Umicore Conference Call
Thursday, 24th August 2006
08:30 Hrs UK time

… to do that in the company of Martine Verluyten and to introduce her to you as our new CFO. Martine has joined the company a little bit less than three months ago. As you know, the previous CFO, Marc Grynberg, is presently heading the automotive catalyst division, so it's the first time that Martine is with us in this capacity.

The results of the first half were, indeed, of a rather satisfactory nature as far as we can make them out, with a revenue growth of 10%, with EBITDA growth of 23%, with recurring EBIT, which is actually up by 32% at €160 million, and finally a net profit after tax on a recurring basis up 42% at €109.6 million.

These results were in the first instance driven by an outstanding contribution from Precious Metal Services. We will explain in a second the various factors which went into making this very strong result there. At the same time, we would qualify the results of the other businesses as robust in the face of the market situations and we will again detail these later on. Our net debt was up, at €762 million, driven mainly by the working capital requirements in zinc, but again there we will provide you with more details later on.

Next to focusing on the short term results, we have obviously also been active in continuing to prepare the future. We decided on an important investment for our Precious Metals Refining operation in Hoboken. We continued to strengthen our positions in Asia as a key market for us and again in the first half we have undertaken quite a number of moves which we feel will prove to be very important in the years to come. We pursued our strong commitment to R&D and we proceeded with the study on the zinc carve-out, and we'll give you an update on where we stand there as well.

So let's look at these strategic thrusts in a little bit more detail and first talk about the Hoboken investment. We have decided on an investment of €50 million in the Precious Metals concentrations step. Without going into all the fine points of the Hoboken flow sheet, the Precious Metal concentrations step is a step which is the last step before the final refining. It's also the last part of the flow sheet that has not been renewed in the last 10 years within the big renewal programme of Hoboken, because we didn't have anything to improve up to now.

But our technicians, our engineers, our researchers have been looking for the last six years whether in that step as well we could develop a breakthrough. And, indeed, we have now this breakthrough, we have worked hard at piloting and upscaling new technology and so we will implement a new Precious Metals concentration unit by 2008. This will give us further reduced throughput times and improved yield, it will give us greater flexibility yet in terms of the feed mix that we can treat in the Hoboken plant, and it has also some environmental benefits as the dust emissions, especially of selenium, will be further reduced. We are obviously operating within the norms today but we are getting ahead of the game there and raising the bar further.

So we are excited about this investment, it's an important new step for Hoboken to stay ahead of the competition and to secure its position as the world's leading precious metals recycler.

But not only in Belgium were we active. We continued our further positioning in Asia. We actually announced in the course of the first half or, indeed, in a press release today, a number of important steps in China. We doubled the capacity of our Automotive Catalyst unit in Suzhou. Some of you remember that was only opened a bit more than a year ago, it is now already in the final stages of doubling its capacity because of the strong demand in China.

Our Element Six Abrasives joint venture also built its first China plant, that's a greenfield investment too. We made two smaller acquisitions for Thin-Film Products and for Electro-optic Materials. We also had the investment in Kunming, giving our zinc alloying business activity a first foothold in the world's largest zinc market, which is China, and we also made acquisitions in Technical Materials.

We also took a stake in a Korean company in electronic materials; it's actually a very successful company. We could enter into a wide-ranging commercial and technical arrangement with them and to have in the framework of that also taking a financial stake. So for us it's been a couple of years where we've done a lot of things in China. Indeed, I think that as a materials technology group with a lot of our customer base being in Asia and increasingly in China, with also potentially quite some competition out of China, it is very important for all our business units to have a China strategy, to have a clear view on the opportunities and possibly also the threats coming out of China.

And today I feel that we've virtually come to a point where all our business units have now an appropriate China platform. We have 12 different plants in China and, indeed, in many instances we are the market leader, be it in automotive catalysts, be it in the brazing alloys, in the electronic contact materials, where, through acquisitions, we have actually each time acquired the market leader in China. So I think some of these investments are today still rather modest in their contribution to the earnings. Some of them are already highly successful, but I think the importance will only grow in the years to come.

On R&D, we continued to maintain our policy of a strong commitment to R&D spending; it's actually up a little bit further from last year. In Automotive Catalysts the main extra focus was on heavy duty diesel to prepare for the 2009/2010 business, when the next legislative step will come in in Europe, in the United States and in Japan. We also have decided to increase our R&D spending for the rechargeable batteries for new applications. As you know, rechargeable batteries today, lithium-ion(?) technology in rechargeable batteries finds its main application in portable electronics, the laptops or mobile phones or cameras, but there are increasing hopes that the lithium-ion technology will also be able to penetrate the hybrid electric vehicle market, which today is still served by nickel metal hydride batteries, and a number of other applications on the horizon and these have different technical challenges, different technical characteristics. So we are trying to be prepared when these markets also emerge.

