

Sustainable Procurement Framework for Cobalt



Introduction

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Umicore's relationships with suppliers and customers are essential to build financial and economic value, and play a key role in the promotion of social and environmental best practice. At Umicore we are committed to the principles of sustainable development and we seek, wherever possible, to conduct business with partners that have already made such a commitment or are willing to take steps in this direction. Umicore has disclosed its ambition to leverage its sustainability expertise in its supply chain in the company's Horizon 2020 objectives.

Umicore's Cobalt and Specialty Materials (CSM) business unit has been a worldwide leader in the recycling, refining, transformation and marketing of cobalt containing products since 1912. CSM's cobalt based compounds are used in a variety of applications ranging from very traditional blue pigment in ceramics to one of the key active materials for rechargeable batteries. This latter market is covered by Umicore's business unit Rechargeable Battery Materials (RBM), which relies on CSM for the sustainable sourcing of its cobalt.

Umicore is aware of the risks that are linked to the sourcing of cobalt. Infringements of human rights, occurrence of child labour and environmental issues, as well as the lack of sufficient health and safety protection are reported to occur in certain parts of the cobalt supply chain. To avoid the occurrence of these practices in Umicore's supply chain, and consequently that of its customers, Umicore has created a dedicated Sustainable Procurement Framework for Cobalt, which is explained in this document.

Part I presents the heart of the Umicore culture, The Umicore Way, and describes policies relevant to purchasing raw materials, implemented in Umicore's Sustainable Procurement Charter.

Part II describes in-depth Umicore's cobalt specific policy, implemented as the Sustainable Procurement Framework for Cobalt. It explains how Umicore established this framework and how it assesses and responds to the risks in its cobalt supply chain.

Part I.

The Umicore Way

The Umicore Way is at the heart of our culture. It encapsulates our core values that determine how we do things. It incorporates policies and charters to ensure our activities are conducted in line with these values. These policies include the Umicore Code of Conduct and the Sustainable Procurement Charter.

Vision

Umicore believes that metal related materials have a vital role, as they can be efficiently and infinitely recycled, which makes them the basis for more sustainable products and services. We invest in clean technologies, such as catalytic converters and materials for rechargeable batteries. Our unique recycling technology supports a closed loop approach. As such, our products and services help tackle global challenges, like raw materials shortages, clean mobility and sustainable energy generation and storage. We want to be and remain the leader in the development and supply of materials that fundamentally improve the quality of life.

Values

Our core values are openness, respect, innovation, teamwork and commitment. Together they form the key to our success; together they create our culture.

Code of Conduct

The main purpose of Umicore's Code of Conduct is to ensure that all persons acting on behalf of Umicore perform their activities in an ethical way and in accordance with laws and regulations and with the standards Umicore sets through its policies, guidelines and rules.

In practice, this means upholding and respecting fundamental human rights when conducting our operations throughout the world, applying high standards of business and personal ethics, and following all applicable laws and regulations in the countries where we operate. Moreover, we seek to avoid situations that create or have the potential to create a conflict between the interests of Umicore and our personal interests. We therefore seek business partners whose policies and practices regarding ethical, social, environmental and health issues are consistent with our own.

Sustainable Procurement Charter

This defines what sustainable development means to Umicore in the area of purchasing. It was developed to better reflect our commitment to sustainable development in all areas of procurement – be it raw materials, energy, other goods or services. It outlines our commitment to our suppliers in terms of our own conduct and practices. In return, we expect that our suppliers take all necessary steps to ensure that their practices are compatible with the content and spirit of our Sustainable Procurement Charter, which focuses on the three areas of environment, labour practices and human rights, and business integrity.

