

Due diligence Compliance Report Cobalt Procurement

REPORTING YEAR 2019

Actor's details

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(Business Group Energy & Surface Technologies)

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Compliance Report's scope The scope of this Compliance Report includes the cobalt procurement activities by Umicore Supply and Refining for the business units 'Cobalt and Specialty Materials' and 'Rechargeable Battery Materials' (including Umicore's minority joint ventures) in the reporting year 2019. The activities related to Umicore Finland (Kokkola) are not in scope as the refinery was acquired in December 2019.

Section 1. Establish strong Company Management Systems

COMPLIANCE STATEMENT

Umicore's management system regarding cobalt supply chain due diligence includes policies, procedures and internal management structures. The company's management system, referred to as the Sustainable Procurement Framework for Cobalt, is aligned with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD, 2013).

1.1 Has Umicore created a company policy regarding due diligence for its supply chains of cobalt?

'The Umicore Way' describes Umicore's mission and its core values related to its business conduct. It is at the heart of Umicore's culture. Umicore has adopted a set of policies and charters to ensure its activities are conducted in line with the principles outlined in 'The Umicore Way'. These include the Umicore Code of Conduct and Sustainable Procurement Charter.

The latter is the supply chain policy that applies Umicore's principles to its suppliers and demonstrates how they are implemented in procurement activities. Umicore developed this charter in order to reflect its commitment to sustainable development in all areas of procurement – whether raw materials, energy, other goods or services. The document outlines Umicore's commitment to its suppliers in terms of its own conduct and practices.

In addition, Umicore has a policy on "Responsible global supply chain of minerals from conflict-affected and high-risk areas". Bearing in mind the specific risks in the cobalt supply chain, Umicore has implemented this policy into a specific cobalt due diligence framework: Umicore's "Sustainable Procurement Framework for Cobalt" ("the Framework"). The Framework reflects Umicore's intentions to ensure that its cobalt supply chain follows sustainable business practices. The Framework defines Umicore's responsibility for conducting risk-based due diligence, screening and monitoring all its suppliers.

Since 2018, Umicore has formalized a public grievance mechanism.

Umicore's management system is aligned with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD, 2013).

The Framework includes a decision tree procedure, created to ensure practical implementation of the Framework. The overall description of this decision tree can be found within the Framework Description, which is available [online](#). An internal procedure was developed to explain and document in detail all steps to be taken in the decision tree.

The following documents are available via Umicore's website:

- The Umicore Way
- Code of Conduct
- Umicore's Sustainable Procurement Charter
- Umicore policy on "Responsible global supply chain of minerals from conflict-affected and high-risk areas"
- Umicore's Sustainable Procurement Framework for Cobalt (Framework Description)

1.2 Has Umicore set up an internal management structure to support its supply chain due diligence?

The Umicore Sustainable Procurement Framework for Cobalt defines the governance for Umicore's due diligence practices for the cobalt supply chain.

The Sustainability team in the business group of Energy and Surface Technologies administers the application of the Framework including the screening of risks in the affected cobalt sourcing and trading regions.

A dedicated cobalt sustainability committee, referred to as the "Approval Committee", ensures adherence to the principles and guidelines of the Framework. This Approval Committee has the responsibility to evaluate due diligence findings, mitigation actions and procurement decisions. The Approval Committee includes the Executive Vice-President of Umicore's business group Energy & Surface Technologies, the Senior Vice-President CSM & Supply, the Senior Vice-President Supply Chain Sustainability and the Sustainability Manager. The Committee has meetings on an ad hoc basis and at least twice per year. In 2019, two Approval Committee meetings were organized. The governance structure was effectively applied in the reporting year 2019.

Section 2: Identify and Assess Risks in the Cobalt Supply Chain

COMPLIANCE STATEMENT

Umicore established processes and controls to assess risks in its cobalt supply chain. The management systems to respond to the identified risk were effectively applied for the reporting year 2019.

2.1 Supply Chain Traceability: Has Umicore established a system of controls in order to ensure transparency over its cobalt supply chain?

Umicore has a process in place that ensures that transport documents are obtained and that transactional details are recorded.