And then, as we've announced previously, we concluded a joint venture with Solvay, for development of the MEAs, the membrane electrode assemblies, the hub of the fuel cells. We believe that this combination between Solvay and Umicore could be quite unique, because the hub of the fuel cell is basically a polymer membrane coated with a precious metals-based catalyst. We are obviously specialists of precious metal-based catalysts, but we didn't have polymer know-how, so that obviously brings the other side. And when we see that all the competition, they are either polymer companies or petrochemical companies who have been trying to move in this field, or precious metal companies, but this will be the first joint venture which really has in-house the two key technological competencies.

On the front of the carve out of the zinc alloys, we indicated in February that we had initiated a study. We have progressed along those lines. It is, as I said at the time, a complicated, multi-faceted matter. It's a question of carving out, especially in Europe, activities which have been part of the mother company for the best part of 200 years, so there are a number of inter-linkages, there are systems to be prepared.

So it is a big job, but we are making progress with it and we feel now that we are confident that we are working toward an effective carve-out in the first part of 2007, so the preparations and the study is really progressing well. We also have clearly specified the scope of the entities that would be part of the zinc alloy subsidiary. This concerns our European zinc alloy operation, the new investment in China in Kunming, and the stake that we hold in Padaeng.

So, as I said, in the last six months our main focus has been to prepare the implementation of all the technical aspects of a carve-out, now we can start in the second half to open up our minds to some of the strategic alternatives that exist beyond.

So in the face of the results, and I will obviously in a second go a little bit deeper division by division about what have been the drivers and the main elements of these results, but in the face of the first half performance what we can see about third quarter to date and the expectations we have for our various businesses, we feel confident to raise our forecast, and to do that in quite a substantial way, because we are now forecasting or expecting a full year recurring EBIT to be in the range of €300 to €325 million.

Let me briefly come to the various divisions. Advanced Materials. In Advanced Materials we faced some challenges, mainly the absence of the currency hedges which still helped us last year. On top of that we have some negative movement on the Korean Won, so there were some currency headwinds. We had an adverse competitive environment in Tool Materials, and also, and that is purely accounting matters, as we I think flagged previously, we have a different method of accounting for Element Six Abrasives.

In the past we accounted for the full stake and took off 20% of the contribution in minorities. Now we only immediately record the 40% stake, so that makes a difference of €2 million in our EBIT line, which is thereby reduced, but we gained that back in the minorities line, so the net effect is zero on our results whereas it deteriorates our recurring EBIT line. But that’s purely an accounting matter, but in terms of the businesses in the Tool Materials we faced a more difficult environment, we said that already in the first quarter. However, we are reacting on that.

We also have decided to streamline our production capabilities. We had four plants in the world. We had two in North America, and we are actually closing one. We will move that production, part to Europe and part to China, and we feel that that will give us benefit as of the last quarter of this year, because we have implemented this rather speedily. And I think that whilst this business is, the Tool Materials segment that is, is in a more difficult competitive environment. We are more confident that we will, as the market leader in that, continue to be successful and actually become more successful again.

On the positive side in the Advanced Materials side, there have been a number of businesses which did very well. Rechargeable Batteries continued to record good volume growth and also the prospect for the coming months look very encouraging. Also in Electro-optic Materials we have had a strong performance driven by higher germanium substrate sales and also Optics, and also Element Six Abrasives did rather well, especially in the drilling segment. So all that together goes into these results of Advanced Materials.

Precious Metals Products and Catalysts you see on the top line actually quite a strong revenue growth. This revenue growth is partly driven by the underlying volume growth, but also by the first consolidation of the newly-acquired technical material subsidiaries in China, and by also a higher pass-through of automotive catalyst substrates.

This increased revenue hasn’t really translated to the EBIT line, which is stable at a very high level I would say. This hides maybe a double effect. First of all, continued growth in the Automotive Catalyst part of the business, especially in Asia, but also sales holding up really well in other parts of the world, so a good and increasing contribution from the Automotive Catalyst segment. And, on the other hand, a lesser contribution from the Precious Metals Products.

However, this lesser contribution doesn’t worry me too much. I think there have been a number of temporary or one-off factors driving that. The Chinese subsidiaries in the first instance, especially as we impose our own rules and safety standards etc, there are some integration costs which are of a temporary nature.

We also had the glass business, which has become quite a big business. Platinum Engineered Materials for LED glass production is very much projectlinked, investment-linked, and there has been a temporary dip in the first half, but we expect that to fully recover in the second half.

There have been also some one-off cost items which have been weighing on the results of precious metals products, but, as I say, we don't think that is of a structural nature, and we will see that probably at the better level in the second half.