• ENVIRONMENT

As a minimum standard, our suppliers comply with the applicable environmental laws and regulations in the territories in which they operate and they possess all the necessary environmental permits and registrations. Suppliers strive to minimize relevant environmental impacts and maintain a documented environmental management system, which enables them to continually improve environmental performance. Hazardous products or materials they produce are accompanied by up-to-date environmental information and an appropriate material safety data sheet. Suppliers take steps to offer products whose environmental impact during production, use and end-of-life is the lowest possible given the available technology. They have procedures in place to prevent incidents. In the event

that an incident should occur, they have procedures which are designed to mitigate any consequential impact on the environment.

• LABOUR PRACTICES AND HUMAN RIGHTS

Our suppliers respect the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the international law on human rights. They are not complicit in human rights abuses. In this context, they ensure that mechanisms exist to ensure respect for the following principles on their sites and, where relevant, those of their own suppliers: Abolition of child labour, elimination of forced and compulsory labour, freedom of association and the right to collective bargaining, elimination of discrimination in the workplace, and fair treatment and compliance with all applicable laws regarding wages, benefits and working hours.

• BUSINESS INTEGRITY

Suppliers apply the highest standards of business and personal ethics, follow all applicable laws and regulations in the countries where they operate, and seek to pursue their business dealings with transparency and accountability. They are committed to working against all forms of corruption, extortion, fraud and bribery, and strive to detect and prevent illegal and unethical activities conducted through commercial transactions via the screening of their business partners, transactions and materials.

Part II.

Sustainable Procurement Framework for Cobalt

Umicore introduced a specific approach to sustainable and ethical cobalt sourcing in 2004. The current Sustainable Procurement Framework for Cobalt builds on this and takes into account the specific risks that are currently linked to the mining of cobalt. It is inspired by the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals (OECD, 2013). By creating and applying the Sustainable Procurement Framework for Cobalt, Umicore aims to minimize the risk of any possible connection between the cobalt in its supply chain – and subsequently that of its customers – and human rights issues or unethical business practices. Moreover, it is believed that Umicore’s preference for those suppliers that have sustainable practices, motivates other suppliers to improve the environmental, health and social aspects in their own production process. In this way, Umicore believes it is actively contributing to the further development of a sustainable supply chain of cobalt.

To Umicore, sustainable procurement of cobalt means taking into account economic, environmental and social performance of its suppliers in all decisions pertaining to the purchase of materials. This means that Umicore will not only seek for optimization of price, quality and availability but also will consider the social and environmental impact of the practices upstream in the supply chain of its cobalt products.

Through this framework, Umicore commits to adhere to the first three steps for risk-based due diligence outlined in the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. By having the framework audited by a third party, the fourth step of the OECD Guidance was also fulfilled for the year 2015. Currently, Umicore is investigating how to include its due diligence practices into its annual reporting, to become fully compliant with the OECD principles by 2017. The policies and practices described in this document demonstrate Umicore’s engagement in ethical raw material sourcing, as stated in Umicore’s strategy Horizon 2020.

How Umicore established this framework, assesses its sourcing practices and responds to the risks or indications of potential irresponsible sourcing are explained in the following sections.

