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## **MANAGEMENT REPORT**

**Hindustan Zinc Ltd, Pantnagar Metal Plant Refinery**

**LBMA Responsible Silver Sourcing Assurance Engagement**

**20-21 May 2024**



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## 1. ASSURANCE ENGAGEMENT SUMMARY

<b>Refiner name</b>	Hindustan Zinc Ltd, Pantnagar Metal Plant Refinery
<b>Refiner location</b>	Plot No. 2, 3 Pantnagar, Uttarakhand – 263153, India
<b>Lead assurance practitioner and assurance practitioner team members</b>	Xavier AMOROS, Lead Auditor
<b>Dates and places where the assurance engagement activities were conducted</b>	20-21 May 2024  Location: Pantnagar Metal Plant Refinery at Plot No. 2, 3 Pantnagar, Uttarakhand – 263153, India

## 1. LBMA REFINER MANAGEMENT REPORT

<b>Assurance criteria and objectives</b>	
<p>The assurance criteria consist of the requirements set out within the LBMA Responsible Silver Guidance (RSG) Version 1, supplemented by the Refiner's interpretation and application at a more detailed level through its own policies, procedures and internal controls.</p> <p>The objective is to assess the suitability of the assurance criteria, and hence the Refiner's supply chain policy and management systems.</p> <p>The assurance engagement took into account the suggested actions applied to the non-conformances or observations raised during the last assurance engagement of the Refiner, which was conducted on 5<sup>th</sup> and 6<sup>th</sup> June 2023. The assurance objective was accomplished.</p> <p>The assurance practitioner team only consists of approved LBMA assurance practitioners and adheres to the LBMA's independence and core competency requirements.</p>	
<b>Assurance scope</b>	<p>The reasonable assurance engagement includes the operations of Hindustan Zinc Ltd ("the Refiner" or "HZL").</p> <p>The material in scope is Silver.</p> <p>Subject matter: The LBMA assurance subject matter includes the Refiner's disclosures on its conformance with the Guidance and the underlying management systems used to derive these disclosures, as presented in the Compliance Report and the Country-of-Origin Annex.</p>
<b>Refiner location(s) included in the assurance scope</b>	Pantnagar Metal Plant Refinery at Plot No. 2, 3 Pantnagar, Uttarakhand – 263153, India
<b>Assurance period</b>	1 April 2023 – 31 March 2024



<b>Assurance Methodology</b>	<p>The assurance methodology is comprised of three main phases as follows:</p> <p>a. Pre-assurance planning of the assurance strategy Request information about the Refiner and its operations related to silver; development of an assurance plan with additional instructions and information requested prior to the onsite assurance engagement; arrangement of logistics.</p> <p>b. Execution of the onsite assurance engagement Work with the Refiner to conduct an opening meeting; complete a facility walk-through for visual observations of the Refiner's operations; review of the due diligence program including policies, procedures, and records; prepare an assurance conclusion and conduct a closing meeting.</p> <p>c. Assurance conclusion and reporting</p>
<b>List of interviews</b>	<ul style="list-style-type: none"> <li>- Anamika Jha (Compliance Officer)</li> <li>- Mukul Kaushik (National Sales Head Lead &amp; Silver Business)</li> <li>- Kavya Khazanchi (Assistant Manager Silver Marketing)</li> </ul>
<b>Number of transactions and sample size</b>	<p>Total number of transactions: 324 transactions involving silver material, including slime (174) and high-grade metal (150). Sample size: 20 transactions and 2 suppliers (making 100% of the total number of immediate suppliers)</p>
<b>Sample selection process</b>	<p>The audit conclusions are based on a sampling approach that was carefully chosen to ensure representativeness. The sampling process involved random selection, taking into account the auditors' professional experience and utilizing a risk-based approach.</p>
<b>Identity of the Refiner and the local exporter if located in high-risk locations (except in cases of disengagement)</b>	<p>NA No high-risk location and(or) high risk suppliers are identified.</p>
<b>Optional: Number of suppliers in case of significant changes, notable quantities/countries/supplier issues, or the Refiner wishes to provide the number of suppliers</b>	<p>2 smelters suppliers (internal to the company, Dariba Smelting Complex, Chandaria Lead Zinc Smelter), 4 inhouse mines (Rampura Agucha Mines, Sindesar Khurd, Zawar Mines, Rajpura Dariba (RD) Mine). No significant changes, notable quantities/countries/supplier issues.</p>
<b>Assurance engagement summary</b>	
<p><b>INTRODUCTION</b> Hindustan Zinc Limited (Pantnager Metal Refining Plant), located in Plot No. 2, 3 Pantnagar, Uttarakhand – 263153, India, is a zinc refinery that produces zinc, silver, lead, and cadmium. The company is primarily owned by Vedanta Limited, which holds a 64.92% stake in the company. The Government of India retains a 29.54% stake in HZL. The raw materials used for silver production are slime and high-grade metal, obtained as by-products from two Vedanta Ltd smelters that produce</p>	

