

# Press release

22 May 2003

## Quarterly update

### GENERAL OVERVIEW

Umicore continued to operate in very challenging market conditions in the first quarter of 2003. The zinc price continued to be unsatisfactory, despite the first signs of structural adjustments which will hopefully help to improve market conditions later in the year. The copper market deteriorated further both on the supply side and in the demand for end products. More positive news emerged from the advanced materials business where a number of markets started to rebound and where Umicore managed to again strengthen its market position. In precious metals, Umicore once more produced a robust performance in a tough market.

Overall, Umicore was helped by its long-term dollar hedging policy, which at present offers protection against a lower exchange rate for the balance of 2003, for 2004 and part of 2005.

On the development side, Umicore implemented a new process to treat an important stream of by-products from its zinc smelters at its Hoboken facility. This breakthrough greatly reduces the production of waste material and applies to the Balen production as from the first quarter of this year and the Auby production from 2004. Umicore also strengthened its position in the niche market for copper nuggets.

Operationally, the highlight of the first quarter of 2003 was the start-up of the €40 million leaching and electrowinning facility at Hoboken. This came on stream slightly ahead of schedule. In general the whole organization remained focused on cost control and productivity. In this respect, Umicore announced a restructuring initiative in April at the Olen site which will better adapt the plant structure to the current economic situation. Nickel hydroxide production in Canada was also discontinued.

During the quarter Umicore finalised the acquisition of a 40% stake in the Peruvian zinc transformer IEQSA. Discussions concerning potential partnerships in the European copper industry continued. The integration of all acquisitions completed in 2002 proceeded smoothly.

### ADVANCED MATERIALS

#### Specialty Oxides and Chemicals

The market for *rechargeable battery* materials has picked up considerably. This has been driven by increased sales of mobile phones, amplified by an increased offer of batteries to phone users (increasingly two batteries are purchased per phone). Lithium ion batteries - the main end use for Umicore's products - are also gaining further ground as the battery of choice for mobile phone and laptop manufacturers. Umicore's lithium cobaltite plant in South Korea is currently running at full capacity and the decision has been taken to double capacity this year. Umicore decided to stop the production of nickel hydroxide in Canada.

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The *Ceramics and Chemicals* business continued to perform well and was helped by its diversified product portfolio and extended geographical reach. Umicore has been able to increase its market shares and premiums showed a slight improvement. The recently acquired facilities in the USA and Philippines contributed to the good performance.

### **Engineered Metal Powders**

The *Engineered Powders* business continued to perform well. Sales of products for hard metals were maintained at the improved levels seen in late 2002 due to improvement in the electronics and drilling sectors. Sales of products for diamond tools were stable. China remains a growing market for both applications. Umicore's alliance with the world's leading tungsten carbide manufacturer - for the recycling of cobalt materials - led to additional volumes.

The demand for zinc powders for *primary batteries* remained healthy. Umicore maintained its strong position and market shares thanks to its level of product quality and customer service. The production capacity at Umicore's Shanghai plant was doubled in the first quarter and commercial production was ramped up to the expected levels.

*Refining* - revenues continued to suffer from the low cobalt price and reduced activity levels.

*(Engineered Metal Powders and Specialty Oxides & Chemicals were formed from the former Cobalt and Energy Products).*

### **Electro-Optic Materials**

The *High Purity Chemicals* business saw deliveries of germanium tetrachloride for optical fibres improve slightly compared to the end of last year. This does not signify an upturn in demand from end consumers of fibre optic cable. Rather it is the result of a slight increase in demand from cable manufacturers who have recommenced purchases following a long period of destocking. Deliveries of germanium dioxide were stable.

The *Optics* business has been stable but overall pressure on premiums remains, due to increased levels of competition. There was a slight improvement in the finished laser optics segment.

Sales of germanium *Substrates* for solar cells decreased as a result of lower activity in the world's satellite programmes. Market recovery is expected in 2004. Further progress has been made in the development of germanium substrates for other opto-electronic and electronic applications.