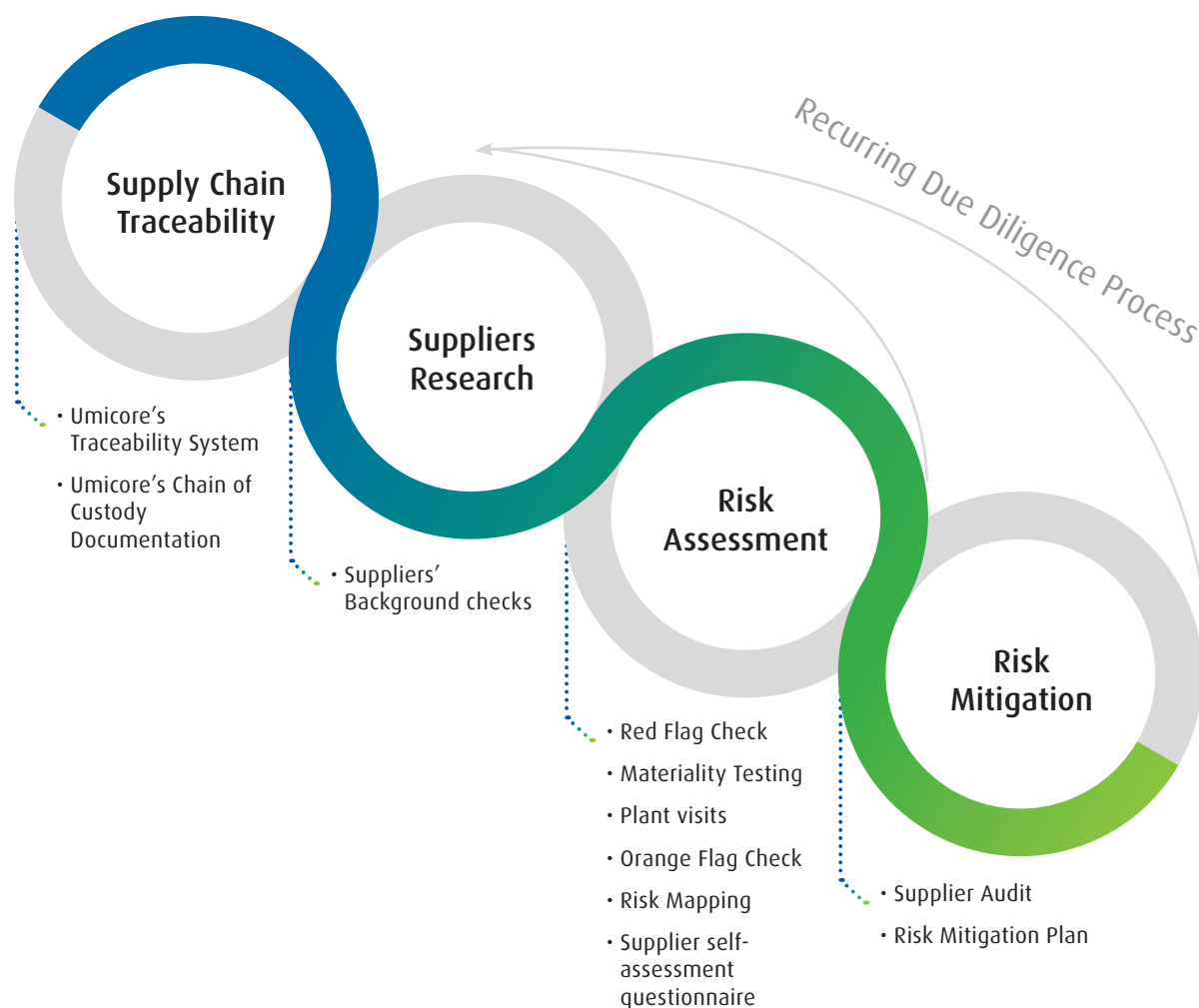
Umicore’s Due Diligence Implementation

Inspired by the OECD’s 5-step process, Umicore created a management system to perform due diligence practices in its cobalt supply chain.

The members of the supply team occupied with cobalt sourcing are trained and coached to apply the framework in their daily supply practices. Moreover, a sustainability responsible is entrusted with the application of the framework and screening for risks in the affected cobalt regions and industry. A dedicated cobalt sourcing committee, referred to as the Approval Committee, is responsible for the principles and guidelines in the framework and has overall control and decision-making powers. The Approval Committee includes a member of the executive committee of the Umicore Group.

For the practical implementation, a decision tree procedure was created and applied to gather information for the risk assessment of each supplier. For new suppliers, this process leads to the decision to accept or refuse the supplier in Umicore’s supply chain. For existing, already approved suppliers of cobalt containing raw materials, a recurring due diligence process is in place, to repeatedly review and reassess these suppliers.

Umicore performs its due diligence in four steps, as illustrated in the figure below. The practical application of each step is explained in the following sections.