Precious Metal Services. Obviously the source of the most pleasant numbers in the whole scope. Driven by really a situation where we could really fully capitalise on the excellent infrastructure we had. There were good supply conditions. We could treat a variety of feed stocks, which all were abundant, so we were very well equipped for what the market demanded. We had an increase in the electronic scrap volumes, we had a strong increase in the recycling of automotive catalysts, and we captured some very interesting supply streams. So all this drove a very attractive feedstock mix to our plants.

There was an extra boost by the high prices of most metals, and clearly Hoboken does benefit from these high metal prices. Even so, I think it has to be put into a little bit of perspective, the three most important metals for Hoboken are platinum, palladium and rhodium, and it is true that platinum and rhodium are trading towards the very high end of the historical range. However, palladium, which is actually in output of pgms, the most important one, is still trading at rather the bottom end of its historical range. So it's not like all metals are at peak prices, but most of them are.

On top of that, our Precious Metals Management operation, which does operate within rather strict risk management parameters, however, was able to capitalise on a number of special situations and also achieve exceptional results. So all that made together for a very very strong result indeed in the first half. I have to say that we also are feeling that the second half will be a strong contributor. We can't forecast the exact number, but it looks like the second half will again be rather strong.

And I think whilst it is reasonable to not expect this result to be fully recurrent and I would, in a slightly more subdued metal price environment next year, not necessarily expect a repetition of these numbers, however I think that the intrinsic improvements that we've made in Hoboken, both technologically, operationally and also in our market position, would lead me to be confident that also in coming years, even in a more subdued metal price environment, we would be able to operate at a higher profitability level than in the previous years, where we have been averaging EBIT levels of €45-50 million. So I think we've raised the sort of basic threshold of Hoboken's performance by a meaningful level.

Finally, Zinc Specialties. Zinc Specialties we had obviously a positive impact from the higher received zinc price, both the hedged portion versus last year as well as especially on the unhedged portion. This was to some extent tempered by lower treatment charges, lower acid prices, higher costs in some areas, so we didn't have the full benefit of that, but on balance it still drove a higher recurring EBIT of the unit.

In the more downstream businesses, we have had a good volume development in Building Products; There was an element of margin squeeze because of that is one area where there is sometimes a little bit of delay of being able to pass on higher prices to customers, but all in all together these factors made that the results were up by about €10 million compared to last year.

And so at this point I'd like to hand it over to Martine.

Martine Verluyten

Good morning. I would like to go to the next slide please, the income statement. When we look at turnover of €4.5 billion, it's quite clear that the hike since last year is very strongly driven by metal prices, therefore let me concentrate on the growth in revenues, where we increased our revenues between comparable periods by 10%, and this generating a net result that increased by over 50% to €111.5 million. The group share of that is €108.1 million, with an earnings per share of €4.29, which is clearly a major increase compared to the same period last year.

If we look at the recurring portion of that, and we'll come back to the non-recurring, we see that our recurring EBIT is going up by 32% and I think you will be more interested maybe in asking more questions, looking at it in the different business units. Financial costs increase obviously, you've seen that our debt has increased quite materially as a result of the higher metal prices, and that reflects our receivables and our inventories.

Income tax still pretty much at the same level, but as the profitability obviously is growing outside Belgium, where we have very good tax shields, there will be an inching up of that over time, moderately, but inching up.

Net recurrent result was €112.9 million, of which the group share was €109.6 million. If we look at segment breakdown of these results, we see that a very major share of the revenues in Precious Metals Products and Catalysts at 45%. When we look at the EBIT, slightly lower, where there the Precious Metals Services, especially in view of what Thomas told you before, has really taken a major share. Capital employed, where you see that zinc is still using quite a bit of capital, and I can also say that when we look at our working capital increase, that the major part in fact resides in the zinc business and materially relates to the increase of receivables, not day sales outstanding, but the intrinsic metal price as embedded in the receivables.

Quite a few non-recurring items, and they tend to net each other out to a fairly small amount, but let's concentrate on some of them. What I would say a nice windfall, which is an additional sales price we got from our Guinea gold mine which we sold quite a while ago, to which there was a clause attached that would allow us a share of the income if the gold price went to a certain price. Now, the maximum future income that can be derived from that contract is US$40 million, of which we have only recognised a portion up to the middle of the year, because of what we call the geographical insecurities of the area.

There was a sale of Congolese mines for €10.6 million, Adastra and Sibeka. On the other hand, we decommissioned or we took an additional provision for decommissioning an old gold mine in the US. We provided some more money for the demolition of the Calais plant, where, with the input we were getting in terms of the cost for demolition, we got a higher quote and we decided on the closing, as Thomas said, of one of our factories in the US, the Maxton plant, for which we took a restructuring provision of €4 million. The other non-recurring expenses net to about €2 million. Might seem strange to you that the income tax is a positive element, and it has all to do with which region these cost and incomes are and so therefore you get a geographical mix which creates a deferred tax income.

