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PRESENTATION

Operator

Good day and welcome to the Umicore full-year 2016 conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Marc Grynberg. Please go ahead, sir.

Marc Grynberg - *Umicore - CEO*

Operator
Good day and welcome to the Umicore full-year 2016 conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Marc Grynberg. Please go ahead, sir.

Marc Grynberg - Umicore - CEO
Good morning everybody and welcome to the presentation of Umicore's results for the full-year 2016. I will talk about the overall business evolution as well as the perspectives for the coming year, and then I will hand over to Filip who will cover the financials. I will then hand the call over to you for any questions.

If we look first at the highlights of 2016, we can see that revenues and earnings were both up year on year. Revenues from continued operations were up 3%, and this masks a somewhat contrasted evolution with strong growth in catalysis and rechargeable battery materials, being offset to a certain degree by the impact of lower metal prices on recycling revenue.
The earnings progressed by 7% and similar to the revenue evolution, this mainly reflected the outstanding growth in automotive catalyst and rechargeable battery materials, more than offsetting the effects of lower metal prices on the recycling and refining activities around the Group.

In terms of enabling future growth, we continue to invest in a focused way, particularly in those activities related to clean mobility and recycling. Rechargeable battery materials accounted for the bulk of the investments in 2016 with work already underway on the expansion project to triple capacity in South Korea and China by the end of 2018. In the other businesses such as automotive catalyst and recycling it was more a case of completing projects and starting to ramp up production. I will come back to these a little later.
Non-recurring elements represented a total charge of EUR110 million to EBIT with the biggest single item being the fine imposed by the French Competition Authority relating to our building products operation in France. I should remind you in that respect that we are appealing this sanction. The balance of non-recurring elements related to the closure cost for two plants, one in Germany and one in China.

Considering the financial performance of 2016 as well as the growth prospects of the Company and the strength of the balance sheet, the Board of Directors will propose to increase the gross dividend from EUR1.20 last year to EUR1.30 per share this year.
The outlook for 2017 is indeed encouraging. Typically we do not provide detailed earnings guidance this early in the year. Having said that, there are certain trends that are worth pointing out that will shape our earnings profile for the full year. In Catalysis, we anticipate continued growth in both the light duty and heavy duty sides of the business. This growth will likely be less pronounced than last year as there are no major legislative steps coming into force in 2017. Having said that, there are some developments that will play in our favor, one of which is the qualification of our particulate filters for use on several gasoline-powered passenger car models.

In Energy and Surface technologies, the story in 2017 is going to be all about the growth in rechargeable battery materials with customer demand increasing really fast. The growth will likely be more concentrated in the second part of the year as this will be when the first lines of the additional capacity starts to come on-stream.
In Recycling, the volumes processed in Hoboken are set to increase gradually now that we have completed the expansion investment. As we mentioned when we announced the expansion back in 2013, the incremental volumes are expected to be somewhat less beneficial in terms of margin as we expand our reach into the supply market. This being said, the value-creation potential of the expansion is also confirmed.

So overall, without yet providing you with an expected earnings range for 2017, which I will do towards the end of April as usual, we can say with confidence that we are well on the way to reaching our Horizon 2020 goals in terms of earning growth, balancing the portfolio and being a clear leader in clean mobility and recycling.

If we turn now to the business review and start with Catalysis, this was the business where we saw the best performance in the group with revenues up by 6% and recurring EBIT up by 23% to EUR152 million.
In automotive catalysts, we recorded strong volume growth in both light- and heavy-duty application. In the light-duty segments, Umicore's performance outstripped that of the global car market and this was particularly pronounced in Europe and in China. In Europe, this was mainly down to the success of recently-launched gasoline platforms on which our catalysts are present.
In China, Umicore's growth outpaced that of the market due to our strong exposure to international car OEMs which has been growing faster than local producers. The growth in other regions was less pronounced, although it should be mentioned that our presence with Japanese car producers has been increasing steadily. Staying of the light-duty theme, it is also worth pointing out that Umicore has secured major awards for gasoline particulate filters in Europe and China for engine platforms that will be launched towards the end of 2017.
With regards to heavy-duty diesel applications, we continue to grow this business steadily in the markets where we are present, mainly Europe and China. Overall, the performance of automotive catalysts benefited from the good product mix and was boosted by the scale effects that we are now seeing at the recently completed investments ramp up to maximum capacity. Revenues for the smaller precious metals chemistry business units were slightly down year on year.

Energy and Surface technologies also posted a very strong performance in 2016. Revenues were up by 4% and recurring EBIT by 16%. The vast majority of the growth came from the higher volumes in rechargeable battery materials, particularly from NMC materials for use in the transportation segment.
By now, most car manufacturers have developed an electrification strategy and we are also seeing the introduction of larger batteries that enable longer driving range and provide overall better performance at a lower cost. The growth in electrified drive trains for public transportation such as buses is also taking off with China at the forefront. We are exceptionally well-placed to benefit from the growth in this segment due to our long industrial track records, diversified customer base and wide range of NMC products.
The cobalt and specialty materials activities recorded stable revenues with better sales volumes compensating for the effect of lower cobalt and nickel prices on the refining and distribution activities. Profitability was higher largely due to the combined benefits of the volume growth and cost reduction measure. Electroplating had another strong year with product innovation opening the door to new application in the portable electronic segment such as wearables and new generation smartphone. In the electro-optic materials and thin-film products businesses revenues were lower.