Supply Chain Traceability

As a first essential step of Umicore's cobalt due diligence implementation, Umicore identifies and registers the source of all of its cobalt containing raw materials. This traceability system builds on Umicore's thorough transaction and logistical system. Umicore tracks the origin of all of its cobalt raw materials to the level of the mine in the case of primary raw materials.

A robust lot-receipts process ensures that all transactional and logistical documents must be obtained and registered. The combination of this logistical documentation – referred to as Umicore's chain of custody documentation – with commercial documentation, market knowledge and plant visits, provides information on the source of the raw materials. This information is collected, documented and made readily available internally, eventually leading to a "materiality overview", which provides a comprehensive list of all Umicore's cobalt sources by origin.

Moreover, Umicore maps its entire raw material flow, production processes and product flows for cobalt all the way from the incoming raw materials to end-product sales. By doing so it achieves excellent raw material traceability for all its end-products, and confidence that it has a robust mapping of its complete cobalt supply chain.

Suppliers Research

Umicore performs a first assessment of potential new suppliers before starting to purchase material. The market intelligence obtained through Umicore's purchase team and embedded local connections form the basis for this initial informal research into a supplier's background. It is a prerequisite for Umicore to consider purchasing material from that supplier.

As the starting point for the risk identification in its

actual cobalt supply, Umicore establishes an in-depth background check of new and existing suppliers through its market and desktop research, checking, among others, a company's background, policies and structure.

The continuous screening of worldwide and local press, and of dedicated research reports written by social and environmental NGO's and scientific institutions, ensures that Umicore is constantly informed and up-to-date. Furthermore, Umicore builds a strong relationship with all its suppliers. As part of this relationship, Umicore collects on-the-ground information during plant visits and local trips to gain insights into the supplier's social and environmental performance.

Risk Assessment

A key element of the Framework is the risk assessment performed for each supplier. It includes the step-wise gathering of information on the supply practices of Umicore's suppliers. As a summary of the available information collected in these risk assessment steps, a risk mapping is performed for each material supplier. Based on this risk assessment, Umicore decides to approve or reject a supplier, or designs a mitigation plan. The steps taken in the Risk Assessment process are described in the following sections.

• RED FLAG CHECK

Red flags are practices that are considered by Umicore as unacceptable and lead to elimination of the concerned party. All cobalt suppliers of Umicore are screened for red flags. During this screening, specific information on the possible prevalence of red flags is collected and assessed. Red flags are listed as follows:

- Any form of torture, cruel, inhuman or degrading treatment or punishment;
- Any form of forced or compulsory labour;
- Any form of child labour;
- Any form of bribery or corruption;
- Hand-picking and/or artisanal mining (as primary source);
- Supplier is not willing to accept the principles stated in the Umicore Charter.

Based on the collected and available information, Umicore will evaluate the presence or indications of potential red flags. Umicore commits to further investigate any indication in order to have assurance on the sustainable and ethical practices of the supplier. For

those suppliers where evidence(s) of red flag(s) are identified, Umicore stops the relationship.

• MATERIALITY TESTING

A risk-differentiated approach is taken in the next steps of the decision tree: suppliers are categorized based on their sourcing activities. Sources of primary raw materials, recycling feed or occasional purchases are accordingly assessed. In addition, the cobalt quantity supplied per supplier is included in the risk assessment of the supplier. All suppliers of cobalt that contribute more than 1% to the total annual cobalt supply of Umicore (referred to as "material suppliers") are assessed in the following steps of the decision tree. In addition, it is assured that the total amount of the cobalt coming from material suppliers exceeds 95% of the total annual cobalt supply.