When we look at the evolution of our debt, the first thing I want to point out to you is that the visual debt is increased by €125 million, which has to do with the fact that we have put our securitisation programme for the receivables back on the balance sheet. To make it compliant with IFRS would have made us incur incremental costs in outsourcing the insurance and we therefore decided that when we renewed the plan, not to do that and to keep the risk, which means that we have put it back on the balance sheet, but obviously there is no cash impact there.

Other major elements were obviously the generated cash flow, the acquisitions for €33 million. Major change in working capital, of which I said most has to do with zinc, and most has to do with the increase in receivables, because the higher embedded zinc price. Some inventory increases, clearly, because the higher zinc prices also, but mainly receivables. Obviously the payment of the dividend is a cash drain, which we do with pleasure. But that gives you an idea where our debt position is right now.

Capex evolution. Not a hell of a lot to say, just to say that we have a fairly stable capital spend amount of about €150 million, of which €100 million tends to be replacement Capex and €50 million in new products, to give you a general idea.

And then to finish with the financial debt evolution, you know how we got there, so we are at €763 million, which is a gearing ratio at this point in time of 44.6%. What might be important for you is you've also seen that our equity has gone down because of the way we have to record some of the IAS elements, which are really a deferred item that happens to end up in equity, and which of course makes this figure a little bit more negative than it truly is, and of course also the securitisation of the receivables impact.

The stock performance, to finish. We are not at this point in time in the same kind of high over-performances than in previous years on the Bel20. You all know the circumstances of the metal markets, which I am sure, have played on that, but, as you see, the results certainly support a high confidence level in the stock.

Questions and Answers

Thank you Martine and I'd like to open it to questions. Maybe we'll start here in the room and then go to questions over the phone. Yes, Mr Vanderhaeghen.

Wouter Vanderhaeghen (KBC Securities)

How would you quantify the ……….inaudible question

We don't break that out. I think it has been an element. I would not say it's been a major element, it's a small helping factor but it's not a major element in the overall EBIT.

additional comment…..inaudible
I will say yes to you, but don't ask me now that question five times again how much less or more than what it is, but it must be in that order, it must be less than that, yes, for sure. Mr Debrouwer.

Marc Debrouwer (Petercam)

I have two questions. First in Precious Metal Services. I feel still relatively uneasy because of the mix of structural and cyclical factors. How do you consider the sustainability of today's very high prices of precious and specialty metals? By the way, I thought you were much more geared towards platinum than palladium. And will the supplier accept the same degree of retention by Umicore? On the catalyst side, it is stated that there was volume growth in North America, in Asia, but nothing is said regarding Europe. I am not obsessed by market share, but nevertheless I would be pleased to get an answer, so could you be more explicit? You were also somewhat uneasy regarding a possible destocking at US manufacturers later this year, it is stated at the 2005 reporting and Q1 update. You don't reiterate explicitly this factor, but when looking at GM and Ford it still exists. And, well, the details on the ingredients that led to flat EBIT , I think you provide some explanations. And finally, a third question, regarding cobalt prices. Cobalt prices rebounded strikingly over the last weeks and days. Is it fair to say it is mostly supply-driven? What does Umicore stand to benefit from this situation via its recycling operation? And what about demand for cobalt derivatives sold by Umicore in H2?

So I will try to remember all of these questions, otherwise if I skip one you'll remind me of that. First of all, on the Precious Metals Services and any unease. I have to say I don't feel very uneasy with these results, and also about looking forward, as I said, I believe truly that Hoboken has now moved into a phase of higher performance than before; it's geared up. If metal prices were to drop significantly, we would feel it, but I think even in a much more subdued metal price environment we could look at years ahead of us which are above what we've known in the years before this particular spike.

So I think Hoboken has moved to a higher level of performance, I think all investments in technology that we've made have given us a real competitive advantage in many feedstock types, and I think we will be able to protect that. And so in terms of also the pricing or the way we structure our purchasing contracts, we always have to be competitive but we have some inbuilt advantages, and I think that we are in a position to monetise those. So that's about the general context.

Secondly, your specific question. No, we are slightly more sensitive to palladium than to platinum, but it's in the same order of magnitude, so not a different order.

Do you think that the return on capital employed which are strikingly high will not attract new competition?

Yes, there is a lot of competition in different segments. I think to recreate the whole facility of Hoboken would be exceedingly difficult, I think it's almost all proprietary technology in the first instance. Secondly, if you were to start from scratch it's a huge investment. I mean now just for one step we invest €50 million, and I think if you would recreate the Hoboken plant you would have an order of magnitude for that. So I think we will continue to have for specific streams by people with different technologies, we will have competition, and indeed in some areas we have increasing competition.

