

MANAGEMENT APPROACH

Management approach



GENERAL MANAGEMENT APPROACH

GOALS AND PERFORMANCE 2016-2020

Our approach to sustainable development derives in the first instance from our vision, values and organisational principles as stated in [The Umicore Way](#).

Based on The Umicore Way, and in the context of the economic, societal and environmental trends, we have developed our Horizon 2020 strategy. This strategy sets our economic, social and environmental ambitions to 2020 and beyond and lies in the continuity of our Vision 2015 strategy.

The process for defining the social and environmental objectives within Horizon 2020 involved a structured dialogue with the management of each business unit – particularly to determine the social and environmental topics that could generate a greater competitive edge. To ensure a degree of alignment with external expectations we also conducted an on-line stakeholder survey. The objectives were debated and ratified by the Executive Committee in February 2016. For further information see our materiality assessment on pages 58-61.

In order to achieve our Horizon 2020 ambitions we have developed specific objectives grouped in four main themes. Three of the themes have been maintained from Vision 2015, the “Stakeholder Engagement” theme has been replaced by “Value chain and society” to highlight our ambition of adopting a more holistic view of Umicore’s presence in and impact on the overall value chain.

Economic performance

- Leadership
- Earnings
- Balanced portfolio

Value chain and Society

- Sustainable supply

Sustainable products and services

Eco-efficiency

- Energy efficiency
- Maintaining and improving the good results achieved in Vision 2015 on metals emissions to air and water

Great place to work

- Zero accidents
- Occupational exposure reduction
- People engagement

The different components described below, including policies, responsibilities and evaluation, ensure a close monitoring of our economic, environmental and social performance.

POLICIES

In addition to The Umicore Way, we have also developed a comprehensive framework for ethical business practice through [our Code of Conduct](#) and [the Corporate Governance Charter](#), a document which sets out our management philosophy and governance principles. A number of internal policies have also been developed in support of our vision and values including Safety, Human Rights and Working Conditions, Training & Development, Donations & Sponsorship.

RESPONSIBILITIES

Final accountability for all aspects of Umicore’s business lies with the Executive Committee. The broad sustainability approach is guided by a team including representatives of Environment, Health and Safety, Human Resources (EHS), Finance, and Procurement & Transportation. This team is responsible for developing and gaining approval for the various sustainable development objectives and guiding the business units in their efforts to contribute to these objectives. At business group level, the economic/financial, environmental and social performance is owned by the Executive Vice-President of that entity. At business unit level, these aspects

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are owned by the head of the business unit. At site level the site manager is responsible for the economic, social and environmental performance of the site.

MONITORING, EVALUATION AND CONTINUOUS IMPROVEMENT

Corporate EHS and Corporate HR have developed detailed technical guidance notes to assist the business units and sites to ensure a common understanding of concepts, definitions, roles and responsibilities. Regular workshops and meetings are organised each year at various levels of the organisation to exchange best practice.

Progress towards the Group objectives is measured annually against a set of KPI's reported through a group data management system. The data is collected and reported at the relevant entity level: site, business unit or Umicore Group.

Other performance indicators that are relevant to the social and environmental performance of the company are also measured and reported to the extent these are relevant and material in the context of Umicore's operations. Corporate EHS, Corporate HR and Corporate Finance aggregate the performance of the business units at Group level to evaluate Umicore's overall progress towards the Horizon 2020 objectives.

On-site data verification relating to social and environmental performance and progress towards objectives is carried out by Umicore's internal teams. In addition, Umicore uses an assurance provider to check its social and environmental data. From 2011 this function has been carried out by the same company responsible for the audit of Umicore's financial data - PricewaterhouseCoopers (PwC). PwC evaluates the completeness and reliability of the reported data as well as the robustness of the associated data management system. Wherever necessary, performance indicators and reporting processes are reviewed and updated after every assurance cycle as part of a process of continuous improvement.

MANAGEMENT APPROACH TO ECONOMIC AND FINANCIAL PERFORMANCE

GOALS AND PERFORMANCE 2016-2020

In The Umicore Way we state that

"We develop, produce, apply, market and recycle metal-related materials and we contribute to material based solutions. We combine our competences in metallurgy, chemistry and materials science with a thorough understanding of our customers' needs, applications and systems.

