundogan, ABN AMRO.

Mutlu Gundogan - ABN AMRO - Analyst

Returning to recycling and also on the specialty metals. I mean, you talk about lower demand for specialty metals, I mean how does that impact your business besides the price impact because the volumes are a given, isn't it, so how does low demand further impact your business besides the price effect?

And then secondly on recycling as well, should we expect a lower REBIT this year then, is that what you're confirming? And then maybe to add to this, a small question, can you talk about your capacity increase then in 2017 given the shutdowns that we've seen this year?

Marc Grynberg - Umicore NV - CEO

Mutlu, I'm not sure what you meant by the volumes are a given for specialty metals. Can you help me with that?

Mutlu Gundogan - ABN AMRO - Analyst

So your supplies provide you with a certain volume of feed so to say which contains various metals. So if that also contain specialty metals you will take them out one way or the other. So then you have to sell them all, isn't it? So if the demand is low, you would sell it at a lower price, that is at least my understanding, but please correct me if I'm wrong.

Marc Grynberg - Umicore NV - CEO

Yes, it's wrong indeed because there is no terminal market for those metals. So if there is no demand, there is no sale. So that's -- it's not like a traded metal that you can sell to any counterparty through an exchange. Here you don't have a customer, a physical customer that requires the metal for further processing or transformation. You don't have a sales, you don't have the revenues. So the volumes are not a given, and that's why we mentioned that it's not just a matter of prices, the demand has also been very low recently.



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Mutlu Gundogan - *ABN AMRO - Analyst*

Can you explain to me what you then do with those metals once you have recycled them?

Marc Grynberg - *Umicore NV - CEO*

Well, we keep them as long as -- and we wait for the demand to be there. It's a fairly erratic pattern and has always been because these specialty metals tend to have a limited number of possible applications indeed, yes.

Mutlu Gundogan - *ABN AMRO - Analyst*

Okay.

Marc Grynberg - *Umicore NV - CEO*

And sorry, Mutlu, can you repeat the other part of your question?

Mutlu Gundogan - *ABN AMRO - Analyst*

Yes. So just wondering the statements that you gave in terms of the shutdown and the lower prices, could you confirm that you then expect a lower REBIT for the recycling business in 2016? That was the second part. And if you will the third part, can you shed some light on the capacity increase that we should expect for 2017?

Marc Grynberg - *Umicore NV - CEO*

In terms of REBIT forecast, suffice to say that we expect the -- or REBIT recurring EBIT to be in the lower half of the range that we have provided for the Group and we are not providing details per business group in terms of forecast. And the capacity increase, the capacity utilization increase will be fairly significant next year indeed as we continue the -- to ramp up the volume and we have a number of investment project that are coming to completion towards the end of the year and that will remove a few remaining bottlenecks in the auxiliary equipment. So the processing -- the processed volume will be higher and well higher in 2017 compared to this year.

Mutlu Gundogan - *ABN AMRO - Analyst*

Just looking back at the Capital Markets Day, the slide you presented on the capacity increase ramp-up in volumes, does it simply mean that the 2016 volumes are shifting to 2017, is that how we should think about it?

Marc Grynberg - *Umicore NV - CEO*

By definition if the -- one of the shutdowns is brought forward from 2017 to 2016 you will have some volume shifting indeed from 2016 to 2017, yes.

Mutlu Gundogan - *ABN AMRO - Analyst*

Yes. No, because I want to make certain that not the 2017 volume shift again to 2018 because in all honesty if you look at the announcement in 2013 with the capacity expansion program, it has taken longer, it seems, than planned, isn't it?



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Marc Grynberg - Umicore NV - CEO

No, I don't think so because we've always indicated that it takes two year to engineer, two years to build and two years to ramp up. So I don't think we have deviated from that view in any material manner.

Operator

Adam Collins, Liberum.