This procurement data provides information on the source of the raw materials and allows Umicore to consolidate the incoming cobalt material into a “materiality overview” in order to provide a view of all the quantities of cobalt procured.

Additionally, Umicore is able to identify the mines from which the procured cobalt material originates by means of chain of custody documentation and an additional confirmation of origin from suppliers that source from several mining locations.

Umicore maps its entire internal raw material flow, production processes and product flows for all cobalt products. As a result, Umicore has an overview for each end product, linked to the suppliers and mining locations.

2.2 Suppliers Research: Does Umicore perform research on its suppliers to identify risks in its cobalt supply chain?

As a preliminary step in the selection of a new supplier, Umicore performs a high-level check on the background of the potential business partner and only pursues a further business relationship if no indications of unsustainable business practices (such as inhumane treatment, forced and child labor, bribery, corruption, artisanal mining) have been identified. This screening is documented in a pre-sourcing due diligence check.

At the beginning of a business relationship with a new supplier, the due diligence and risk assessment procedures set out in the Framework are initiated by Umicore.

Umicore establishes a background check for all suppliers of raw materials of cobalt based on a desktop review and its knowledge of the market and the supplier. The background check includes several topics:

- Identification and screening of the supplier's mother company (structure, policies, sustainability reporting...)
- Information about the mining site (general description, technology, certificates, local initiatives...)
- Information and screening of the shareholders
- Information gathered by Umicore's supply team during local visits (environmental performance, technology, markets, cobalt volumes...)
- Media screening of sustainability issues including human rights violations, social issues, corruption and health and safety issues.

The internal Information Documentation department carries out daily media monitoring of relevant topics related to cobalt sourcing and of Umicore's suppliers. The information obtained is used to update the background checks. The background checks are reassessed annually (except for suppliers of recycling feed or non-recurrent purchases).

2.3 Risk Identification and Assessment: Does Umicore perform risk identification and assessment on suppliers in its cobalt supply chain?

In 2019, Umicore performed risk identification and assessments steps as described in Umicore's Framework by applying the following steps:

- Red Flag Check
- Materiality Testing
- Plant Visits
- Orange Flag Check
- Risk Mapping

1. RED FLAG CHECK

Umicore performs a red flag check on its suppliers based on the information collected in the background check and on market and desktop research. Any identified evidence of red flag criteria means Umicore's relationship with the supplier will be stopped. The Framework procedure provides dedicated questions and screening guidelines to facilitate this red flag screening. The red flags are:

- any form of torture, cruel, inhuman and degrading treatment or punishment;
- any form of forced or compulsory labor;
- any form of child labor;
- any form of bribery and corruption linked to cobalt operations;
- hand-picking and/or artisanal mining (as primary source);
- supplier is not willing to accept the principles stated in the Umicore Charter or does not have similar policies in place.

For new suppliers of cobalt raw materials, the red flag check occurs as the first step in the decision tree. For existing suppliers, the red flag checks are reassessed when new issues are alerted based on the continuous monitoring, or after plant visits. The existing suppliers are reviewed at least once per year.

During the reporting year 2019, Umicore performed the red flag checks on its suppliers. Due to the transition period in the sustainability team the red flag check of 1.2% of our cobalt supply chain was performed with delay, but still in 2019. This delay did not identify new red flags. An overview of the red flag indications and follow-up actions can be found in Annex to this report.

During the same period we addressed a case of a subsidiary of a supplier whereby a public official was fined in 2016 for accepting money in order to accelerate access to a permit. Considering the timing of the case, the relevancy to today's cobalt supplier and its transparency policy, this was not pursued and considered closed by the responsible manager.

2. MATERIALITY TESTING

During materiality testing, the share of each supplier in the total supplied quantity is calculated. This analysis includes all the cobalt purchases for Umicore's entities involved in cobalt transformation. Based on this exercise, a first risk estimation is performed. All suppliers of cobalt with a share of more than 1% of the total supplied cobalt quantity (referred to as "material" suppliers) are assessed in the decision tree. In addition, this analysis ensures that the sum of the cobalt coming from "material" suppliers exceeds 95% of Umicore's total yearly cobalt supply. For suppliers assessed as "non-material", the due diligence and risk assessment procedures stop at this stage of the decision tree.

