



HINDUSTAN ZINC  
Zinc & Silver of India

# Sustainability Framework

## MANAGEMENT STANDARD

### Acquisitions, Divestment and Joint Ventures Due Diligence

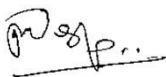
Hindustan Zinc Limited





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## 1. PURPOSE

The purpose of this Management Standard is to ensure that an effective process is in place to minimise the business risk associated with sustainability issues which may arise as a result of HZL undertaking transactions involving the:

- acquisition or divestment of property, assets or businesses; or
- entry into, or exit from, joint venture (JV) arrangements with other parties.

Collectively these processes are normally referred to as due diligence, and are designed to ensure, so far as is possible, that business decisions concerning acquisition, divestiture or joint venture arrangements are taken with knowledge. In particular the sustainability agenda presents particular risks and opportunities which must be factored into the overall assessment of any proposed transaction as outlined in this Management Standard.

Specifically, the Management Standard will ensure that that for every transaction, including, but not limited to, leases, property transfers, company acquisitions, divestitures, mergers and joint ventures:

- Health, safety, environment including biodiversity, water and CO<sub>2</sub>, social and community / human rights / vulnerable social group and cultural heritage (hereafter collectively sustainability) impacts are identified, analysed and understood;
- Risks arising from these impacts are effectively controlled; and
- Opportunities arising out of the EHS agenda are identified, analysed and understood.

Potential sustainability impacts are many and varied and may take the form of:

- liabilities in respect of past or legacy environmental damage or contamination;
- future capital or operating expenditure required to ensure future operation in compliance with applicable laws, regulations and permits and Good International Industry Practice (GIIP) as set out in the International Finance Corporations (IFC) Performance Standards on Social & Environmental Sustainability and the associated IFC Environmental Health and Safety Guidelines for Mining;
- costs associated with the mitigation of natural hazards (eg seismicity, flood risk, etc) or of adaptation to climate change; or
- reputational damage (to HZL) through association with companies or businesses engaged in practices which fall short of GIIP or which are / have been the subject of adverse attention from the media or NGOs.

The significance of each of these types of impact to HZL will vary dependant upon the HZL's role in the transaction and the type of transaction envisaged (specifically: acquisition, divestiture, entry into or exit from JV). The process outlined in this Management Standard is generally applicable to all such transactions, although the emphasis given to certain activities may need to be adjusted. Guidance on this is given throughout the Management Standard. In this respect, and for the purposes of this Management Standard, it is noted that diligence around HZL's participation in JVs is considered in the same way as acquisition or divestiture of a business, although it is recognised that in some instances the potential exposure (to some sustainability risks) to HZL **may** be diminished in proportion to the equity stake involved. This standard has been adopted from the parent company Vedanta's Sustainability framework.



## 2. SCOPE

This Management Standard is mandatory and applies to HZL and its subsidiaries and to all new and existing employees and contractor employees. This Standard is applicable to the entire operation lifecycle (including exploration and planning, evaluation, operation and closure).

## 3. DEFINITIONS

Definitions of key terms and concepts used in this document are shown in the following table:

Term	Definition
Acquisition	The process whereby one company may acquire another company, business unit, property or set of assets.
Capex (Capital Expenditure)	Funds used to acquire, upgrade or prolong the useful life of physical assets (eg equipment, property, industrial buildings etc)
Contingent Liability	A possible obligation dependent on whether some uncertain future event occurs
Divestiture	The process whereby one company may sell a business unit, property or set of assets to another.
Evaluation Materials	Information disclosed by the Vendor (or their advisors) to potential buyers to allow them to evaluate the business.
ICMM (International Council on Mining and Metals)	The International Council on Mining and Metals (ICMM) was established in 2001 and seeks to drive performance improvement through its members which comprise mining and metals companies as well as national and regional mining associations and global commodity associations.
IFC (International Finance Corporation)	Member of the World Bank that finances and provides advice to private sector ventures and projects in developing countries.
Joint Venture	An arrangement where two or more parties agree to form and develop a new entity by each contributing equity.
Liability	A present obligation arising from past events, settlement of which is expected to result in an outflow of resources.
Materiality	Risks or opportunities that are deemed to be significant to HZL and its stakeholders.
Operation	A location or activity that is operated by a Hindustan Zinc Limited Company and its subsidiaries. Locations could include mines, smelters, refineries, wind farms, offices including corporate head offices and research and development facilities.
Opex (Operating Expenditure)	Ongoing expenditure for the running of the business (eg consumables, energy etc).
Phase I Assessment	A technical assessment of a property or asset involving desk study, site inspection, interview and documentation review, but excluding any