Adam Collins - Liberum - Analyst

I had two follow-ups on RBM. Recently you put out some information on the ITC case timings. You talked about 17th of November for the preliminary hearing with a final determination expected in mid-December. Just wondered if that's still the timetable? And then looking for some comments from you about the high profile Galaxy Notes explosions and termination of the program, has that had any direct impact on your business and what do you think are the broader implications for your business in the medium term? I'd be interested in any comments you have around that.

Marc Grynberg - Umicore NV - CEO

So first of all the schedule for the ITC hearing and determination is indeed November 17 for the hearing and mid-December probably for the determination. So that's still the view now as we speak. Regarding the Galaxy Note debacle I would say I would say that we don't see major impact on our business and because anyways we're running flat out and we would not have so much flexibility to cater for much more demand one way or another. And as far as we see it now, it's not casting a doubt on the development of the lithium-ion battery industry, neither for portable electronic uses, nor for automotive applications.

We don't see that slowing down in any manner the development that we have been talking about in recent times. Lithium-ion battery makers now know how to make these systems safe enough. I don't know exactly what the reasons are for the Galaxy 7 failure, but I think it's fair to say that battery makers now know how to make safe batteries for every type of application. So we don't see an impact in other words.

Operator

Mutlu Gundogan, ABN AMRO.

Mutlu Gundogan - ABN AMRO - Analyst

Yes, two more questions. First on batteries, can you talk about the smaller capacity expansion programs in China, what kind of volume growth should we expect from that? I know you don't want to give a lot of details, but could you give us at least an indication of what what a range is, should we expect limited volume growth, any color on that would be appreciated. And then secondly I might have missed this, but did you talk about the share of diesel today versus last year, where do we stand?

Marc Grynberg - Umicore NV - CEO

Yes, let me start with diesel. So diesel in the third quarter, the share of diesel in the European market was a little bit lower on the quarter-to-quarter basis. On a year-to-date basis it's almost the same as a year ago because the performance in the first half of the year was relatively stable.



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And in terms of battery expansion, it's relatively small expansion that we will have by the end of this year. So the volume increase in the first part of next year will not be spectacular and there will be more capacity coming on-stream in the second part of next year towards the end of 2017 as part of the capacity tripling program. So overall for the full year of 2017 it will be a non-negligible expansion of our volumes, but I would say a bit back-loaded because of the timing of the projects coming on-stream.

Mutlu Gundogan - *ABN AMRO - Analyst*

Right. And the tripling for 2017, I mean towards the end of 2017, so we should still expect a benefit of that in the second half, it's not that the capacity comes online let's say in December and it starts to benefit 2018?

Marc Grynberg - *Umicore NV - CEO*

Part of that will indeed be visible in the second part of 2017 and of course it will be more significantly visible in 2018, and of course in 2019 you will have the full tripled capacity available.

Mutlu Gundogan - *ABN AMRO - Analyst*

Okay, understood. And then maybe one more follow-on on recycling; when you just recently spoke about the capacity increase in 2017, if we just forget let's say all the rest, but just simply talk of volumes, so process volumes, what is the expectation for 2017 because before you said flattish.

Marc Grynberg - *Umicore NV - CEO*

What did you say about flattish?

Mutlu Gundogan - *ABN AMRO - Analyst*

Yes, so before the guidance was that you would have two shutdowns in 2017, i.e. hardly or flattish or limited volume growth, that was the wording. So with today's information, what would you guide for?

Marc Grynberg - *Umicore NV - CEO*

As I mentioned earlier when you raised the question, a quite visible increase in the process volumes as some of the 2016 volumes are shifting to 2017 because of the fact that we're rescheduling the maintenance shutdowns.

Operator

We have no further questions in the queue at this time.

Marc Grynberg - *Umicore NV - CEO*

Okay, so then I would like to now close the call and thank you for attending our Q3 update. I would like to thank Filip for the presentation and if you have follow-on questions, please feel free to reach out to our Investor Relations team. Thank you and talk to you soon. Bye-bye.



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

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