Turning now to Recycling where revenues were 3% down and recurring EBIT was 12% lower than the levels of 2015. This reflected the impact of lower metal prices across different activities. In the precious metals refining business, revenues were slightly down year on year due to lower demand for specialty metals as well as lower received prices for PGMs. We completed the Hoboken maintenance shutdown in December, which you will recall has been brought forward from early this year and implemented certain investments in auxiliary equipment during that same time. While process volumes in the fourth quarter were impacted by the shutdown, yearly volumes were in line with those of 2015. Supply mix reflected good availability of complex residues coming from the non-ferrous refining and mining industry.
Revenues for jewellery and industrial metals were stable compared to the previous year with higher activity in gold refining offsetting lower demand for silver products. Revenues for platinum-engineered materials increased slightly as a result of higher demand in its main end-market. In precious metals managements, the contribution from the trading activity was lower due to the unfavorable metal price environment while revenues of technical materials were slightly down as trading conditions remained challenging, particularly in Europe.

Looking now at growth investments, we have a very clear focus on clean mobility and recycling projects. In the Catalysis business group, we have completed a major wave of expansion investments, the most recent of which was our new facility in Thailand. As a new production and technology investments reach their full capability in catalysis, this will further enhance the scale effects throughout the business.
In Energy and Surface technologies, the accent is very much on the expansion of NMC production. The investments in South Korea and China are well underway and we anticipate that the first production from these expanded operations will start in the second half of this year. The demand has been growing incredibly fast and the new lines are needed just to keep pace with current demand. At Hoboken, as I have mentioned, the auxiliary investments were completed during the maintenance shutdown in December and we have started to ramp up capacities in advance. And related to the capacity expansion, we are also carrying out a series of investments to further reduce metal emission. This will focus in the first instance on the revamping of the lead refinery in order to reduce the risk of lead emissions and further improve occupational health in the plant.

Turning now to the discontinued operations, revenues for building products were down year on year as demand in France, the largest market for the business unit, remained subdued. We did, however, see some signs of recovery in this market and that bodes well for future demand. The product mix also evolved positively with a higher percentage of surface treated products sold during the year. As we mentioned a while ago, we have initiated a process to divest the activities and have in the meantime received expressions of interest from a number of parties, both industrial and financial. We will be analyzing these initial bids during the coming week. You will also recall that we completed the sale of zinc chemicals to OpenGate Capital effective from November 1 last year and the activities of zinc chemicals therefore contributed the revenues and earnings of Umicore for 10 months.

Safety performance was unsatisfactory in 2016 with 59 accidents compared to 47 the previous year. Although a high percentage of all plants have an outstanding safety record and achieved fewer accidents year after year, there remains some areas where it is proving harder to make the required breakthrough. We are stepping up our efforts across the board and all possible areas for improvement are being looked at. Finally, the overall number of people employed at Umicore was lower at the end of 2016, reflecting primarily the sale of the zinc chemicals operation. And with that, I would like now to hand over to Filip who will cover the financial items.

Filip Platteeuw - *Umicore – CFO*

Thank you, Marc, and good morning everyone. As you saw from our numbers, we have increased our revenues in 2016 despite significantly lower average metal prices than in 2015. On average, our revenues also became more profitable, resulting in an increase of our recurring EBIT and recurring EBITDA Group margins.
The clean mobility businesses drove this uplift with recurring EBIT for Catalysis and Energy and Surface technologies increasing 23% and 16% respectively. The year-on-year comparison is distorted by the fact that in 2016 zinc chemicals only contributed 10 months to our results as it was divested effective end of October. The like-to-like comparison of our continued operations only, so excluding both zinc units, shows an increase of our revenues of 3.1% and an increase in both our recurring EBIT and recurring EBITDA of 7%.
When comparing our recurring EBIT of EUR 351 million to our full-year guidance, one should account for the missing two months of contribution from zinc chemicals, which in our guidance was estimated at EUR3 million.

The return on capital employed for the Group stood at 14.6% in 2016 and continues to close in on our 15% target and is already well above our 12.5% hurdle rate. Catalysis, which is a segment that employees most capital, was the main driver behind this increase, generating a return on capital employed of 16.6%.
Now, in spite of the substantial investments supporting the growth in rechargeable battery materials, the returns in the segment Energy and Surface technologies also increased year on year. It's worth mentioning that in this segment, we already generated a return on EBITDA margin of over 20%. Finally, in Recycling, the metal price headwinds lowered returns in 2016, but with a return on capital employed of 26% of the segment it remains highly value creative even in a more modest metal price environment.

Our net financial debt decreased somewhat to just under EUR 300 million by end of year on the back of a solid net cash flow that included two important one-offs. One was the payout of EUR 69 million for the fine imposed by the French Competition Authorities related to our building products units and on the graph included under the operating cash flow label. The second important one-off was the cash proceeds from the sale of our zinc chemicals unit on the graph included in the other cash flows. On net working capital needs were stable year on year. CapEx spending increased, mainly driven by our strategic growth projects. But I will come back to that in a minute.
While our cash tax charge of EUR72 million was below the relatively high level of 2015, you would have noticed that in line with earlier guidance our recurring effective average tax rate increased to 25%. This is for the full Group.
Our CapEx spending in 2016 reflects the growth priorities we set out as part of our Horizon 2020 strategies, and in particular the acceleration in the field of rechargeable battery materials. The sizable increase in CapEx for Energy and Surface technologies included the start of the investment works. We tripled our total capital material capacity as well as the acquisition of the NMC patents from 3M.
In Catalysis, CapEx in 2016 was lower than in previous years and included amongst other the new production facility in Thailand. Finally, in Recycling CapEx also decreased compared to 2015 and consists mostly of the auxiliary equipment investments in Hoboken.