### **Thin Film Products**

Lower sales of thin film materials to the optical data storage sector were in contrast to improved demand from the electronics and optics industries. The indium activities recorded low levels of sales in the first quarter.

### **Synthetic Diamonds**

Megapode reported increased sales volumes of synthetic diamond grit and polycrystalline products. This more than compensated for the continued price erosion that persists in Megapode's various markets. Megapode was also able to improve its process efficiency leading to a reduction in working capital.

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**COPPER**

There was some improvement in the copper price which averaged USD 1684 / tonne during the first quarter. However there was no positive impact on commercial conditions or availability of materials. Aggressive buying by China continued to affect scrap availability, whereas increased demand from Indian and Chinese smelters (which are able to settle very low treatment charges due to their protective domestic environment) negatively affected the availability and terms for copper concentrates. As a result, treatment and refining charges deteriorated further, impacting both the smelting and refining revenues of Umicore Copper.

The operational performance of the smelting activities at Pirdop fully met expectations and are on track to reach the planned annual production of 210,000 tonnes of anodes. A planned maintenance shut-down took place in April and has been successfully completed.

Sales volumes for copper wire rod were sluggish in the absence of any sign of improvement on the demand side. Premiums were under pressure and deteriorated as compared to last year. Market shares were gained in the cakes market, leading to an increase in overall sales of copper shapes.

Umicore Copper acquired assets from Climeta in France for the production of copper nuggets for the plating industry. Production currently amounts to approximately 3,500 tonnes of copper nuggets per year. This gives access to a small but growing niche market which serves as an outlet for additional volumes of copper rod.

Umicore is now aiming to incorporate all its copper activities in a separate legal entity by July 2003. This will allow Umicore to be prepared to seize opportunities to merge its copper activities into a larger entity which could claim a stronger leadership position in the challenging European market. Talks with various parties are ongoing in this respect.

**PRECIOUS METALS**

Umicore Precious Metals again demonstrated a robust performance. During the first quarter the highlight was the successful start-up of the leaching and electrowinning plant. Precious metals prices experienced contrasting fortunes. Gold and platinum exhibited great strength while palladium and rhodium weakened further.

The operations at Hoboken are still affected by the reduced supplies of raw materials. Availability of tank house slimes from the copper industry and residues from lead smelters were down, leading to increased competition in the market for these raw materials. The low price of palladium and rhodium affected the availability of end-of-life materials such as electronic scrap and auto-catalysts as collectors wait for prices to rise. The continued downturn in the electronics industry has also meant reduced replacement of equipment and a consequent temporary reduction in e-scrap availability. Umicore was, however, able to secure increased volumes of by-products from the zinc industry (including Umicore's Balen plant) to help redress some of the shortfall from other sectors.

The effect of these adverse market conditions was compensated for to a very large extent by continued improvements in productivity and process efficiency. The new leaching and electrowinning facility (LEW) was commissioned slightly ahead of schedule and is performing fully in line with expectations. This facility represents an investment of €40 million. It will enable further improvements in process efficiency which in turn will allow reductions in working capital leading to a rapid pay-back in cash terms.

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## ZINC

The average zinc price for the first three months of 2003 was even lower than for the corresponding period in 2002 at \$786 per tonne. This was despite the closure of two smelters and the announcement of closures or significant maintenance and production cutbacks at three others.

### Zinc Smelting

Operations started up as planned following the two-week maintenance shutdown at the Balen plant. The overall market remains depressed and treatment charges remain at unsatisfactory levels. Umicore is partially shielded from these conditions by its long-term supply contracts. 100% of the concentrate needs for 2003 have been covered, and terms for 80% of these deliveries have been agreed. Additionally, Umicore's approach of delaying the negotiation of annual terms is paying off as the tightness in the concentrates market is receding gradually. Supplies of secondary materials are also becoming more plentiful.