In 2019, the suppliers that were considered as "material" to Umicore represented in total 95.7% of cobalt purchases.

For 2019, the cobalt from recycling sources accounted for 9.2% of the total supplied quantity of cobalt.

3. PLANT VISITS

Plant visits are performed to monitor and evaluate the practices of all “material” suppliers (except for non-recurrent suppliers and recyclers). During the plant visits, a sustainable procurement checklist is filled out. The checklists and visit reports are used as input to the risk mapping and to update the suppliers’ background check. The frequency of the plant visits depends on the country risk of the supplier. Suppliers in countries with a high or medium/high country risk score are visited at least every two years. Suppliers in low/medium or low risk countries have to be visited every five years.

In the reporting year 2019, plant visits were executed in line with the required frequency as indicated in the Framework guidelines.

4. ORANGE FLAG CHECK

An orange flag screening is performed for “material” suppliers. Any identified evidence of red flag criteria means Umicore will require mitigation actions by the supplier and the Approval Committee will need to decide whether or not to continue the business relationship. The orange flag check is completed based on the information collected from reports of plant visits and from desktop research. For a new supplier, the orange flag check is performed once the visit checklist has been filled out. For existing suppliers, the orange flag checks are re-assessed following either an alert of new issues or following plant visits and at least once a year. The orange flags are:

- Hand-picking and/or artisanal mining (as a secondary source);
- Supplier does not have minimum required legal permits and certificates;
- Supplier does not have procedures in place to minimize environmental impacts;
- Supplier does not have procedures in place to ensure a healthy and safe working environment.

In 2019, Umicore performed the orange flag checks in line with its Framework. An overview of the orange flag indications and follow-up actions can be found in Annex to this report.

5. RISK MAPPING

Risks are mapped for all “material” suppliers based on the supplier’s risk (including scoring for country risk, supplier relationship, regulatory environment and sustainability commitments) and impact (including volumes as well as financial and reputation impact). Based on the outcome of the risk mapping (Low, Low/Medium, Medium/High, High) the need for further due diligence steps is decided, including the self-assessment questionnaire and/or third-party audits. If any of these steps lead to the identification of evidence for red flags, the relationship with this supplier will be stopped.

For existing suppliers, the risk assessment is re-evaluated ad hoc (if there are indications that a supplier’s performance has changed) or at latest every 3 years.

During the reporting year 2019, risk mapping was performed for all suppliers and appropriate steps were taken according to the risk classification of each supplier. Due to a transition period in the sustainability team, the risk mapping of two suppliers was performed with delay, but still in 2019. This risk mapping did not reveal a significant change in risk classification and no new elements came to light.

2.4 Risk Mitigation: Does Umicore perform risk mitigation actions as described in its “Sustainable Procurement Framework for Cobalt”?

Based on the outcome of the risk mapping (Low, Low/Medium, Medium/High, High) Umicore engages with the supplier in an appropriate follow-up and, if required, mitigation plan. Progress in the mitigation plan is closely monitored and if necessary checked during the next plant visits and/or (targeted) supplier reviews.

In 2019, three Approval Committee meetings reviewed identified risks and subsequent follow-up measures related to them.

Section 3: Design and Implement a Strategy to respond to Identified Risks

COMPLIANCE STATEMENT

In 2019, Umicore effectively responded to identified risks.

3.1 Comments and Demonstration of Compliance

Umicore's Framework ensures that identified risks are addressed and that follow-up on red and orange flag indications is performed, including the investigation of the indications, out-reach to stakeholders and discussion with the Approval Committee. All indications for red and orange flags that appeared in 2019, were investigated and evaluated by the Approval Committee. An overview of the indications and follow-up can be found in the Annex of this report.

Section 4: Independent Third-party Audit of Supply Chain Due Diligence

COMPLIANCE STATEMENT

Umicore arranged for an independent third-party audit of its due diligence performance of cobalt procurement for the reporting year 2019.