Our recurring earnings per share was somewhat lower than in 2015 due to higher taxes and higher financial costs, mostly related to negative Fx results. In view of our improved operational performance in 2016, our robust net cash flow and capital structure, the Board will propose to shareholders a dividend of EUR1.30 per share compared to last year's EUR1.20. This 8% increase reflects the confidence in our strategic plan and a continued commitment to attractive cash returns for our shareholders notwithstanding our important organic growth investments. As already mentioned, our solid capital structure remains broadly unchanged compared to last year's level as illustrated by a net gearing ratio below 15%.

Finally and importantly, we accounted for substantial non-recurring items last year, amounting to a total loss of EUR110 million on EBIT level. Close to two-thirds of this amount was already accounted for in our June numbers and consist of the French Competition plan. We also incurred additional restructuring charges in the second half of the year, totaling EUR43 million on a full-year basis. Most of this amount relates to planned site closure in Germany as part of the consolidation of the European production base of automotive catalyst as well as the closure of a production site in China for our technical materials business unit.
A price increase in certain metals towards year end resulted in a reversal of some EUR16 million of past impairments of permanently tied-up metal inventories. This concludes my comments and I hand back to you, Marc.

Marc Grynberg - *Umicore - CEO*

Thank you, Filip. Before turning to questions, I will wrap up the key messages from today's results publication. Overall, it has been another strong year for Umicore. We recorded very good growth in our clean mobility related activities and this more than offset the impact of anemic metal prices on the various recycling activity.

Our focused growth initiatives are putting us in an even more competitive position and are also starting to deliver important scale effects particularly in catalysis. Demand for our battery materials is growing at a spectacular pace and our fast additions to capacity should start to have visible effect in the second part of the year.

In summary, I would say that we are well on our way to delivering on our Horizon 2020 goals of being a clear leader in materials of clean mobility and in recycling, in doubling the size of the business and bringing more balance to our portfolio. With this, I would now like to open the call to questions. And in order to make the Q&A run smoothly, please limit yourself to a maximum of two questions per person at any one time. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mutlu Gundogan, ABN AMRO.

Mutlu Gundogan - *ABN AMRO - Analyst*

Two questions it is. The first on catalysis. When you say that you have secured major awards for gasoline particulate filters in Europe and China, does that imply that you have gained market share versus your competitors? And then secondly on recycling, can you tell us which metals you have hedged in the last six months? Thank you.

Marc Grynberg - *Umicore - CEO*

I will start with the GPF question and then handover to Filip to talk about the hedges. The GPF business is an emerging business. So everybody is starting from scratch. As you know, it's an addition to the current catalyst systems that are being fitted to a gasoline engine. And I would not claim that we are gaining market share, I would say that we are actually having our fair share of the market in that new business segment.

Filip Platteeuw - *Umicore - CFO*

On the hedges, maybe as a recall, as we mentioned before around mid-year 2016, we have entered into some hedges for precious metals around the Brexit timing and we have added towards the end of 2016 some hedges on the base metals.

Operator

Wim Hoste, KBC Securities.

Wim Hoste - *KBC Securities - Analyst*

Two questions from my side, both on recycling. Can you first elaborate on the market conditions for the so-called specialty metals indium, tellurium, et cetera? I think there was a mentioning in the press release that there was a somewhat increased demand towards year end. Can you maybe elaborate on stock levels, et cetera, you see in the industry in China maybe? And then how do you expect this business to evolve?

And then secondly, general question on the supply mix availability for recycling annual contract booked for 2017, how does it look like, is it still mainly growing in, yeah, the mining industry part? Can you elaborate on that?

Marc Grynberg - *Umicore - CEO*

Let me start with the second question. The mix, based on what we see today, remains pretty much in line with what we said earlier with good availability of residues coming from the mining and the non-ferrous smelting industries indeed. And this is where most of the growth continues to happen. While I can confirm that there is continued competitive pressure on certain segments of end-of-life products such as the spent catalyst and electronics product where the growth is, let's face it, less buoyant than in the industrial segment. So nothing really changing in that respect. The availability is relatively good.

In terms of secondary metals, coming to your first question, we have seen a little bit of an uptick in demand for certain secondary metals towards the end of the year. This being said, the trend of last year is relatively unbroken unfortunately. And for most secondary metals the demand patterns remains fairly anemic I would say. And the level of stocks, especially of excess stocks in China remain very high. There are only a few exceptions in terms of demand and metal prices. But overall the picture remains subdued at this point in time.

Operator

Tony Jones, Redburn Partners.

Tony Jones - *Redburn Partners - Analyst*

Thanks for taking my two questions. Firstly, could you give us some help on guidance for Group CapEx for 2017 and then maybe comment on whether we're at that cyclical peak for the next few years?