Overall electricity costs have remained relatively stable. Energy costs at the Balen plant are rising as a result of higher electricity prices and increased levels of taxation, however. Higher costs have been offset by lower taxation of energy in France, thereby positively impacting the Auby plant. Umicore is continuing its efforts, in conjunction with other companies, to press for sustainable energy prices and taxation in Belgium. Sulphuric acid prices nearly doubled as a result of significant market improvements, boosting revenues from this by-product.

Umicore has made a breakthrough in the treatment of its zinc flotation residues from the Balen plant. These residues are now treated at the Hoboken precious metals facility where silver is recovered. This is in line with Umicore's aim to reduce the waste stream from its zinc smelting operations.

### Padaeng

Padaeng Industries continued to demonstrate its ability to resist the poor market conditions during the first quarter. Sales levels were up on the equivalent period in 2002. This was coupled with further improvements in the company's cost base as Padaeng was able to use a greater proportion of cheaper, lower grade silicate feed from the company's Mae Sod mine in Thailand and other sources in South East Asia. A major overhaul of the casting facility was carried out in April involving the installation of a new casting line for zinc alloys.

### Zinc Alloys and Chemicals

In zinc oxide, the restructuring of the last few years is bearing fruit. The business line has performed rather well as a result of the refocusing of its portfolio on the highest added value activities. The European zinc oxide market remains depressed, however, with significant imports of Asian zinc oxide at low prices.

In fine zinc powders, activity has been stable compared to last year. The worldwide network of production units offers the expected flexibility in terms of deliveries to customers, but the business line has experienced contrasting trends on the various continents for both sales and raw materials purchases. The performance of the recycling activities has been slightly affected by lower revenues resulting from the low zinc price and the strength of local currencies against the dollar.

Both the diecasting and galvanising business lines have benefited from the closure of two European smelters. Those closures have led to higher premiums for SHG zinc (LME grade zinc ingots) which have recently reached 100 USD / tonne, close to twice as much as the lowest level of last year. This increase was reflected in higher premiums for all specialty products, as well as in long term base zinc contracts for the continuous galvanising sector, reflecting the desire of steel manufacturers to secure reliable supplies.

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In the major European markets, demand for diecasting alloys has been stable, whereas in Asia demand continued to be strong although premiums suffered further from fierce competition.

### **Building Products**

The German market was characterised by fierce competition which spilled over to the neighbouring Benelux countries. In contrast, the French market remains in good health with sales at anticipated levels. Overall, premiums in Europe held up well despite the adverse economic conditions that prevailed in most markets.

The integration of the acquisitions made in 2002 and early 2003 continues apace and is in line with expectations. Umicore completed the purchase of 40% of the shares of Peruvian zinc transformer IEQSA. Umicore and IEQSA are currently exchanging further information on plant configuration and production optimisation. Strub, whose Swiss and Slovakian assets Umicore acquired in late 2002, is showing positive progress.

### **OUTLOOK**

Umicore expects the EBIT in the first half to be slightly below the corresponding figure in 2002, with better results in advanced materials compensating to some extent for the lower results induced by the copper and zinc market situation.

For the second half, there are no signs as yet of a sustained economic upturn. However, more fundamental restructuring is taking place in some of the activity areas in which Umicore is present. It is therefore reasonable to expect that better conditions will gradually start to prevail in these markets.

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## PROFILE

Umicore is an international metals and materials group. Its activities are centred on four business areas :  
Advanced Materials, Copper, Precious Metals and Zinc. Each business area is divided into market-  
focused business units.

Umicore focuses on application areas where it knows its expertise in materials science and metallurgy  
can make a real difference, be it in products that are essential to everyday life or those at the cutting edge  
of exciting, new technological developments. Umicore's overriding goal of sustainable value creation is  
based on this ambition to develop, produce and recycle metals in a way that fulfils its mission: materials  
for a better life.

The Umicore Group has industrial operations on all continents and serves a global customer base; it  
generated a turnover of EUR 3.2 billion in 2002 and currently employs some 9,000 people.

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