Now, however, I think on the other hand you see that because of I think in all modesty, but because of some technological advantages that we have, we have seen other people move out of this field because they haven't been able to make it so successful and to get the returns on capital employed. I think companies like Engelhard in the past, even Johnson Matthey have somewhat reduced their focus on pgm refining, other companies as well, some have gone out of this business altogether. And if you are not very good in especially your throughput times, the amount of working capital that this absorbs is enormous.

So will we have all every time 44% growth? No. I think this is quite exceptional. So will we have next year a repetition of the level of results that we expect for this year? Probably not. But I think we can say today that we think rather optimistic that it will be building on the results of 2004 and 2005. So that's about Hoboken and the Precious Metals Services.

On the Automotive Catalyst front, in Europe our sales were okay, I think there was also small growth, but it's more flat, so in line with the general market. So overall I think the world automotive market didn't do that badly, I mean automotive production growth in the world altogether was 5%. I think it is right to expect that with the announcement of Ford and General Motors, that they will reduce production in the fourth quarter, maybe the overall world growth might be 1% or 1½% lower in the second half, we'll see that. And obviously we will have to see how this plays out customer by customer for us and model range by model range, but overall we have continued also in our overall outlook to factor in that in the United States this will be a difficult market. So that's about the overall situation there. But all in all Automotive Catalyst in a not easy market in Europe and in US had a pretty satisfactory first half.

But you said that in each one there was a certain number of one-off factors that contributed to flat REBIT.

Not in the Automotive Catalyst part but in the other parts of that precious metals products division. So that part was actually down and, as I said, I am not too concerned about that because I think the glass business, that has to do with projects, some cost factors won't repeat themselves, and the integration of the Chinese will not only be a burden but I think in due course a significant contributor.

But can we say now after several years of experience that there is a seasonality favouring H1 for cetain BUs other than catalysts?

No, it's not such a clear pattern. I think, indeed, I mean the summer months in the Northern Hemisphere tend to weigh a little bit on the business, December tends to weigh a little bit on the business, so there might be a small seasonality but it's not that huge in my view.

Now, your last question was on cobalt prices. Indeed, cobalt price recently has been rising. Cobalt has been one of the metals which has been relatively lacklustre over the last few years, it has shown some signs of life of late, and that could help our, indeed, the refining and recycling side of the business. I wouldn't expect that to be a major factor, but it can be a factor helping us somewhat.

The demand outlook is actually an area where we don't have such great visibility, because even when customers are very bullish they could change their mind, if they are prudent they can also change their mind and suddenly get very demanding, but overall, certainly the way the third quarter has started has been strong. I think the lithium-ion market continues to be strong. We've had, some of you may have noticed, the incident at Dell where Dell is recalling quite a big number of lithium-ion batteries, the supplier there being Sony. We are not supplying Sony so we are not involved in that situation, but actually our customers are really running at full speed.

Mark Gevens (Fortis)

Good morning. I wonder if you could give us an update on where you stand on HDD in the catalyst business. There is a delay compared to peers. How do you see it evolving. And also increased R&D costs, will this be significant?

There is not much new to report on that since last time and I think there won't be much news to report for at least another year, because, as I have explained previously, now all the awards have been made for the first legislative step or the current legislative step, which is going to be 2008, 2009, 2010. In that timeframe, as I said also before, we have some awards, so in the end we became a player in that segment, but it's a rather modest amount, so in the first few years, until 2008, you will not see any additional impact on our results of any significant order of magnitude.

The real battlefield today, the competitive battlefield today is to come up with the most attractive technologies for the 2009, 2010 legislation, which will, in some cases, imply start of production in 2008 already. And these awards are not likely to be made before a year from now, so it's only the next 12 to 24 months that it will be decide who gets what share of the cake after that. And, indeed, as we have said all along in the first round, we were somewhat ill-prepared, for a number of factors, which had to do with the policy before the acquisition. We intend to be fully prepared for the next round. We are doing what it takes, but in the end it's the customers who decide, and they are not going to decide for another 12 months, as far as we can make it out today, so it's unlikely that we will have major things to announce in the next 12 months on this, either positive or even less positive.

Then we move to the telephone questions.

Andrew Stott – Credit Suisse, London

I just had a couple of questions. First of all, back to the Precious Metal Products division. I'm just trying to understand what's really going on behind the margin compression. So in other words, you mentioned the one-off costs, could you quantify those? And also is there any margin compression at all in the reported accounting number as a consequence of higher substrate costs? The second question was, going back to your comments on, if you like, mid-cycle returns for Precious Metals Services you were saying that you think the business can do a lot better than its historical 45 to 50 million, I'm just trying to understand what changed in the last two or three years that leaves that confidence. Can you just run through the key issues there?