And then secondly, thinking about battery materials in the ramp up, with the scale of the expansion I just wanted to try and reconcile some of the costs with the growth so I can think better about margin. So on the cost, do we take the full capital cost and then assume the added cost in the coming year or it was just going to be a function of your depreciation and accounting policy, so maybe it's like 5% of that number? And then on to get to the margin, thinking about the revenue growth, do we assume that the pace of expansion that you've got in 2016 might be two or three times higher in the coming year given the expansion?

Marc Grynberg - *Umicore – CEO*

Okay. I will try to address the second question, which is highly sophisticated, I must say, and then handover to Filip to talk about CapEx.
I will try to put it in somewhat simpler terms and say that the growth in battery materials, the growth in revenues is going to be accompanied by an improvement of margins going forward because, despite the very large investments required and the fact that these will add significant depreciation charges to the P&L, the reality is that the scale effects will continue to play out as we expand the business rapidly and massively.
So I cannot give you a quantified guidance in terms of margin expansion and can only confirm at this stage that you should expect both revenue and margin growth going forward. And I will now handover to Filip for the CapEx.

Filip Platteeuw - *Umicore - CFO*

So it's a bit early to give really specific CapEx guidance but I would say that we should see a higher CapEx in 2017 than the level we've had in 2016 because exactly because of what is happening in battery materials and the acceleration. You refer to cyclical, I recall when we had the Capital Markets Day we made some statements. There was one important caveat which was what will happen in rechargeable battery materials and precisely there we see a rapid acceleration, and obviously that will have an impact on the CapEx.

Tony Jones - *Redburn Partners - Analyst*

Can I just ask a follow-up about that? So very useful insight for this year. Should CapEx then start to fall away, are we at that point where we're sort of at that maximum investment phasing to get to your 2020 target?

Filip Platteeuw - *Umicore - CFO*

Again, it's way too early to give specific guidance for 2017 and also 2018. But again the story that we have in battery materials and the acceleration means that we will have a high CapEx profile. And as Marc mentioned, those CapEx capacity will obviously, if we utilize, will have an important contribution to our results. So stick to 2017, we should have a higher CapEx compared to 2016 driven by battery materials. And obviously if you see what's happening in the industry that is not a question of one year to another, it's really a structural trend for the next just couple of years but longer term.

Operator

Adam Collins, Liberum Capital Limited.

Adam Collins - *Liberum Capital Limited - Analyst*

I had two in energy and ST. The first one is, what scope is there to increase volumes in RBM in the first half? Obviously there is going to be something of a pick up in the second, but is there any scope to grow in the first half due to the China de-bottlenecking.

And then the second question is, we've seen a significant increase in both the cobalt and nickel price through last year. My monitor is saying that the Europe spot price was up 80% for cobalt and 35% for nickel primarily in the second half, and that's going to drive at current rate a higher average price for the coming year than last year.

I wondered if you could talk a little bit about the significance of lower cobalt and nickel prices in terms of the division last year and what kind of magnitude of impact could that have in terms of profitability in the coming year if those current spot rates prevail?

Marc Grynberg - *Umicore - CEO*

First, there is indeed some scope for volume growth in RBM in the first half of the year. Although that will be relatively limited because, as you have indicated, this is coming from de-bottlenecking investments and relatively limited capacity additions investments that were made in our Chinese operation. And thus far we mentioned that the effect will be more pronounced in the second half of the year when we started to have the first effect of the major capital investment program that was announced in the first part of last year. But, yes, all in all there is scope for volume increase in the first part of the year and albeit at a relatively modest pace compared to what you should expect in the second part of 2017 and 2018 and 2019.

Let me then move to the metal price question. There is no doubt that cobalt price has increased quite sharply in the past few weeks. Just for the avoidance of doubt, this could not have an impact on the results in 2016 because the increase happened in the last few days of 2016 and the average price for the full year and also for the second part of the year was very low and stayed very much depressed. So it should be a little plus for refining, recycling and distribution operations of cobalt-related products in the course of 2017 if prices remain where they are today.
On the other side the supply conditions are also taking into account the fact that there is increased pressure on ethical supply and it means that the payables tend to increase across the Board.

Adam Collins - *Liberum Capital Limited - Analyst*

Sure. Maybe just for the avoidance of doubts, could you just confirm, in terms of the manufacturing businesses, the higher cobalt prices have passed through and therefore has no negative impact on margin.

Marc Grynberg - *Umicore - CEO*

Indeed I can confirm that. And if we come to nickel, actually nickel price is still very low. So that is still around $10 a kilo, in our view it's marginally better than of course than when it was at $9.

Adam Collins - *Liberum Capital Limited - Analyst*

My monitor is suggesting the current spot price, the rate is roughly 10% ahead of the average of 2016, so marginally better.

Marc Grynberg - *Umicore - CEO*

Yes, but it's really marginal. And we're still far of price levels that would be first of all sustainable for the entire industry value chain. And secondly where you would have a visible and notable positive impact for recycling and distribution activities. So on nickel I would not count too much at this point in time if prices stay where they are.

Operator

Sebastian Bray, Berenberg.

Sebastian Bray - *Berenberg - Analyst*

I would have two, please. Within recycling, could you please give some idea of the expense or at least magnitude of the margin dilution you could expect on an incremental basis from the new Hoboken capacity and if at all how this will -- how this plays against the potentially higher metal pricing environment in 2017, just in sort of directionality terms?