zinc, lead, and other metals. These smelters, along with five mines (only 4 of them provide Silver) that supply zinc and lead concentrate to the supplier smelters, are part of Vedanta, eliminating the need for external material suppliers and simplifying due diligence management.

The Refiner's operations consist of receiving materials from two input units, Dariba and Chandaria, each providing distinct raw materials in the shape of slime in drums (Dariba), or high-grade 70 kg ingots (Chandaria). The materials go through different steps.

The silver production process involves the Pyro process, with four furnaces, reduction and oxidation processes occurring to produce cupel alloy and BBOC (Bottom Blown Oxygen Cupel) anodes. The BBOC anodes then undergo electrolysis in the Hydro process, enriching the silver quality and transforming it into silver powder. Finally, the silver powder is melted and cast in an induction furnace, producing Silver finished goods (FG) in the form of 30 kg bars. The entire process seamlessly integrates multiple units to ensure the efficient and high-quality production of silver. Bars are then marked with necessary data for LBMA Good Delivery. Bars are stored in a secure vault and later dispatched to customers via accredited transport services.

## **ASSESSMENT OF CONFORMANCE FOR REFINER'S SYSTEM, PROCESS, PROCEDURES AND PRACTICES ACCORDING TO LBMA RESPONSIBLE SILVER AND GOLD GUIDANCE**

### **STEP 1: Establish strong company management systems**

#### Responsible Sourcing Policy

- The Sustainable Sourcing Policy, updated on 1 August 2020, mandates all immediate suppliers to follow a due diligence management system aligned with OECD guidance, addressing both OECD Annex II and ESG risks.  
The policy has a chapter on business integrity: Bribery and fraudulent misrepresentation of the origin of minerals, Money laundering, Non-payment of taxes, fees, and royalties due to governments. The policy is publicly available on the HZL website. The accompanying Due Diligence System Procedure, also updated on 29 June 2022, outlines a framework for implementing the policy, covering internal management, training, reporting, business partner engagement, risk assessment, third-party auditing, and public reporting. This procedure applies to both internal and potential external suppliers, though all current material suppliers are internal, as part of Vedanta Ltd.
- Documents reviewed when relevant to substantiate data points:
  - Hindustan Zinc Ltd Sustainable Sourcing Policy (v. June 2022)
  - <https://www.hzllndia.com/wp-content/uploads/HZL-Sustainable-Sourcing-Policy-F.pdf>

#### Organisational structure and implementation

- The organisational structure, updated on 23 May 2023, delineates roles and responsibilities for implementing the sustainability management system and responsible sourcing practices. The CEO of Hindustan Zinc Ltd is ultimately accountable for the overall implementation. The organisational chart includes in total 15 members, with the Compliance Officer, who also serves as the SBU Director, playing a key role in overseeing the responsible sourcing programme. This role is supported by a job description that includes performance indicators, particularly for responsible sourcing practices.
- Management meeting reviews are conducted quarterly (12 June 2023, 12 September 2023, 7 December 2023, 18 March 2024) with management specifically for LBMA responsible sourcing programme. Minutes are captured and circulated with the relevant stakeholders. It covers topics related to the Due Diligence Management System.
- Training records, including third-party certificates, show an established training system for workers on responsible sourcing. On 16 September 2023, all relevant employees received training on LBMA requirements and responsible sourcing policies and procedures.

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- A dedicated communications department oversees both internal and external communications, including responsible sourcing practices. Consequently, a formal communication system has been established with defined channels for due diligence communication with relevant stakeholders. This system is supported by email records, the company website, and the intranet, ensuring effective and transparent information exchange.