4.1 Comments and Demonstration of Compliance

PwC Bedrijfsrevisoren bcvba/PwC Reviseurs d'Entreprises scrl [1] provided their independent ISAE 3000 limited assurance report on this Compliance Report in respect of the activities undertaken by Umicore during the year 2019 to demonstrate compliance with Umicore's Sustainable Procurement Framework for Cobalt. The limited assurance report is available to its customers and stakeholders upon request.

[1] PwC has performed the above mentioned engagement and report for the Umicore Sustainable Framework for Cobalt solely for use by Umicore CSM and RBM under a contract agreed upon with Umicore SA. PwC does not have any obligation towards any other person; PwC does not have nor accept any liability or responsibility (contractual, extra-contractual or otherwise) towards any such other person.

Section 5: Report on Supply Chain Due Diligence

COMPLIANCE STATEMENT

For the year 2019, Umicore will publicly report on the implementation and adherence to the supply chain due diligence processes and controls that are set out in its Sustainable Procurement Framework for Cobalt.

5.1 Comments and Demonstration of Compliance

The Compliance Report is Umicore's report on the due diligence of its cobalt supply chain. The report will be available on line as part of the company's Annual Report for 2019. Relevant policies are publicly available, including The Umicore Way, Sustainable Procurement Charter, Code of Conduct, the Sustainable Procurement Framework for Cobalt and policy on Responsible global supply chain of minerals from conflict-affected and high risk areas.

Additionally, the limited assurance report by PwC Bedrijfsrevisoren bcvba/PwC Reviseurs d'Entreprises scrl will be available on request to Umicore's customers and stakeholders.

Management Conclusion

Umicore implemented effective management systems, procedures, processes and practices regarding its cobalt sourcing activities in line with the principles stated in the Sustainable Procurement Framework for Cobalt for the reporting year 2019. Umicore's management system is aligned with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD, 2013). By performing due diligence practices on its cobalt supply chain, receiving third-party assurance, and publicly reporting, Umicore adheres to the five steps for risk-based due diligence of the OECD Guidance.

The corrective actions identified in the Cobalt Due Diligence Compliance Report 2018 have been implemented and monitored in the course of 2019. The same will be undertaken for corrective actions identified in the Cobalt Due Diligence Compliance Report 2019.

Further, Umicore supported the development of the Cobalt Industry Responsible Assessment Framework (CIRAF) which is a management framework for risk assessment and mitigation, aiming at ensuring responsible cobalt production and sourcing. CIRAF was launched in January 2019 by the Cobalt Institute (CI). CIRAF participants are expected to demonstrate within one year of their statement of commitment to CIRAF that they follow the recommendations of level one requirements of CIRAF. For its cobalt supply chain, Umicore's due diligence practices take it a step further as they already follow the recommendations of level two of CIRAF. This means Umicore has identified material risks in its cobalt supply chain, has a policy and due diligence management system to address human right risks and at least three other material risks for its cobalt supply chain, and that Umicore also reports on efforts to address those risks. As Umicore sources Cobalt from high risk countries, the following risk areas are material for its supply according to the CIRAF decision tree:

1. Air- water-soil pollution & energy efficiency;
2. OHS and working conditions;
3. Conflict & financial crime;
4. Human rights abuses,
5. Worst forms of child labour,
6. Biodiversity;
7. Artisanal Mining;
8. Livelihoods;
9. Resettlement.

Umicore has due diligence management systems for the risk areas 1, 2, 3, 4, 5, 7 and 8 through its Sustainable Procurement Framework for cobalt, which means that the policies and performance of all suppliers are screened and reviewed. The risk areas of biodiversity and resettlement are integrated in Umicore's internally developed third-party compliance audit protocol for Environment Health Safety and Social (EHS&S) of Cobalt suppliers, which has been piloted in 2019 and will be rolled out in the next years to all its suppliers. Abuses are also tracked by media searches and monitored.

Other report comments

If users of this report wish to provide any feedback to Umicore, they can contact Umicore's Sustainability Battery value Chain Manager, Géraldine Morelle (geraldine.morelle@eu.umicore.com).