Yes, okay, thank you Andrew. On the PMP margin compression, as you called it, indeed, there are factors. There is first of all that there is additional turnover, which so far doesn't generate a contribution, that's the Chinese acquisition, as I said. We have bought in two instances – in contact materials and brazing alloys – the market leader in China. However, we are introducing very fast Umicore standards etc and we are changing them over to our way of doing things in the very short run that means that they have extra costs and we have to adapt to the way of doing things there. So this extra turnover for the time being in the first six months of this year generated a zero margin.

What were the extra turnovers?

… in due course, as I said, we are very confident these conditions will strengthen us. So that's one element. Secondly, indeed, there is a high substrate cost and that inflates the revenues without any impact on EBIT, so that tends to depress margins a little bit. And then thirdly, on the Precious Metals Products, the non-automotive catalyst side, there have been also a temporary dip in the glass business and some of these one-off costs, they are of the order of magnitude of a few million. So I think that answers your first question.

What gives us the confidence about the medium term outlook for Precious Metal Services, or what has changed? And indeed, it is a business which is a little bit difficult to exactly forecast the level of performance that we will have in the coming years, but I think we have entered into in some cases for by-products of other precious metals producers or base metal producers which ship some of their by-product streams. We've entered into some longer-term arrangements and these are certainly providing us with an attractive backbone. I think our position in some of the recycling segments, it's been strengthened. I think the credibility we are building in the market there is growing.

You know that in certain parts of the world some of these, for example, electronic scrap has been traditionally still shipped to China, where it's been treated in environmentally unsound conditions. We have convinced some major players in the market to work more closely with us, which might be in some cases slightly more expensive, but we have given them guarantees of an environmentally sound treatment, and I think that for some of these OEMs that's also an important consideration.

So there are a number of elements. I think also the operational improvement of the plant keeps on improving and so, whilst again the results as they are likely going to come out this year, are not something that would be reasonable to expect that we are going to repeat them immediately, we feel pretty good about 2007, 2008, the way it's shaping up.

Can I just ask one more question on the debt side? The 125 million I wasn't aware of and I looked at the report and accounts and I can't see a note there. I'm just wondering whether there's any more off balance sheet debt beyond the 125 you've announced today.

No, the 125, to my mind, is in the notes of the annual report, I don't have the page to hand, but we can…

I'll come back to you on that later then, thanks.

And we will certainly point out the page. But no, this is something that we instituted a couple of years ago, this securitised debt. It is actually a mechanism where we sell the receivables, we in a way give the banking institutions the benefit of the insurance coverage that we have, but it doesn't apparently, and don't ask me to explain all the details, fully qualify to IAS. If we had to make it fully IAS compliant, this would have entailed some additional costs, it would have been very cumbersome to administrate, and so we decided that we would put that back on the balance sheet. But it was actually disclosed, I'm pretty sure.

No, that's fine, I'll come back to you on that later, thank you.

Sophie Jourdier – Citigroup, London

I've got a couple of questions on the zinc business and then a quick financial question. First on the zinc business, just trying to get an idea of the contribution to the profit growth of the downstream part of the business. I wonder whether you could give us an idea whether profits did rise and, if so, how much of this €10 million improvement the downstream business contributed. Second on the zinc business, I just wondered whether you could talk about the treatment charges. They've obviously been under pressure, whether you're seeing any signs of that turning around. And then just finally, I just wondered whether you could remind us of the tax rate guidance for the full year and beyond. Thanks.

So on the zinc business, on the downstream side, the results in Zinc Chemicals were certainly slightly up or some were up. On the Building Products, as I say, there was this element of margin squeeze. The total amount of zinc downstream versus upstream, we don't disclose that exact breakdown at this point, but obviously it will be the case when we have carved out the upstream part.

The treatment charges, indeed, I think it is a little bit premature to forecast where treatment charges for contract terms next year will be. What it is noteworthy to say is that now for six months in a row the spot market treatment charges have actually started to improve, they went down quite considerably, they were way below the contract terms that we got, which is a not unusual phenomenon, but they have actually sharply increased in the last few months. They are still below the contract terms, but if the trend continues obviously this points first of all to a better psychological context for the contract terms negotiation for next year and actually points that the period of great scarcity in zinc concentrates is possibly coming to an end. Indeed, the amount of zinc mines that are driven by these exceedingly high prices have started to consider reopening, plus some new greenfield projects coming on line, is of the nature that many observers now see a much more balanced, if not in excess, market of zinc concentrate for the coming period.

So yes, I am heartened by what I am seeing in the zinc concentrate market, but there is still four or five months to go before the negotiations start. We will see how the general context evolves, but it's certainly not evolving as badly and it's a reversal of a trend that was pretty severe in the last 12-24 months, where both contract terms as well as spot terms had only one direction, which was down.

Thank you very much for that. Just going down to the profits of the downstream, I'm aware you don't disclose that, but could you just say whether in general the downstream business profits went up or down in the first half?

I think in general they went up somewhat. The tax question. So the tax question, indeed, in the past we used to guide that it was 20 to 25%. We are in this time round I think – and I am looking at Martine – I think 24%?