#### Transparency and material control systems

- The Due Diligence System Procedure, last updated on 29 June 2022, provides a comprehensive description of the Know Your Customer (KYC) process, primarily for external suppliers but also used for internal material suppliers. For internal suppliers, the process includes completing the LBMA KYC form for mined material and maintaining business licenses and mining permits. For external suppliers, the KYC process involves identifying and verifying several elements, including direct suppliers and customers, company actors and details, ownership and corporate structure, and type of business operations. It also includes checking suppliers and their beneficial owners against government lists for individuals involved in money laundering, fraud, terrorism, or other sanctions, and assessing whether suppliers have their own due diligence system in place. This process is validated during audits, including an external supplier involved in transporting mined material.
- The material control system, known as "SAP," is used to track and store information related to silver-bearing materials received by the Refiner. This data includes the arrival date at the refinery, the completion date of the refining process, the type of material received, the declared and processed weight, and settlement assays conducted by the Refiner's analytical certified laboratory. Each accepted lot is registered with a unique reference number to ensure traceability. SAP is implemented across all smelters and mine operations, enabling the Refiner to trace materials through the entire supply chain and minimise manual errors.
- To calculate the metal content, the Refiner performs assays on each incoming material, with lab analysis information managed through a system called Lims. An interface between Lims and SAP ensures that all information is electronically transferred between the systems.
- SAP enables material reconciliation from mine operations to the silver refining plant within a specified timeframe. This process serves to validate the implementation of the internal material control system, verify the plausibility of declared concentration levels for both input and output materials, and assess the reasonableness of the process used to determine material losses in the calculation.
- All records related to the implementation of the due diligence management system, including supporting documents for suppliers and transactions, are securely stored and preserved for a minimum of five years. This is achieved through the SAP system, ensuring that the necessary information is readily accessible for reference, compliance, and auditing purposes.
- The transaction log from the covered period reveals a total of 524 transactions from two direct suppliers, involving slime and high-grade metal. The cumulative silver content received during the assessment period was recorded at 786.469 tons.
- A sample of 20 transactions, representing over 2% of the total transactions during the covered period, exhibits the following characteristics:
  - Each transaction includes records such as a service level agreement, packing list, transportation record, invoice, and laboratory records. The invoice details the origin, material



type, and weight, aligning with SAP information, and involves intra-company payments despite internal sourcing.

- Inputs are identified by material type, date, weight, and source, classified as mined by-products, received as slime and high-grade metal.
- Payments are processed through official banking channels for transparency and compliance.
- Materials originate exclusively from Rajasthan, a non-CAHRA region, with no indications of transiting through CAHRA regions in India.

Output records include necessary identification information like a certificate of analysis, material specification, and unique lot number. The Refiner is capable of producing high-grade silver in various forms, including powder and bars of 1 kilogram and 30 kilograms.

#### Supplier engagement

- The Supplier Onboarding Procedure (dated 30<sup>th</sup> April, 2022) and the Due Diligence System Procedure (dated 29<sup>th</sup> June, 2023) confirm a comprehensive process for approving new suppliers. This process includes initial compliance screening, data compilation, validation, risk assessment from a compliance perspective, and SAP registration, primarily designed for external suppliers. For internal material suppliers, a separate onboarding process is unnecessary. Instead, the Refiner uses a Service Level Agreement format to define and communicate production requirements regarding quality and quantity to these suppliers.

#### Grievance mechanism

- The Refiner has implemented a comprehensive grievance mechanism to address concerns from both external and internal stakeholders. The Whistleblowing Policy, last updated on 14 September 2022, is available on the company website and outlines the established procedures for raising ethical or compliance issues. The whistleblower mechanisms provide multiple options for reporting, including email, a hotline, and a dedicated website (<https://whistleblower.hzlmets.com/>). The platform used by the Refiner to effectively manage whistleblower reports is Navex.
- During the assessment period, a total of zero inquiry explicitly related to responsible sourcing issues, including risks mentioned in Annex II was received through these whistleblower mechanisms.
- Documents reviewed when relevant to substantiate data points:
  - LBMA RSG Organogram (2<sup>nd</sup> May, 2024)
  - Vedanta Sustainability Assessment Report – VSAP (2023)
  - Standard Operating Procedure
  - <https://whistleblower.hzlmets.com/>
  - HZL-Whistle-Blower-Policy-19.10.2015

### **STEP 2: Identify and assess supply chain risks**

#### Collection of information

- The Refiner collects and maintains material and supplier information from credible sources.
- This includes data from 6 supplier files and the SAP system. As the entire material supply chain belongs to the Refiner's parent company, Vedanta Ltd., the Refiner has direct access to reliable data. The information covers details such as the origin of the mined material, transportation routes, storage and handling responsibilities, transportation companies involved, and weights

of the materials. This diligent data collection ensures transparency and accountability throughout the supply chain.