Term	Definition
	invasive environmental or other type of sampling (eg site investigation drilling).
Phase II Assessment	An assessment at a property or asset in which soil and groundwater samples are obtained (usually by site investigation drilling) sent for laboratory analysis and reported. Phase II activities may also include occupational hygiene monitoring, sampling for potential asbestos-containing materials, sampling of effluent or air emissions monitoring.
Provision	A provision is recognised when there is a liability (i.e. a present obligation arising from past events) for which payment is probable and for which the amount can be estimated reliably
Risk	Combination of probability of hazardous occurrences and severity of impacts resulting from an occurrence.
Sale & Purchase Agreement (SPA)	The contract between the vendor (seller) and the purchaser (buyer) obligating the vendor to sell and the purchaser to buy.
Stakeholder	Persons or groups that are directly or indirectly affected by a project/operation as well as those that may have interests in a project/operation and/or the ability to influence its outcome, either positively or negatively. This can refer to shareholders, lenders, employees, communities, industry, governments and interested third parties.

#### 4. PROGRAMME REQUIREMENTS

HZL is required to follow the requirements listed below with regards to Acquisitions, Divestment and Joint Ventures Due Diligence. The sustainability due diligence must be fully integrated into the wider due diligence around the transaction (commercial, financial, legal etc), should be commenced as early as possible in the consideration of the transaction and should be designed to ensure that relevant material issues are properly identified, understood and communicated, such that the Transaction Team has the best possible information to:

- Make informed business decisions (e.g. go / no go, carve out of certain assets, etc.; and
- Make an informed valuation

Due diligence teams shall be selected to ensure that the appropriate technical, sectoral and regional experience is included, together with a familiarity with relevant regulations and appropriate language skills. Teams can be chosen from within the Company or can be resourced from external sustainability advisors.

Design of sustainability due diligence shall be tailored for each transaction opportunity, but should follow the same basic stages:

- Stage 1 – Business Issue Evaluation;
- Stage 2 – Technical Investigation; and • Stage 3 – Value Driver Assessment.

It is noted here that whilst the objective in acquisition due diligence (and that for entry into JV) is focused toward identifying, understanding and quantifying liabilities and other impediments associated with the



target business which impact on the attractiveness of the acquisition to HZL, in divestitures and JV exits the objectives are typically focussed towards minimising uncertainty:

- For HZL, such that as Vendor the cleanest possible break can be made (i.e with minimum ongoing obligations or exposures under the SPA); and
- For potential acquirers such that the target business is as shown to be attractive as possible, that the valuation is maximised and that purchaser due diligence is minimised resulting in shorter sales process and minimum business interruption.

The staged approach to due diligence is considered in more detail in the following sections.

#### **4.1. Stage 1 – Business Issues Evaluation**

- a) Although there are many common themes to the undertaking of successful sustainability due diligence, there is no “one size fits all”. The first stage shall always therefore be to develop an approach that ensures that the due diligence is focussed on the most important issues. These will inevitably vary from transaction to transaction dependent on the nature of the business, the types of assets under consideration, their location etc. The key question to answer is “how could the sustainability agenda impact the business?”
- b) A leader shall be appointed to deliver on the sustainability due diligence and they shall be fully informed about the business and transactions envisaged.

#### **4.2. Stage 2 – Technical Evaluation**

- a) Having identified the potential business sustainability impacts, the due diligence shall be scoped and the technical investigation commenced.
- b) The technical investigation shall focus on answering the questions posed by the business issues evaluation. A variety of techniques may be used during the technical investigation. To some extent the choice is dependent on the type of transaction (e.g. acquisition / divestiture, commercial property with no production activities, single mine site, or complex multi-asset business with a number of mines, smelters and other processing facilities, spread across different geographies) but in general, some combination of documentation review, management interviews and site inspections and investigations shall be the norm.

#### **Documentation Review**

- c) Much of the information relevant to the sustainability assessment of a business or property will be contained in its business documentation. In particular this is likely to include permits, licenses and monitoring reports, operating procedures, previous audits and assessments (including possibly Phase II soil & groundwater assessments and remediation documentation), accident and injury statistics and communications with the regulators etc. Often, for the purposes of the transaction, such information is assembled into a “data room” (which may be physical or electronic) to facilitate review by potential purchasers.
- d) When HZL is a Vendor in a proposed transaction, HZL shall prepare documentation for inclusion in the data room.
- e) Documentation review shall also occur on site during site inspection, and as such is an important part of the inspection visits (see h, i and j below).