And secondly, could you provide any guidance on the magnitude of the restructuring charges you expect to incur in this year?

Marc Grynberg - *Umicore - CEO*

It's a bit too early to provide some quantified guidance above the effect that you mentioned in Hoboken. We have just restarted the facilities, so we need to gain a bit more experience with how things work. And metal prices, as I mentioned, of course, precious metals prices and PGM prices are somewhat better than the average of 2016. So that should be a plus indeed while secondary metal prices are still very much subdued and not to stay depressed. And demand for this the secondary metals is also very much depressed still as we speak.

And it is actually too early to stay how these two effects the margin dilution on the supply side and the metal price effect will play out. I would prefer to wait until we have better visibility of the actual performance towards the end of the first quarter and when we provide actually directional guidance and quantified guidance to comment a bit on these effects.

Then let me address your second question about the restructuring charges. I mean, at this point in time I do not expect major restructuring effects or decisions actually in 2017. This being said, as you know, we are in the process of streamlining the portfolio of the activities, and there are certain number of divestments that are being considered or actually that are in the pipeline. And it is too early to tell where this would lead us in terms of impact under the P&L. But I cannot rule out that this would have either a positive or a negative impact on the P&L. We'll see how things play out.

Sebastian Bray - *Berenberg - Analyst*

So if I could just follow up quickly on the, more on your comments related to the catalysis division. You said they're not -- you're not expecting many regulatory drivers for this year, but we've heard one or two of your competitors talk about pre-stocking and front running of regulation. In your view, do you not see that being a potential issue or having an uplift number?

Marc Grynberg - *Umicore - CEO*

Yes. When we talk about the particulate filters for gasoline effect, this would actually belong to the category of development that you mentioned.

Operator

Charlie Webb, Morgan Stanly.

Charlie Webb - *Morgan Stanly - Analyst*

Just two from me then. First off, in your catalysis business, I was wondering if you have seen any change in the diesel penetration rates in the second half of the year and kind of what you are thinking about that as we move into 2017, whether that could pose -- start to pose headwinds to you.

And then secondly looking at the automated battery business, there has been some comments coming out of China about greater pricing pressure on battery manufacturers. Are you seeing any of that filter through into your business or do you feel relatively comfortable around the pricing environment for your cathode materials?

Marc Grynberg - *Umicore - CEO*

Let me first comment on the diesel penetration. As far as we see it, no major change in the second half of the year and so the diesel market share remains roughly stable year on year. And this is quite relevant to the performance of the catalyst manufacturers given the difference in revenue and margin potential between gasoline and diesel platform. So maybe contrary to popular belief, diesel is relatively stable nowadays.

Then actually coming to your second question about the pricing pressure, actually I have not seen the statement that you referred to about pricing pressure. And I would say that pricing pressure is a constant element of the battery business and has been and will continue to be, as we indicated on numerous occasions. It is important for the entire value chain to contribute to making the application more competitive in terms of performance and in terms of affordability. And in that respect, indeed pricing is part of that equation. It's not that there is a particular change in the competitive environment that would lead to a change in the pricing pressure one way or the other at this point in time.

Charlie Webb - *Morgan Stanly - Analyst*

Okay. And so if incentives are reduced, is there any -- would you expect additional pressure from the industry to cut prices further or do you think it's too soon to really understand if that would happen?

Marc Grynberg - *Umicore - CEO*

We are in a situation where the supply chain can hardly follow the pace of the demand growth. So we're now at a point where this kind of tradeoffs ought to be considered.

Operator

Geoff Haire, UBS.

Geoff Haire - *UBS - Analyst*

Just wanted to ask two questions. First of all, when we spoke in November at the Q3 trading statement, I believe you said that the margins that you're seeing on the new capacity contracts that you have signed were in line with that of the old. I was wondering if you could explain what has happened to change your view on where margins will be on the incremental capacity that you're seeing.

And my second question is, I wonder if you could just update us on when you expect the new capacity in Hoboken to be fully ramped up. Thank you.

Marc Grynberg - *Umicore - CEO*

If my recollection is correct, when we talked about the margin at the Q3 update, it was the overall margin and not the incremental margin.

So I think it's worthwhile reminding what we said at the time we announced the capacity expansion; that as we would have to reach into a broader market in terms of supply that the margins on the incremental volumes will not be at the same level as those of the base volumes, although the overall capacity expansion would be value creative. That's what we said. And I think we have not deviated from that. And it's sometimes difficult to make a distinction between the margins from the existing capacity and the margins for the incremental business because when securing contracts these are not divided into base load and incremental volumes. These are just your contracts. So it's a bit of an estimate, but overall, as we have to reach to a broader market this tends to be somewhat lower margin than what we used to have when the capacity was more limited. In terms of ramp-up, as we indicated, we had to trim the maintenance shutdown forward from early 2017 to December. So the maintenance shutdown was completed the same time we completed the auxiliary investments. And we have recently started the gradual ramp up. But I think it's still too early. We have just had a few weeks of operating experience. It's still too early to tell when that ramp-up will be completed. I can only confirm that it will be a gradual process.

Geoff Haire - *UBS - Analyst*

Could I just come back then on the first question I had about margin? Given obviously the statement you made (inaudible) on the back of 2014. Given metal prices have changed, then I assume does that mean that in that time period the margin dilution you would expect, it would be bigger now than it was back then when you announced this deal, announced the capacity addition?