Annex: Flag Indications and Follow-up Actions

Flag indication	Description	Supplier Materiality	Supplier Country Risk	Follow-up Action	Status
Indication of child labor	The supplier has been mentioned in lawsuit filed in a United States district Court regarding child labor and artisanal mining. This has been reported in different media articles and led to a grievance received by the Responsible Minerals Initiative (RMI) concerning Umicore Olen conformance with the RMAP Standards.	Material	High	Umicore reviewed the supplier's response to these allegations and further discussed this with its supplier. In 2019, Umicore mandated a third party audit of the supplier's site. During this exercise, no child labour or artisanal mining in the supply chain of cobalt were observed at the site. Demand for jury trial is still pending. Awaiting legal ruling, the Approval Committee decided to continue the business relation with this supplier in the meantime.	Open
Indication of environmental pollution linked to cobalt activities	In 2016 and 2018, a NGO made allegation about this supplier concerning water and dust pollution	Material	High	In 2019, Umicore continued the follow-up on this topic as we performed a site visit of this supplier regarding these allegations. The management systems and monitoring campaigns were assessed to be sufficient and the approval committee decide to close this case for this particular site.	Closed

<p>Indication of ASM-materials as secondary source and indication of torture, cruel, inhuman and degrading treatment</p>	<p>In 2019, the supplier reported fatalities among illegal miners present on their extraction area leading to the opening of this case.</p> <p>Following up on these events, the Congolese army arrived at the site to control access to the concession and close down the illegal comptoirs nearby.</p>	<p>Material</p>	<p>High</p>	<p>In 2019, Umicore exchanged with the supplier on this topic and mandated a third party audit of the supplier's site. This audit confirmed no ASM feed were observed in the supplier's cobalt supply chain and that the supplier is signatory to alignment with the Voluntary principles on Security and Human rights. Based on these exchanges and the audit report, the Approval Committee assessed there to be sufficient evidence of Umicore's supply chain being clear of ASM-material related to this event and adequate mitigation actions in place to assure that security forces respect human rights, and has decided to close this case.</p>	<p>Closed</p>
<p>Indication of bribery and corruption linked to cobalt operations</p>	<p>The supplier is under investigation by official authorities. The investigation focuses on allegations of fraud, bribery and corruption around the acquisition of substantial mineral assets (in 2010)</p>	<p>Material</p>	<p>High</p>	<p>The outcomes of the official investigation concerning the allegations of bribery in the case (dating from 2010) are pending. Umicore has continued to monitor this case but is still awaiting the legal ruling by official authorities to determine its position in this case. Umicore decided to continue the business relation with this supplier in the meantime.</p>	<p>Open</p>

Indication of torture, cruel, inhuman and degrading treatment or punishment	In 2019, media articles reported the deployment of the Congolese army to protect the concession of this supplier. Subsequently, incidents of inhumane treatment were reported to have been committed by soldiers in the area.	Material	High	Umicore took the incidents up to the supplier's management and discussed these with them. The supplier confirmed that they adhere to the Voluntary principles on Security and Human Rights and communicated their expectations to the army. The Approval Committee decided to conduct a third-party audit of this supplier in 2020 based on the internally developed protocol around of EHS&S. In the meantime, Umicore will continue to monitor the situation.	Open
Indication of environmental pollution linked to cobalt activities	In 2016 and 2018, a NGO made allegation about this supplier concerning water and dust pollution	Material	High	Umicore mandated a third party audit of this site on EHS&S topics in 2019, which focussed on this issue as well. Findings highlighted improvement actions to be implemented. Umicore will follow-up on those findings, meanwhile, the case remains open and the business relationship with the supplier is ongoing.	Open
Indication of bribery and corruption linked to cobalt operations	In 2017 and 2018, NGO reports and media articles accused the supplier of bribery and corruption related to the acquisition of the supplier's mineral assets and operations in the Democratic Republic of the Congo.	Material	High	There has been no official judgement on corruption. On-site third-party audit confirmed policies and training concerning anti-bribery and corruption are in place. Umicore will continue to monitor and review all the available information. The Approval Committee decided to continue the business relation with this supplier in the meantime.	Open