#### **Management Interview**

- f) Management interviews shall be undertaken at various stages of the technical investigation and, dependent on the nature and scale of the transaction, may include high level interviews with corporate sustainability managers, as well as detailed interaction with site sustainability managers and subject matter experts during the site inspection (see h, i and j) below).





- g) At both of these levels of interaction interviews may be required with others outside of the sustainability area, e.g. Mine Managers, Engineering Managers, Operations Managers, Financial and Accounting, and Legal and Property Managers etc.

#### **Site Audits, Inspections and Investigations**

- h) The standard level of site inspection that is generally undertaken during sustainability due diligence shall be the Phase I site assessment. This shall comprise a walk through site tour of the facility conducted by a manager with an appropriate level of sustainability and process knowledge together with the opportunity to undertake document review and face to face interview as described above.
- i) This approach shall be regarded as the standard for all transactions, and shall be undertaken by competent sustainability professionals knowledgeable about the key technical issues identified by the business issues evaluation.
- j) In some cases the scope of the technical investigation may, if considered helpful, and if permitted by a Vendor (in the case of acquisitions), be expanded to allow “Phase II” investigations to be undertaken to contribute to the knowledge and understanding of the sustainability issues impacting on the business.

#### **4.3. Stage 3 – Value Driver Analysis**

- a) The findings of the technical due diligence shall be used to inform the value driver analysis which is about:
- understanding the impact of the sustainability findings on the attractiveness of the business and its value; and
  - helping to shape the management actions that will be required either to integrate a new business into the existing business unit (in the case of acquisitions) or to prepare a business or asset for disposal (in the case of divestitures).
- b) Sustainability findings which can be important value drivers will include:
- Sustainability Liabilities – such as contaminated land and groundwater, habitat loss and ecological damage, decommissioning and restoration costs, resettlement costs, etc. Understanding the value drivers here will require clarity around the accrual of provisions, the impact on working capital and the extent to which these have been included in the business plans;
  - Capital and Operating Expenditure (Capex and Opex) Commitments - for instance driven by the need to invest in new pollution control equipment driven by new or upcoming regulations, or the need to upgrade mine safety systems to meet GIIP. Understanding the value drivers here will require clarity around the forecast capex and opex costs for the business and the extent to which these have been included in the business plan.
  - Sustainability Management Systems – robust management processes provide comfort that sustainability issues are well controlled and are therefore less likely to give rise to unforeseen material risks to a business. Understanding the value drivers here will require a clear understanding of the management systems that are in place, the responsibilities and accountabilities of managers charged with delivering this, the key performance indicators (KPIs) monitored and reported (particularly leading KPIs) and the competencies of those charged with sustainability responsibilities.
  - Business Interruption – in extreme cases certain sustainability issues such as contaminated land, process safety, geotechnical failures or failure to obtain and maintain license to operate can cause disruption to normal business activities and a consequential severe impact on revenue earnings. Understanding the value drivers here requires visibility of any such issues or potential issues.





- Natural Hazards, Extreme Weather Events and Flood Risk – can all have a bearing on the security of production from assets and may in the worst case give rise to asset losses or business interruption. Understanding the value drivers here will require clarity around the current risk exposure, the implications for the assets under predicted climate change scenarios and the cost of mitigation and adaptation.
  - Reputation Damage - association with companies or businesses engaged in practices which fall short of GIIP or which are / have been the subject of adverse attention from the media or NGOs can give rise to severe reputation damage which can spread globally very rapidly and could blight HZL, affecting shareholder value, sales, stakeholder trust companies' ability to develop new assets. Particular triggers here may include insensitive development respective to important habitats or indigenous peoples, significant environmental damage, contamination of water courses and drinking water supplies, unethical labour practices etc.
- c) As such the value drivers analysis shall provide the transaction team with the basic information to:
- Identify “deal breaker” issues;
  - Inform the valuation model and assumptions;
  - Inform the Sale and Purchase Agreement (SPA) mark-up;
  - Scope out a strategy for post acquisition actions (for acquisitions);
  - Develop an exit strategy where appropriate (for acquisitions); and
  - Provide a “sale with knowledge” offering (for divestitures).

Note, the process is not always linear, but rather it is an iterative process as more and better information becomes available, or as factors emerge that change the appetite for the business.