#### Risks identification

- The Refiner employs three primary tools to identify risks: an Excel-based country risk assessment, the LME Red Flags Checklist (June 2022), and second-party audits for ESG implementation.
- The Excel-based country risk assessment evaluates 209 countries using the TDi CAHRA Index, Dodd-Frank Act, and EU CAHRA list. Although there are CAHRA regions in India, the Refiner considers the region of its mining operations to be of medium risk due to its location and transit routes, which do not suggest the transit of raw materials through CAHRA-listed areas.
- The two direct supplier smelters completed the LME Red Flags Checklist as a self-assessment mandated by the LME standard. The smelter brand names currently listed on the LME website are HZL, CEDSHG, HZLZN, VEDZN, VEDAN, and VEPB99. Based on the results of the LME Red Flags Checklist, no red flags have been identified in the supply chain, indicating no apparent need for enhanced due diligence.
- ESG assessments have been conducted for the two direct supplier smelters and the four mining operations as part of second-party audits mandated by the parent company, Vedanta Ltd, to validate the implementation of the ESG management system. Assessment reports are available for each site and encompass various areas, including compliance, leadership, objectives, performance, training, supplier and contractor management, social sustainability, incident investigation, safety, environmental practices, and new projects.
- In conformance with the due diligence Procedure, stipulating that supplier due diligence practices are verified through third-party audits, 6 audits based on the Vedanta Sustainability Assurance Programme have been conducted by the registered third-party (DNV) in the second half of 2023 and proved satisfactory.

#### Risk assessment

- The Risk Assessment Procedure (29 June 2022) aligns with the OECD Due Diligence Guidance and provides criteria for identifying and assessing high-risk suppliers. Where red flags are identified, HZL undertakes enhanced due diligence to map the factual circumstances of the presence of Annex II risks. Where the mineral supply chain is determined to be originating from/associated with CAHRA, the Vedanta Sustainable Assessment Programme has been updated in 2023 to ensure seamless integration of information from the excel-based country risk assessment, the LME Red Flags Checklist (June 2022), and the second-party audit for ESG implementation for internal supply chain to conduct a comprehensive supplier risk assessment.
- Documents reviewed when relevant to substantiate data points
  - VSAP Dariba Smelter audit report completed on 24<sup>th</sup> Nov., 2023
  - VSAP Chanderia Smelter audit report, carried out from 21<sup>st</sup> to 26<sup>th</sup> Aug., 2023
  - VSAP SK Mines audit report, carried out from 27<sup>th</sup> Nov. to 2<sup>nd</sup> Dec., 2023
  - VSAP RD Mines audit report, carried out from 27<sup>th</sup> Nov. to 2<sup>nd</sup> Dec., 2023
  - VSAP RA audit report, carried out from 11<sup>th</sup> to 15<sup>th</sup> Sept., 2023
  - Zawar Mines audit report carried out from 30<sup>th</sup> Oct. to 04 Nov., 2023

### **STEP 3: Design and implement a management strategy to respond to identified risks**

- The Due Diligence System Procedure (29th June, 2022) details the risk management process, encompassing the following components:
  - Action Plans: Establishes action plans with clear objectives, monitoring mechanisms, and additional steps if corrective measures deviate from the intended course.

- Closure of Action Items: Completion of action items is confirmed by an assigned management representative and verified by an appropriate individual.
  - Ongoing Communication: Maintains open and continuous communication on risk mitigation with relevant stakeholders, as applicable.
  - Escalation Process: Implements an escalation process if a supplier fails to comply with risk mitigation measures, following a progressive approach. This includes options such as continuing the business relationship, suspending operations, or ultimately terminating the supplier, depending on the severity of the identified risk (primarily applicable to external suppliers).
- Based on the collected information, which does not indicate the presence of any red flags in the supply chain, no risk mitigation action plan has been established.
  - Documents reviewed when relevant to substantiate data points
    - Due Diligence System Procedure (29<sup>th</sup> June, 2022)