Marc Grynberg - *Umicore - CEO*

Could you repeat the question?

Geoff Haire - *UBS - Analyst*

Yes, certainly. So whenever you announced the capacity addition, I do remember that you said that 40% capacity would have a lower margin than the current capacity that you have, the old capacity. Given that metal prices have declined from that point, does that mean that the dilution to the margin of the old capacity is now bigger than you initially thought?

Marc Grynberg - *Umicore - CEO*

By definition, yes. What you say is just another way of explaining the metal price impact, yes, indeed. Or metal price impact now plays out to a bigger volume than in the past when the capacity was more limited. So, yes, that's the correct interpretation.

Operator

Andrew Benson, Citigroup.

Andrew Benson - *Citigroup - Analyst*

You mentioned in the release and I think you've talked about it at the start about the environmental issues. Can you just sort of define the materiality of those additional investments and what's provoked that now, what the change has been?

On the recycling division, can you just give a little bit more flesh as to your definition of the outlook because presumably if you're taking hedges, you're quite comfortable with that? So if you can perhaps give more detail on the outlook in terms of the volumes you expect to achieve, the magnitude of any margin erosion and the significance of any hedges you've put in place. Thanks.

Marc Grynberg - *Umicore - CEO*

So let me start with the environmental investment related question. At Umicore, it's nothing new in the recycling activity. It's been somewhat overlooked in terms of modeling by the investment community, and that's why we felt it was necessary to remind people that we are considering to invest significant amounts of money to improve the environmental performance of our recycling facility. What we have in Hoboken is best available technology which is a benchmark for the industry. This being said, it's also the only place in the world where you have a smelter operating right next to a residential area. And because of that we are trying to continuously improve our environmental performance and reduce or eliminate any risk of emission, such as metal emissions. And that's one aspect.

Second aspect is that while some of the parts of the facilities are relatively recent. Let's bear in mind the smelter was built in the late 1990s, so it's no longer a teenager facility. Some of the other facilities were built in the wake of the investment in smelter in the early 2000s. But the rest of the site is fairly old and we have quite a number of facilities that require modernization and revamping investments that will contribute both to productivity and environmental and occupational health performance improvements. And I think this tends to be somewhat underestimated and understated that this is a fairly ancient site that needs quite a continued level of investment in order to be able to operate in such a residential environment. So we wanted to put somewhat more emphasis on that just to make sure that there is an understanding that there will be a continued level of investment required in order to modernize the facility.

Andrew Benson - *Citigroup - Analyst*

Marc, can you possibly sort of give us some quantification because I am just looking at your press release, you got a sort of non-current liability provisions that may or may not be the environmental ones, of only EUR75 million in the context of the Group. So it doesn't look like you've got much in the way of provisions for environmental. So if you could just give us some dimensional cost that would be great.

Marc Grynberg - *Umicore - CEO*

I am not talking about the cost, I'm talking about the CapEx. I am talking about CapEx required to upgrade the facility and further improve its environmental performance. So it's significant CapEx requirement for the next few years.

Andrew Benson - *Citigroup - Analyst*

Again, can I push you on quantifying the definition of the word significant?

Marc Grynberg - *Umicore - CEO*

I am not going to quantify it, suffice to say that it's material enough to be mentioned.

Andrew Benson - *Citigroup - Analyst*

Okay, thanks.

Marc Grynberg - *Umicore - CEO*

And had a question regarding the hedging.

Andrew Benson - *Citigroup - Analyst*

Yes.

Marc Grynberg - *Umicore - CEO*

Filip?

Filip Platteeuw - *Umicore - CFO*

Maybe just to remind why we do the hedges, it is really to give us some visibility on a portion of our metal exposure. So when you refer to recycling, you should always remember that a large portion of our metal result is, first of all, is not hedgeable and therefore is also still open and reminding us that specially this portion of secondary metals or minor metals is still very much subdued both on a pricing and a demand level. The hedges give us some visibility on a portion of our exposure but again prevailing conditions will determine our results.

Operator

Peter Olofsen, Kepler Cheuvreux.

Peter Olofsen - *Kepler Cheuvreux - Analyst*

It's two questions. First to clarify, Filip, what you earlier said on the CapEx. You are guiding for higher CapEx in 2017. If I look at the 2016 CapEx, in the second half there was a sizable investment in intangible assets. So when you are talking about higher CapEx in 2017, are you specifically referring to property, plant and equipment or does it also include intangible assets?

Filip Platteeuw - *Umicore - CFO*

It includes both, Peter, because indeed as we and specially the business that we are in also requires that indeed there is investment in intangible. That is very important to our business, to our value creation.
The only thing I would like to refer to 2016 is, as was mentioned, we included also the acquisition of the patent portfolio of 3M. But in general we do investment in intangible assets because that reinforces our value proposition to the market, so you should expect that it's both. But obviously the investments in PP&E will be sizable related to the battery business and that will be by far the major uplift.

Peter Olofsen - *Kepler Cheuvreux - Analyst*

Okay, that's clear. And then on the ITC case. So you have -- your imports of materials into the US have been negligible. But what is the risk or is there a risk that [BAs] have started cases against your clients and that indirectly you might still be affected in the battery materials business?

Marc Grynberg - *Umicore - CEO*

Peter, I think there is nothing new in the case that would change the comments that we made earlier. And indeed the ITC issued an exclusion order and the impact thereof on the direct orders in US is extremely limited. So that market is very limited in size to-date.