We focus on those business areas where we can attain leadership positions which are recognised by our customers and which allow us to create value.

We want to be the preferred partner of our customers. We are committed to the growth of our business through the competence of our people, excellence in operations and technological innovation."

As part of our Horizon 2020 strategy, we have identified specific growth areas linked to societal and environmental megatrends and we expect these areas to enable us to double the recurring EBIT between 2014 and 2020. This relied on the analysis of the validity of the megatrends relevant for Umicore during the Vision 2015 strategy.

Below you will find more information on the following elements:

- Operational returns
- Shareholder returns
- Financial strength
- Research and development
- Market presence
- Policy
- Responsibility

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OPERATIONAL RETURNS

Umicore seeks to generate economic value through its existing businesses and any acquisitions or organic growth initiatives that it undertakes in line with [its overall strategy](#). This entails generating a return on capital employed (recurring pre-tax operating profit/average capital employed for the period) in excess of our overall Group pre-tax cost of capital. This cost of capital can vary over time in function of our risk profile and the state of the world's debt and equity markets. Our targeted return on capital employed (ROCE) in the context of Horizon 2020 is above 15%.

Investments are assessed on a case-by-case basis: acquisitions are normally expected to be earnings enhancing in the early phase of their integration and value enhancing shortly thereafter. Similar criteria exist for organic investments although the pursuit of longer-term growth projects invariably requires a longer view on expected returns.

In terms of operational performance an emphasis is placed on ROCE. We deal with precious and other rare metals and we therefore have relatively high working capital intensity. Operational managers are therefore incentivised to manage performance from both an earnings perspective and also by minimising the operational capital employed.

SHAREHOLDER RETURNS

Umicore aims to create value for shareholders in the medium term. This is achieved in the first instance through achieving solid operational performance as outlined above. We seek to grow our existing businesses and also to enter markets which have attractive growth potential and to develop leadership positions within these markets (see below). Direct shareholder returns are realised through the payment of dividends which are paid out through an interim dividend in October and the difference after the Ordinary General Meeting at the end of April (for more information about the dividend policy please consult [this page](#)). Umicore has a policy of paying a stable or gradually increasing dividend (for a history of the dividend payout please click [here](#)). We may also, from time to time, return cash to shareholders by other means, for example through share buy backs and cancellations.

FINANCIAL STRENGTH

Umicore aims to safeguard the business through sound financial management and by maintaining a strong balance sheet. We have no fixed target regarding debt levels but we aim to maintain an investment grade status at all times. We also seek to maintain a healthy balance between short term and longer-term debt and between debt secured at fixed and floating interest rates. This approach, coupled with strong cash flow generation, allows us to self-fund the vast majority of our own growth initiatives.

RESEARCH AND DEVELOPMENT

As a materials technology group, the future success and financial sustainability of our business depends on our ability to develop and successfully introduce innovative products and services. With this in mind we invest consistently in research and development, with the equivalent of between 5% and 7% of revenues typically being spent on R&D every year.

MARKET PRESENCE

As part of our Horizon 2020 strategy, Umicore seeks to maintain market leadership positions in recycling and clean mobility materials. The nature of our business, which consists of products for highly specific applications, means that we do not have a presence in any country or region which makes up a significant part of that country or region's economy. Our business is global in nature with 59 industrial sites in 25 countries.

POLICY

Our approach to financial and economic management derives in the first instance from our vision, values and organisational principles found in The Umicore Way. Specific internal policies have been developed to frame the company's approach to specific financial and economic aspects including: Dividend, Financing and Funding, Transfer Pricing, Credit Management, Hedging, Capital Expenditure and Mergers & Acquisitions.