Martine Verluyten:
At this time we are at 24%, and I think that maintaining our position between 20 and 25%, in view of the growth of our business internationally is a bit optimistic, so I think we will inch our way up to the second half of the 20s in the coming year I would say, it's not a matter of a dramatic change, it's a matter of slowly moving up in view of the different spread of the business and a much more multinational spread of the business.

Thomas Gilbert – UBS, London

I've got three questions. The first question there is can you confirm that you didn't have any late payments from your automotive customers and that really the bulk of the working capital also is value related to inventory and receivables? And related to that, I was wondering that if metal prices stay flat from here we shouldn't expect a reversal in working capital in the second half, is that correct? And I was wondering if you could commit to a net debt guidance for the full year. And related to that, given that the net debt has been going up and given that there is *probably some larger assets soon available out there for acquisitions, I was wondering if the financial profile warrants you to change the scope of the largest acquisition that you could do. And in terms of your acquisition policy, I was wondering what you are prepared to pay, to put on the table going forward. Thank you very much.*

So on the working capital, I can confirm that it is essentially driven by the zinc price and I think the figure is actually close to 90% of the working capital increase is driven by the zinc division, and in the other divisions we managed to keep it pretty well under control, despite some of the volume growth there. So yes it is driven by that.

I am not aware of any significant late payments by automotive suppliers and if there would have been I'm sure I would have been alerted. So that is on that. Clearly, if metal prices stay the same, you wouldn't expect a reversal of that trend, at some point this will come but it's hard to predict when that will be. There is traditionally, but it's hard to fully predict that, a bit of a seasonality where, in any case, working capital requirements towards the mid year tend to be somewhat higher than at the year end, so you might expect with stable metal prices, to see somewhat of a reduction, but only a slight reduction, and then obviously any movement in the metal prices will have a bearing on that and they are not easily predictable. So that was your first question.

The debt, the acquisition capacity. I think in the first instance, if we look at acquisitions obviously the first instance is to determine the strategic fit and to determine what these assets are really worth to us, without necessarily looking at our balance sheet. If we are convinced that there is a right price for an asset we want to pay, then we look how to finance it. I think given that we have a bit of a temporary situation in the working capital, given also that whatever acquisition we would make it would be something that would generate some cash flow as well, we feel that we can make quite significant acquisitions before even having to consider returning to the equity market. And clearly beyond that it's very hard to speculate in general terms about acquisitions.

Can I just quickly follow up. So your strategy also is completely decoupled from the zinc carve-out, so that's completely separate? One doesn't hinge on the other in terms of timing?

No, I think these are two processes… I mean acquisitions is an ongoing process of screening the various opportunities, and one has to see them. In terms of acquisitions one is very much less in the driver's seat as far as timing is concerned, so we have to gear up to them. And zinc is a separate process that we are driving.

Sven Smit – Cheuvreux, Amsterdam

Most of my questions have been answered, I've got two small ones. First is on the outlook for energy costs in zinc. When do you expect that that will start to have a major impact? Secondly, on the US automotive catalyst business, you've managed to increase your volumes there, you also noted that the overall market *was up, mainly due to Asian companies, I suppose that is mainly Toyota, where, as far as I know, you don't have a position in auto catalysts. But basically the question is why have you managed to increase your auto catalyst volumes in US?*

The auto cat volumes there in the US, well we have managed to increase it somewhat because, indeed, it depends on the way the models that we are supplying are doing in the market and they did relatively well, so indeed we have a more limited supply position at the Japanese OEMs in the States. So that's not been the major source, but some of the others, depending on how the models came in, we actually had a pretty good performance there. The third question was again?

On energy costs, specifically in zinc. I believe you are hedged, but how do you see that on a somewhat longer term view, when you expect that energy costs could really have an impact on the profitability of the zinc business.

The energy costs we have contractual arrangements which are still in place for one or two years, and we have had obviously to take in the last few years, but they are reflected in the results of last year and of this year already some quite substantial energy cost increases. So it's obviously a bit hard to predict when the current contracts run out what the market situation will be then.

I think if you look at the spot market there is a risk of additional cost, the spot market as it is today, and that could be a number of millions. However, I think also on the positive side there are some efforts afoot, especially in France, to look at long-term stable pricing for energy-intensive users, because it is felt that the extreme vagaries of the European power market, the way it's structured today and the absence of a truly developed market where they have actual competition, which is not the case in most markets, is really driving the energy-intensive industry out of Europe. And so there are different schemes being considered.

In France it's actually most advanced. In Belgium there are discussions ongoing about possibly being able to guarantee a competitive and fairly stable pricing to energy-intensive consumers. And so if that were to come to pass, it actually could lead to an improvement in our cost base compared to today. I think it's too early to bank on that, but in France it's public, it has been discussed in the European Union and with the French Government, there is hope that we could actually get a better and more predictable and more stable situation.