#### 4.4. Post Acquisition Actions

- a) Upon completion of an acquisition, HZL shall develop and put into place plans to address the due diligence findings so that the asset(s) can be operated in accordance with HZL's standards of sustainability stewardship.
- b) Post acquisition plans as a minimum shall include:
- A clear programme to attain full compliance with all sustainability permits;
  - A clear budgeted programme to undertake necessary sustainability investment;
  - A clear plan to integrate sustainability management and reporting into the appropriate tiers of the HZL Sustainability Management System.

#### 4.5. Documentation

- a) For disposals, and successful acquisitions, all documentation shall be properly archived in line with local and document retention policies and HZL Management Standards including Management Standard MS09 on *Documentation and Records Management*.
- b) Where HZL has been involved in an unsuccessful acquisition process, confidential evaluation materials shall be treated as required under any applicable confidentiality agreements.

## 5. ROLES AND RESPONSIBILITIES

HZL and subsidiaries shall ensure that roles and responsibilities for implementing and complying with this Standard are allocated. Key responsibilities shall be included in job descriptions, procedures and/or other appropriate documentation.

## 6. COMPLIANCE AND PERFORMANCE

- a) HZL shall ensure that it complies with the requirements of this Standard. Performance against the requirements of this Standard shall be assessed periodically, documented and, where required.
- b) Assessment shall include audits and spot check of due diligence carried out in support of transactions undertaken by the various HZL

## 7. SUPPORTING INFORMATION

Reference	Description
ICMM (International Council of Mining and Metals)	The ICMM has produced and published good practice guidance on a range of health, safety, environment and community issues relating to mining. <a href="http://www.icmm.com/library">http://www.icmm.com/library</a>
International Finance Corporation Performance Standards (PS) and PS Guidance Notes	The IFC has published Guidance Notes to guide the implementation of the full range of performance standards. These are available on the website. The guidance is currently being updated and draft versions (V2) are available however these have not yet been finalised and formally published. <a href="http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards">http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards</a>

## 8. REVIEW

This Management Standard shall be periodically audited and reviewed to determine its accuracy and relevance with regard to legislation, education, training and technological changes. In all other circumstances, it shall be reviewed no later than 24 months since the previous review.

## 9. REFERENCES

Doc. Ref.	Title
POL 06	HSE Policy
MS 02	Stakeholder Materiality and Risk Management
MS 09	Documentation and Records Management

## Attachment A

### Sustainability Scoping Checklist

This checklist covers the broad aspects of Sustainability Due Diligence and may be used as a starting point for the sustainability business issues evaluation. However, as indicated in the Management Standard, the value of the diligence will be enhanced by careful business issues evaluation and the application of relevance and materiality tests to focus the scope appropriately. It is also necessary to keep abreast of current developments on the sustainability agenda as new issues can emerge which have the potential to be significant.

#### Environmental Scope:

- **Environmental management** - general assessment of formal and informal environmental management systems, policies and procedures, including organisation, staffing, training and data quality.
- **Permitting** - review of environmental permitting requirements (including the satisfaction of mitigation conditions imposed under EIA requirements where appropriate), permit conditions and improvement programmes.
- **Energy management** - general assessment of the extent to energy conservation measures have been implemented (energy integration in processing, variable speed drives etc in material transfer operations etc) and of any exposures under applicable carbon trading / climate change legislation.
- **Emissions to air** - emissions to air (both point-source and fugitive) focusing on principal (smelters, power plant, crushers) and ancillary sources (dusts from haul roads, stock piles etc), process authorisation and abatement or control measures.
- **Water supply, use and management** - water supply sources, uses, on site pre-treatment, conservation measures and water quality and the presence of groundwater and/or surface water abstractions and associated permitting.
- **Surface water runoff and drainage** - management of surface water runoff, segregation of clean and dirty water, erosion control, settlement ponds and drainage structures and minimisation of downstream impacts.
- **Wastewater management** - management of wastewaters including sanitary wastewater, process wastewater, tailings, acid rock drainage and mine drainage waters and their associated treatment, permitting and effluent control procedures.
- **Hazardous Materials management** - the arrangements for the handling, transfer and storage of liquid and solid hazardous materials, fuels, waste and products and associated permitting obligations.
- **Bulk storage** - the location of existing, former or redundant above ground and underground storage tanks, vessels and pipework, including details of installation, containment and integrity testing.
- **Waste management** - a review of principal waste types (hazardous and non-hazardous), storage, handling and disposal practices, and a review of waste documentation and permitting.
- **Environmental noise and vibration** - compliance with any boundary / receptor limits on environmental noise or vibration, operational restrictions relating to noise (boundary noise surveys are not included within this scope of work) and vibration (eg with respect to blasting).
- **Nuisance and complaints** - a review of outstanding and pending nuisance related environmental complaints arising from site activities (odour, smoke, dust, light, traffic, noise and vibration).
- **Polychlorinated biphenyls (PCBs)** - presence, use and condition of electrical and hydraulic equipment potentially containing PCBs (sampling of equipment for PCBs is not included within this scope of work).
- **Asbestos** - presence and condition of readily visible potential asbestos-containing material and associated management plans (sampling of asbestos is not included within this scope of work).
- **Soil and groundwater impact** - evidence for actual or potential impact, coupled with desk study results detailing site history and vulnerability (likelihood of contaminants impacting a receptor) and sensitivity