RESPONSIBILITY

Accountability for the economic and financial performance of Umicore lies with the Executive Committee. Each Executive Vice-President is responsible for the overall financial performance of his/her business group. The Chief Technology Officer and his/her organisation has oversight for the technology portfolio of the group and our overall research and development activities. At business unit level the head of the business unit is responsible for the overall financial performance of the business unit. The Chief Financial Officer has overall oversight of the financial and economic performance of the Group and is supported by a Corporate Finance team that includes specific expertise centres covering aspects such as tax, treasury, accounting & control, and the internal control environment. At business unit level, financial controllers are responsible for managing the financial and reporting aspects of the business unit.



MANAGEMENT APPROACH TO ENVIRONMENTAL PERFORMANCE

GOALS AND PERFORMANCE 2016-2020

In The Umicore Way, Umicore subscribes to a set of principles to continually improve its environmental performance. Within the context of our role as a materials technology company active in the specialty chemicals sector, we have defined energy efficiency as the core environment related objective as part of our Horizon 2020 strategy. This objective builds upon the widespread implementation of energy efficiency assessments throughout the entire group. This objective represents what we believe to be the most material environmental aspect of our business and the one that is of the most importance to our various stakeholders (please see our materiality assessment on pages 58-61. The performance review of energy efficiency is reported in the Eco-efficiency section on pages 31-32.

While the Group environmental objective on energy efficiency constitutes a special focus for the period to 2020, we believe it is equally important to continuously monitor, control and report the performance of our organisation in relation to other environmental aspects. We do that via the same measurement tools as indicated in our general management approach. These indicators monitor how we are building on the Vision 2015 achievements in terms of environmental performance. These underlying performance indicators can be found in the Environmental Statements of our Annual report. These are related to:

- Emission to water and air
- Greenhouse gases
- Water consumption
- Waste volumes
- Control and remediation of historical pollution
- Regulatory compliance and management systems

The specific management approach described below applies to both material topics and the underlying performance indicators.

POLICY

Our approach to environmental management derives in the first instance from our vision, values and organisational principles found in The Umicore Way. An internal Group EHS Guidance Note provides detailed guidance for all entities regarding the approach to measuring and reporting on each of the relevant environmental aspects. A specific internal policy on energy efficiency was rolled out throughout the entire group in the period 2011-2015 and has created a high level of awareness and commitment at sites and business units to strive to a continual improvement of the energy efficiency. In addition, Umicore stimulated in all business units initiatives to enhance the potential to recycle. At global scale, recycling of metals reduces the environmental impact related to the acquisition and transformation of metals into products.

RESPONSIBILITY

Accountability for the environmental performance and impact of Umicore lies with the Executive Committee. In the Executive Committee the Executive Vice-President in charge of Environment, Health and Safety, Corporate Security and Internal Audit has oversight responsibilities for environmental aspects at Group level and is supported by the Senior Vice President Environment, Health & Safety. The Executive Vice-Presidents are responsible for the overall environmental performance of his/her segment. At business unit level the head of the business unit is responsible for the overall environmental performance. The general manager of each site has a similar responsibility at site level.

BOUNDARY

The performance with respect to the material topic of energy efficiency as well as with respect to the underlying performance indicators contributes to reducing our impact on the environment, e.g. through an expected reduction of our carbon footprint or lower impact or the metal emissions on air and water.



MANAGEMENT APPROACH TO SOCIAL PERFORMANCE

GOALS AND PERFORMANCE 2016-2020

As set out in [The Umicore Way](#) we strive to be a preferred employer for both current and potential employees and to act and operate in line with the expectations of society. We have defined three social objectives within the context of our Horizon 2020 strategy. These objectives are reducing lost-time accidents to zero, further reducing occupational exposure to specific metals for our colleagues and increasing our diversity, talent attraction and retention and employability. We also have objectives which relate to our broader social impact and these can be found in our management approach to value chain and society.