Peter Olofsen - *Kepler Cheuvreux - Analyst*

But is there a potential risk that indirectly you might get it.

Marc Grynberg - *Umicore - CEO*

Again, our market is mostly outside of the US, it's in Asia. So we are looking pretty much to a very large extent. And we are expanding as fast as we can in order to cope with the surge in demand and I think this is a clear response to the question.

Operator

Stephanie Bothwell, Bank of America Merrill Lynch.

Stephanie Bothwell - *Bank of America Merrill Lynch - Analyst*

Two short follow up questions on catalysis, if I may. So during the second half of 2016, you had 3.8% revenue growth. I am trying to establish (inaudible) is the broader underlying trend you are seeing. So in the commentary, you do say that you were positively impacted by both mix effect and scale over the full year. So I am trying to understand how much benefit you still have from the scale ramp up in the second half of the year or whether or not that 3.8% can be broadly seen as underlying market growth.

And then second question was just generally on the major award that you have won on gasoline particulate filters. Is there a phasing impact through 2017 that we should consider, i.e. should all come in the second half or is it more of a first half winning, if you could give us some color there? Thanks.

Marc Grynberg - *Umicore - CEO*

Let me start with the GPF question, we will start shipping towards the end of the year. But you won't get any of that in the first part of 2017. Regarding the scale effect, what we really meant was to explain the significant boost in earnings and in margins which is way larger than the growth in volumes or in revenue. And, yes, this is to a large extent done or exploited by now. And you should not expect major scale effects for the near-term.

Stephanie Bothwell - *Bank of America Merrill Lynch - Analyst*

When I look at the scale effects, would you say that more generally they have been assumed in the first half of 2016 given the much higher growth rate even on top line there versus the second half?

Marc Grynberg - *Umicore - CEO*

Yes, quite a lot of the scale effects were achieved in the first half of 2016, you are right. And that has to do with the ramp up of Euro 6, the heavy duty business which started actually towards the end of 2015. And the ramp up of our new production site in Poland which similarly started in the second part of 2015 with major effect in the first part of 2016, you are right.

Stephanie Bothwell - *Bank of America Merrill Lynch - Analyst*

So when I think about that, almost 4% revenue growth in the second half, that could be seen as more broadly akin to what you would expect going forward given that you don't see a lot of new missions, regulation requirement in the near term.

Marc Grynberg - *Umicore - CEO*

I am not going to provide that level of accurate guidance. I would say at this point in time that the trends that we have observed in recent quarters are largely unchanged with very good levels of demand in particular in Europe and in China. Somewhat lower demand or lower growth in the US where you see some degree of stabilization in that market and some other markets which has not been performing very well recently. In South America, Japan, et cetera, or Korea are not necessarily showing signs of recovery, they are showing signs of stabilization rather.

Operator

Mutlu Gundogan, ABN AMRO.

Mutlu Gundogan - *ABN AMRO - Analyst*

I had two follow-up questions on recycling. First, if I look at your balance sheet, I see that your inventories are higher year on year while your revenues are largely flat. And then taking into account that metal price are lower year on year, that seems to indicate that the number of -- or actually the volume of inventories has increased. And you also spoke about the low demand for specialty metals. So I just wanted to know whether that is the main driver of the, let's say, higher stockpiles that you have within the Company.

And then secondly, can you remind me which metals are hedgeable within Umicore?

Marc Grynberg - *Umicore - CEO*

So, Mutlu, the inventories you refer to are the Group inventories, right?

Mutlu Gundogan - *ABN AMRO - Analyst*

Correct.

Marc Grynberg - *Umicore - CEO*

What you see in terms of inventories happening on a Group level is really predicated by what is happening on the product businesses and the expansion that we have in our product businesses. As you know, recycling in terms of working capital has different characteristics. So what you refer to is really what you see in terms of the growth of the businesses, Catalysis and Energy and Surface technology.

Mutlu Gundogan - *ABN AMRO - Analyst*

So can you explain to me why you are running with a higher inventory level for those business then?

Marc Grynberg - *Umicore - CEO*

I mean, because we have growth and because we have revenue growth and more volumes and --

Mutlu Gundogan - *ABN AMRO - Analyst*

Right, yes.

Marc Grynberg - *Umicore - CEO*

-- if you build new plants and new production lines, you cannot run them without the working capital, without the inventory. So it's an expansion story. And, as Filip indicated, catalysis and energy and surface technology are driving that picture.

Mutlu Gundogan - *ABN AMRO - Analyst*

Understood.

Marc Grynberg - *Umicore - CEO*

Our working capital has been extremely modest in recycling all along because it's a different model, as you know, where the payables are very long, very high.

And on the hedgable metals, repeat that it's really precious metals and base metals. So what is not hedgeable is secondary metals, minor metals. And in the bucket of the PGMs, there it's restricted to a number of metals. So not all metals we can basket are hedgeable.

Mutlu Gundogan - *ABN AMRO - Analyst*

I saw that rhodium was not hedgeable, has that changed or is it still the case?

Marc Grynberg - *Umicore - CEO*

No, that has not changed. There is no paper market for rhodium.