• PLANT VISITS

Umicore performs mine visits to monitor and assess on-site the practices of its material suppliers of cobalt raw materials. This includes visiting the plants of its material recyclers and refiners. Umicore believes these visits to be crucial to ensure that none of the described red flags occur in its supply chain. The frequency of visits depends on the country in which a supplier is located. Suppliers in countries with High or Medium/High country risk are visited at least every two years. Given the specific conditions in DRC, Umicore is committed to perform at least two trips per year to visit suppliers in this country.

A dedicated sustainable procurement checklist is used during these visits. The checklists and reports are used as input for the risk mapping, which occurs further in the decision tree for the update of the supplier's background check.

• ORANGE FLAG CHECK

Orange flags are points of attention related to attitudes that do not match Umicore's sustainable procurement charter but that can be remediated via a dedicated action plan. When screening a material cobalt supplier for indications of orange flags, the information collected in the previous steps (including plant visits) is assessed and screened for the possible prevalence of orange flags. Orange flags are listed as follows:

- Hand-picking and/or artisanal mining (as secondary source);
- Supplier does not have the minimum required legal permits and certificates;
- Supplier does not have procedures in place to mini-

- minimize environmental impact;
- Supplier does not have procedures in place to ensure a healthy and safe working environment.

Suppliers with activities leading to orange flags are individually evaluated by the Approval Committee, which decides whether to exclude or not the supplier from Umicore's supply chain.

• RISK MAPPING

In the risk mapping process, for each supplier the risk likelihood and possible impact on Umicore and its customers are assessed, taking into account the supplier's country risk, health and safety performance, child labour policy, transparency and other indicators. In this way, Umicore scores each supplier on its sustainable procurement and ethical business practices. Eventually, the suppliers are divided into one of the following categories:

- Low Risk
- Low/Medium Risk
- Medium/High Risk
- High Risk.

Suppliers that are assessed as Low Risk and where based on our procedures no indications of orange or red flags have been identified, are approved by Umicore.

For suppliers assessed as Low/Medium to High Risk, an iterative risk mapping process starts: after the first risk mapping, the supplier is requested to complete a self-assessment questionnaire specifically focusing on those criteria identified as High Risk. The results of this questionnaire are then evaluated in a second risk mapping. If Umicore indicates that the available information is still not sufficient to fully understand the possible risk, the supplier is asked to provide additional information and documents that Umicore will evaluate and incorporate in the third and final risk mapping.

For suppliers that score Medium/High or High in this final risk assessment, but where no indications or evidences of an orange or red flag have been identified, Umicore will perform an on-site review of the identified risks before accepting the supplier.

Risk Mitigation

Umicore is committed to give new suppliers the chance to enhance their practices when not meeting Umicore's expectations, as well as re-integrate suppliers that were previously excluded from its supply

chain, if they have undertaken remedial actions on the identified issue. In general, those suppliers for which all the risks identified have been mitigated and no evidence related to orange or red flags have been found, are approved after another limited audit and can become suppliers of Umicore's cobalt supply chain. Here, the Approval Committee has the final decision on whether or not a supplier can be approved to Umicore's supply chain.

Third Party Assurance

In line with the fourth step of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals, Umicore is committed to have its due diligence practices audited by independent third parties. By engaging in this third party assurance, Umicore is transparent on all of its practices and documentation. Umicore believes that this third party assurance will provide its customers and stakeholders with confidence on its due diligence practices. The involved third party auditor is verified by an independent institutionalized mechanism.

References

- The Umicore Way
(<http://www.umicore.com/en/aboutUs/umicoreWay/>)
- The Umicore Code of Conduct
(<http://www.governance.umicore.com/en/CodeOfConduct/>)
- Umicore's Horizon 2020
(<http://www.umicore.com/en/cases/horizon-2020/>)
- Universal Declaration of Human Rights
(<http://www.un.org/Overview/rights.htm>)
- ILO Declaration on Fundamental Principles and Rights at Work
(<http://www.ilo.org/dyn/declaris/DeclarationWeb.IndexPage>)
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals
(<http://www.oecd.org/corporate/mne/mining.htm>)

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