(potential consequences of any impact)(sampling and analysis of soil and groundwater quality is not included within this scope of work).

- **Closure, decommissioning and restoration** – review of plans, obligations and commitments for end of life asset closure and identification of recognised provisions.
- **Habitat Loss and Ecological Damage** - identification of neighbouring (or affected) sensitive or important natural habitats (terrestrial, aquatic and marine), particularly if designated under national or international regulations or agreements, and review of ecological monitoring programmes and mitigation measures.
- **Extreme weather, flood risk and climate change** – general assessment of the potential for the assets to be at risk from extreme weather events or flooding, under current and predicted future climate scenarios.
- **Reputational Damage** - general review of the extent to which the assets or business has been affected by incidents or events which have given rise to adverse attention from the media of NGOs.

#### Key health and safety scope:

- **Health & safety (H&S) management** – comment on the organisation, scope and effectiveness of H&S including a review of H&S capital expenditure (Capex) plans.
- **Accidents and incidents** – summary of identified work related illnesses and occupational diseases including a summary of recorded lost time accidents (over the past three years) and where available, accident incidence and severity statistics.
- **Audits and inspections** – review of the most recent audit or inspection report by fire authorities, H&S agencies and insurers, and an update of the status and cost of any recommendations (relating to topics included in this scope of work).
- **Enforcement actions** – summary of any past (within 5 years) or pending H&S prosecutions or actions (where available this will include a search of any web based regulatory agency databases).
- **Geotechnical safety and stability** - general assessment of the programmes and practices in place to assure that geotechnical safety and stability is actively managed throughout the planning, design, operation and decommissioning of all structures, with particular attention being focussed on waste dumps, tailings ponds, and water impounding structures (where failure has the potential to result in major offsite damage and loss of life) as well as for both open pit and underground mines.
- **Workplace noise and vibration** – review of workplace noise levels and confirmed cases of hearing loss including an overview of the completion status of outstanding actions arising from workplace noise assessments (where available), and similarly a review HAVS monitoring and confirmed cases of “white finger”.
- **Compensation claims** – summary of outstanding compensation claims related to the above.
- **Fire and evacuation**– summary of fire protection and evacuation arrangements including an overview of the completion status of outstanding actions arising from fire risk assessments (where available).

#### Key Community and Social Issues scope (where appropriate):

- **Labour and Working Conditions** – general assessment of labour practices to confirm that these are in accordance with accepted GIIP as established in the relevant IFC Performance Standard, and specifically that there is fair treatment, non discrimination and equal opportunity for workers and that employment of child labour or forced labour is not tolerated.
- **Community Health, Safety and Security** – general assessment of the programmes and practices adopted to minimise risks to and impacts on local communities around major mine or smelter projects,



to confirm that these are generally in accordance with accepted GIIP as established in the relevant IFC Performance Standard, particularly where such assets are located in remote or non-urban areas

- **Land Acquisition and Involuntary Resettlement** – general assessment of the programmes and practices adopted to manage land acquisition and involuntary resettlement during the development of major mine or smelter projects, to confirm that these are generally in accordance with accepted GIIP as established in the relevant IFC Performance Standard, particularly where such assets are located in remote or non-urban areas.
- **Indigenous Peoples and Cultural Heritage** – general assessment of the programmes and practices adopted to avoid adverse impacts on communities of indigenous peoples and upon cultural heritage around major mine or smelter projects, to confirm that these are generally in accordance with accepted GIIP as established in the relevant IFC Performance Standard, particularly where such assets are located in remote or non-urban areas.