#### **STEP 4: Obtain independent third-party assurance on supply chain due diligence practices**

- The Refiner has partnered with RCS Global to conduct an independent third-party audit of their supply chain due diligence. This step has been taken to demonstrate compliance with Step 4 of the OECD Guidance.
- Documents reviewed when relevant to substantiate data points:
  - LBMA\_Management Report\_Hindustan Zinc\_5-6.06.2023
  - LBMA\_Independent Reasonable Assurance\_Hindustan Zinc\_5-6.06.2023

#### **STEP 5: Report annually on supply chain due diligence**

- Policies regarding sustainability, responsible sourcing, and business integrity, along with previous LBMA Compliance and Management reports (including 2023 reports), can be accessed by the public on the refiner's website (<https://www.hzlindia.com/prodfactsheet/>).
- Documents reviewed when relevant to substantiate data points
  - Refiner's website at <https://www.hzlindia.com>

#### **Statement of the confidential nature of the contents**

All the data contained in the management report, as well as all information obtained during the performance of the certification, is private and confidential between the assurance firm and the Refiner.

#### **Any significant or inherent limitations or areas not covered that were within the assessment scope**

There were no significant or inherent limitations or areas not covered that were within the assurance scope.

#### **Assessment criteria**

The assurance practitioner takes into account all relevant objective evidence provided by the Refiner. Relevant evidence is either qualitative or quantitative as far as it is appropriate and sufficient to support the assurance practitioner's conclusions. Appropriate evidence is relevant and reliable. Sufficient evidence refers to the amount of evidence provided to allow the assurance practitioner to reach a conclusion.



Any actual or potential gaps in the Refiner's systems in regards to the LBMA requirements are rated in accordance to the level of risk each presents to the credibility and integrity of the LBMA Responsible Silver Programme for the responsible sourcing of silver-bearing materials.

## 2. DISTRIBUTION LIST

This report is issued for the benefit of the Refiner and will be shared with the Refiner's main contact. The final version of this annual Management Report, LBMA Assurance Report and Country of Origin Annex will be submitted by the assurance firm to the LBMA Chief Executive. In accordance with Step 5 of the *LBMA Responsible Silver Guidance Version 1*, the Refiner should make the LBMA Assurance Report available to the public.

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### 3. ASSURANCE ENGAGEMENT FINDINGS

<i>Assurance practitioners use only</i>					<i>Refiner use only</i>		
Category /subcategory	Risk rating	Non-compliance/Observation:	Recommended corrective action	Timeframe for implementing corrective actions	Corrective action to be taken by the Refiner	Completion timeframe	Responsible staff
		NONE	-		-		

### 4. OVERALL RATING

Overall Rating of Assurance Findings	Compliant	Low	Medium	High	Zero Tolerance
Based on the above detail assurance findings, the overall rating of the Refiner's performance is determined to represent:	X				

ASSURANCE FINDINGS BREAK DOWN							
				Non-Compliance - risk level			
	CATEGORY	SUBCATEGORY	Compliant	Low	Medium	High	Zero Tolerance



<b>A.</b>	<b>General Information</b>						
<b>B.</b>	<b>Step 1:</b> Establish strong company management systems	<b>1.1</b>	X				
		<b>1.2</b>	X				
		<b>1.3</b>	X				
		<b>1.4</b>	X				
		<b>1.5</b>	X				
<b>C.</b>	<b>Step 2:</b> Identify and assess supply chain risks	<b>2.1</b>	X				
		<b>2.2</b>	X				
		<b>2.3</b>	X				
<b>D.</b>	<b>Step 3:</b> Design and implement a management strategy to respond to identified risks	<b>3.1</b>	X				
		<b>3.2</b>	X				


		<b>3.3</b>	X				
		<b>3.4</b>	X				
<b>E.</b>	<b>Step 4:</b> Obtain Independent third-party assurance on supply chain due diligence practices	<b>4.1</b>	X				
<b>F.</b>	<b>Step 5:</b> Report annually on supply chain due diligence	<b>5.1</b>	X				

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## 5. ASSURANCE PRACTITIONER DECLARATION

The assurance practitioner confirms that:

- The information provided by the Refiner is true and accurate to the best knowledge of the assurance practitioner(s) preparing this report.
- The findings are based on verified Objective Evidence relevant to the time period for the assurance, traceable and unambiguous.
- The assurance practitioner(s) have acted in a manner deemed ethical, truthful, professional, independent and objective.
- The assurance practitioner(s) are properly qualified to carry out the assurance engagement at this Refiner's facility.

Assurance practitioner	Mr. Xavier AMOROS
Signature	
Date	28 <sup>th</sup> May, 2024



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