Arnaud Goossens – ING, Brussels

I have two questions. The first one, or both actually are related to Hoboken. First question is what would your normalised ROCE be going forward? And what was it in the past? If you can quantify that. And the second question is the impact, would you feel any impact of the investment programme at Hoboken in terms of plant closure or disruption when you initialise the new technology?

Normalised ROCE I think is something that I am not prepared to give any guidance on, it's been in the past in the 20% range, if you look at now so far it's up at above 40%, as I said, the future will probably be somewhere in between.

The disruption, no, because we are building a new plant next to the old plant, so there is not a disruption or a problem in the switch-over, and so we will shut off the old plant only when the new plant is fully up and running, so there is no problem. This being said, we have worked on this for five years, we have piloted it extensively etc, so we don't anticipate any hiccups, but if there were teething problems we can just continue to run with the old plant. Obviously that wouldn't be the intention, but this is not giving us any concerns there.

And if I can ask just one last question on acquisitions. Can you give any comments on the rumours or statements on HC Starck and the Delphi unit.

Well I think I am not prepared to comment on that beyond what we have said previously, which is at the right price these assets could be of interest to us.

And where do you stand now? I mean is there any due diligence or anything like that in which you are involved?

I'm not prepared to comment on that.

Mark Van Der Geest – Rabo Securities, Amsterdam

I have a question on the change of ownership at Engelhard. I was wondering if you'd seen any impact on your catalyst business.

No, and I think, as I said previously, personally I don't think there's a high likelihood that there will be lots of changes, except it's not any longer called Engelhard, it's called BASF Catalyst. Our base case scenario is that BASF will integrate its business without major disruption and that will therefore not create any additional opportunities. On the other hand, as we have said before, we have always respected Engelhard in the past as a very competent competitor, BASF being a very competent company. We don't expect that to change very much. I think the areas where BASF and Engelhard had synergies and where maybe the combination could be stronger than they were separately before is in the other Engelhard businesses, in which we are not competing, like the pigments business, like the process catalyst business, but in the automotive catalyst business it's not that BASF brings something particular to the table, for them it's a nice add on. And so our base case scenario is that it will not change very much, but obviously we are watching that space with interest.

Maybe two follow up questions on earlier questions that were not I think answered in detail. First maybe on the acquisition impact in Precious Metal Products, the impact from the two acquisitions in China. Could you give some guidance on that and also maybe on the impact of the higher substrate cost on sales and net debt of the business. And then also maybe a net debt guidance for the end of the year, if you could provide that, that would be helpful.

Net debt guidance end of the year, I wouldn't be prepared to give it to you because it's so much driven by whatever the zinc price would do in the last two or three months of the year and I think, as I said implicitly before, if metal price stays stable, we have a hope that it might be a little bit lower, because also of the operating cash flow, so I think stable metal prices, we should expect that to come down some. That's on the last question. And your first question was the acquisition impact on PMP. Well I think we paid for these two companies something in the order of €20 million, and we would in due course obviously expect to have a decent return on capital employed on the investment we make. So far, as I said also again, first half they haven't contributed yet, but that was fully in line with our acquisition plans and the way we see this integration. But in due course we expect these activities to really contribute not only to the growth of the business but also to the profitability of the business.

And the higher cost of substrates, I can't give you the exact number, but it's clear that the diesel substrate, diesel particulate filters substrates are much more expensive, it's a pass through, it increases our revenues, but, as it's a pass through we don't make any margin on it, so that's something that is noticeable in the numbers, but I don't have the exact figure.

And finally on your outlook, you state that due to the first half performance and Q3 to date Umicore feels confident to raise its results forecast. Could you give some indication whether the Q3 to date has seen an acceleration or deceleration versus the performance in the first half?

That's very hard because Q3 today is the two summer months and how do you compare that to the normal thing? No, I think we are pleased with what we have seen as the July numbers, and August numbers aren't fully there yet obviously, but from what I hear I see that things are okay.

Peter Cartwright – Evolution Securities, London

Thank you for the late entry. Could you give a little bit of a split, if possible please, in the catalyst side between profit in auto cats, which you said were up, and the rest of the division, which was down? Can you add some numbers behind that, even broadly?

No, I am afraid I am not ready to oblige you there, because clearly we report five segments, we are not going to break down the segments any further. I will give you some qualitative elements, but beyond that, I think beyond what I've said I'm not prepared to go down that road, because otherwise we'll be soon reporting figures by business unit, and that's not the intention.

Closing Comments

Thank you, and take a last look at the room here in Brussels, if there are any further questions here? It doesn't seem to be the case, so I thank you and, as always, our investor relations team will be available to help you with any additional questions you may have in the coming hours or days. Thank you very much indeed.

(ends)