These objectives were defined as material topics in the materiality assessment both by internal and external stakeholders. Talent management is key in order to reach the desired business growth. Attracting, developing and retaining talents in competitive labour markets supports the business units in their growth plans. We are convinced that increasing the diversity of our workforce is not only in line with expectations from society, but that it also will contribute to the success of the company. In the context of the ageing population and the need for longer careers, we are putting also programs in place leading to an increased employability of our employees. The performance review of these material topics, including zero accident and reducing occupational exposure, is reported in the Great place to work section on pages 33-36

While these social objectives constitute a special focus for the period to 2020, we believe it is equally important to continuously monitor, control and report the social performance of our organisation in other areas. We do that via the same measurement tools as indicated in our general management approach. These underlying performance indicators can be found in the Social Statements part of our Annual report. They are:

- Monitoring of workforce demographics
- Monitoring of human rights, compliance and risk
- Monitoring of employee health aspects beyond metal exposure
- Monitoring of contractor safety

The specific management approach described below applies to both materials topics and the underlying performance indicators.

POLICY

Our approach to social aspects derives in the first instance from our vision, values and organisational principles found in [The Umicore Way](#). An internal Group Social Reporting Guidance Note provides detailed guidance for all entities regarding the approach to measuring and reporting on Social performance. Specific internal policies have been developed to frame specific elements of the company's social management approach including Safety, Human Rights and Working Conditions and Training & Development. In addition, Umicore has a [Global Framework Agreement on Sustainable Development](#) in place with international trade unions as a confirmation of Umicore's principles of sustainable development related to social aspects.

RESPONSIBILITY

Accountability for the social performance and impact of Umicore lies with the Executive Committee. In the Executive Committee the CEO has oversight responsibilities for Human Resources aspects at Group level and is supported by the Senior Vice President Human Resources. The Executive Vice-Presidents are responsible for the social aspects of his/her business group. At business unit level the head of the business unit is responsible for the overall social performance. The general manager of each site has a similar responsibility at site level. A regional Human Resources organisation exists to manage social aspects at regional and country level and to provide structural support to the business units in all aspects of human resources management.

BOUNDARY

The performance with respect to the material topics (reducing lost-time accidents to zero, further reducing occupational exposure to specific metals for our colleagues and increasing our diversity, talent attraction and retention and employability) as well as with respect to the underlying performance indicators has a direct impact on Umicore's employees (enhanced engagement and well-being and also at site and Group level (attracting and retaining the right skills).



MANAGEMENT APPROACH TO VALUE CHAIN AND SOCIETY PERFORMANCE

GOALS AND PERFORMANCE 2016-2020

Relationships between suppliers and customers are essential elements in building financial and economic value and also play a key role in the promotion of social and environmental best practice. The Umicore Way also covers the relationships with our various stakeholders.

The value chain and society objectives cover Umicore's presence and impact upstream with suppliers, and downstream in terms of the contribution of our products and services to a better life. The performance review of these material topics is reported in the Value chain and society section on pages 28 to 30.

While these objectives represent a special focus for the period to 2020, we believe it is also important to continuously monitor, control and report the relation of our organisation with all the other stakeholders. You can find more information on our stakeholders groups in the Stakeholder Engagement part of our Annual report. Next to that we also keep reporting on the following topics in the Value chain Statements part of this report:

- Monitoring of the suppliers assessment for indirect procurement
- Product regulatory compliance
- Monitoring of our donations

The specific management approach described below applies to both materials topics and the underlying performance indicators.

POLICY

Our approach to stakeholder engagement derives from our vision, values and organisational principles found in The Umicore Way. Specific charters/policies have been developed to frame specific elements of the company's approach to stakeholder engagement including the [Sustainable Procurement Charter](#), [Conflict Minerals Policy](#), Human Rights & Working Conditions Policy and External Communications Policy.

RESPONSIBILITY

Our presence and impact upstream and downstream is, based on a business specific approach whereby all business units are required to identify and engage with their respective suppliers, customers and stakeholders. At Group level a team comprising members of various department including Corporate EHS, Corporate HR, Group Communications, Corporate Finance and Procurement & Transportation meet regularly to map the overall stakeholder expectations and to convene, whenever necessary, internal or external stakeholder dialogue sessions at Group level.

BOUNDARY

The value chain and society theme focuses on potential impacts on society that we have as a company through our activities, products and services. For reporting, all entities of the group are considered. While we focus primarily on our activities directly linked to clean mobility and recycling, other initiatives targeting suppliers, customers or society are being tracked and appropriately reported, be it via communication such as this Annual report or via other specific communication channels.