Mutlu Gundogan - *ABN AMRO - Analyst*

Yes, because I was looking in the annual report, but I couldn't find. There used to be in there which metals are hedgeable. Maybe just sticking to the question, when you say you have hedged metals, does it only apply to recycling business or can it also apply to the energy business?

Marc Grynberg - *Umicore - CEO*

We hedge metals but obviously most of the metal exposure is related to recycling business.

Mutlu Gundogan - *ABN AMRO - Analyst*

Yes, but have you also hedged metals that you are using in the energy business?

Marc Grynberg - *Umicore - CEO*

There are not a lot of hedgeable metals elsewhere. So precious metals and product business. You know, we have some product businesses, but that is in the recycling segment, not Hoboken but it's in the recycling segment. So most of the hedgeable metals are in the recycling business anyways.

Operator

Adam Collins, Liberum Capital Limited.

Adam Collins - *Liberum Capital Limited - Analyst*

I had a couple. So firstly, Marc could you talk about the rationale for acquiring the 3 -- NMC patient families and the opportunity that provides? And then on the recycling hedging again, just to be clear. The precious metals that you hedged in the half year stage, am I right in assuming that that is solely gold and silver and only part of exposure, but not the two PGMs that you can sometimes hedge.

And the base metals that you referred to, are you referring that to just cobalt, nickel, lead, not anything that might sometimes be construed as base such as cobalt and nickel? They are the two questions. Thanks.

Filip Platteeuw - *Umicore - CFO*

Indeed, Adam what we did middle of the year it's gold and silver, yes.

Adam Collins - *Liberum Capital Limited - Analyst*

Yes, okay.

Filip Platteeuw - *Umicore - CFO*

If you look at the metal price charge you will see what we have hedged, what the opportunity was.

Adam Collins - *Liberum Capital Limited - Analyst*

Sure.

Marc Grynberg - *Umicore - CEO*

And what we meant by base metals is mainly related in general to copper, lead and could be related to nickel, but I don't see any reason we will hedge nickel at such low levels. Cobalt is hardly hedgeable. There is a paper market on the London Metals Exchanges for cobalt, but there is no sufficient liquidity in practice to make cobalt a hedgeable base metal. So actually cobalt has to be seen as a secondary metal.

Adam Collins - *Liberum Capital Limited - Analyst*

May I just ask you a recycling question at this point, which I think is quite critical given today's call. You talked about the lower margin on the incremental business. But just to clarify, you are not saying, are you, at this stage, although it's early, that your expectation is the margin is down in the division because there are offsetting positives for the margin such as a positive price effect. Could you just clarify what the margin comment relates to?

Marc Grynberg - *Umicore - CEO*

I just wanted to actually remind you of what we said back at the time we announced the investment, because I just want to avoid that anyone gets carried away by the improvement in metal prices. And indeed you have to bear in mind that there are offsetting factors to the metal prices. One of them being the fact that the margins of the incremental volumes are not the same as the ones we used to have. So it was meant as a refresher more than anything else. And maybe let me come to the question you initially raised about the 3M patent acquisition if I'm not mistaken, Adam. You asked what the rationale was for the acquisition, is that right?

Adam Collins - *Liberum Capital Limited - Analyst*

Sure. And the benefits.

Marc Grynberg - *Umicore - CEO*

The rationale is that we have a portfolio of the patents. We have an IP portfolio to support the development and expansion of our rechargeable battery materials. IP that we have either acquired or that we have developed. And if we wanted to actually to strengthen our portfolio of IP through this acquisition. And in that case it seemed to us quite logical to acquire the patent for couple of reasons, one because this is a technology, the IP we have been licensing for a while. And so in that case we prefer to own the new IP rather than not. And secondly, it is IP and technology that is practiced by a large majority of participants in the industry in various steps in the value chain, material suppliers as well as battery producers. And given for the position and ambitions in that segment, we felt that we were well-placed to own that IP and defend it.

Operator

Andrew Benson, Citigroup.

Andrew Benson - *Citigroup - Analyst*

Just couple of quick ones. On just on the guidance on the tax rate for the current year and also any comment you can make on the completion of the divestment of the building. I know it's difficult and everything, but anything you could say would be helpful?

Filip Platteeuw - *Umicore - CFO*

So the first question was on tax rate, Andrew?

Andrew Benson - *Citigroup - Analyst*

Please.

Filip Platteeuw - *Umicore - CFO*

Yes. So as we said in the commentary, we are at 25% for the full group. You will see that the continued activity is slightly below that, at 23%, but in line with the guidance that we put out before to see a gradual increase in the tax rate. That is the general tax environment, but more importantly also the shift in terms of the geography of our profits in Group. So I would say for 2017 it's obviously again too early to be very specific, but I don't expect it to be below the 25%.

Andrew Benson - *Citigroup - Analyst*

Not below 25%, okay, thanks.

Filip Platteeuw - *Umicore - CFO*

For Building Products is the process ongoing. I prefer not to be very specific we will update you as soon as there is news.

Andrew Benson - *Citigroup - Analyst*

Okay, I understand it's difficult to say, I thing. All right. Thank you very much.

Operator

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

Marc Grynberg - *Umicore - CEO*

So thank you. So as usual our Investor Relations teams will be available to answer your follow-on questions. And obviously will have a chance to meet as well in person in the next, over the next few days to continue the discussion.

And with this I would like to thank you for participating in the call this morning. Wish you a pleasant weekend and talk to you soon. Bye-bye.

Operator

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