Summary of Third party due diligence process

It is necessary to conduct appropriate due diligence for any third party such as agents, consultants, joint venture partners, law firms, intermediaries, affiliates, contractors, suppliers and others working on behalf of Vedanta or Vedanta- owned and controlled entities prior to completing the vendor onboarding process. In addition to the commercial evaluation and benchmarking of rates additional steps should be undertaken to evaluate the bribery and corruption risk posed by the third party. Prior to engaging any third party, Vedanta employees should adopt the following procedure:

1. Determination of Associated Person Status

Any third party engaged by the company would be an Associated Person provided the third party represents or acts on behalf of the company or group before external parties. For example, a supplier of material would normally not be considered as an Associated Person, but if the supplier in the course of supply of material acts as an agent and obtains permissions and clearances for the company then he would be considered as an Associated Person.

2. Due diligence process

Category	Process
Non-government facing	Conduct a questionnaire based due diligence as per the standard vendor onboarding process
Associated persons/ government facing	In addition to above mentioned process, the following steps should be considered for an enhanced due diligence a) Assess any involvement of the identified third party is known instance of corruption and bribery b) On-site visit and local interviews to collect information (to the extent feasible) on the physical infrastructure of the identified third party, time since operating, core business and number of employees. c) Wherever available, undertake interview with business references provided by the identified third party to collect perceptions on its reputation and market standing
Hiring of former government officials	Perform due diligence in the similar manner as stated above, in case of hiring former government officials as an agent, retainer or consultant

(Additional questions have been added to the existing questionnaire based on best practice guidance in order to gather information from an ABAC perspective. These questions have been highlighted in green)

Third Party Diligence Questionnaire *(Illustrative)*

Background

1. Entity Type
2. Name/ Details of the Owners and / or directors
3. Is it owned partly or wholly owned by the Government (In any high risk country)?
4. *Is there any negative news regarding the reputation for integrity?*
5. *Does the organization have a corporate policy which prohibits improper payments and bribes?*
6. *Was the third party subject to regulatory action or legal proceedings as a result of alleged breaches of anti-corruption laws?*
7. Are any of your Directors under investigation for, or have been prosecuted for, acts of bribery and corruption or other matters?
8. Has the Associated person obstructed in any way any request for information or failed to provide information that has been requested without good reason?

Geographic Location

1. Is the third party (Or its parent company) registered in a high risk country?
2. Is the third party being appointed to do business in a high risk country?

Connection with Government Officials

1. Are any key employees/ senior management/ shareholder/ partner member of the organization a Public Official or related to a public official?
2. Does any key employee or senior management member of the organization provide financial or any other benefits to a Public Official or a member of a Public Official's family?
3. *Are any of Directors of the third party representatives of political parties or political organizations or closely connected to political organization?*
4. *Does the organization frequently interact with government officials, government agencies or government-controlled entities?*
5. *Does the third party have family or business ties with government officials/political representative?*
6. Is the third party seeking to act as an agent or intermediary between the entity and Government authorities?
7. Has the third party been recommended by customer/government official/political representative?

Scope of the relationship with third party

1. Is the third party seeking a sole or exclusive relationship that would place in a position to circumvent normal market controls?
2. *Is the third party reluctant to provide business references?*
3. *Has the third party agreed to abide by the ABAC laws of the country and the ABAC policy of the company?*

Compensation structure and contractual agreement

1. Is the third party refusing to enter into a contractual agreement?
2. Has the third party refused to be bound by the entity's standards for prevention of bribery and corruption (the Code of Business Conduct) or by a standard, mutually agreed and comparable to the entity's standard?

3. Has the third party person accepted the right's to terminate in the event of bribery and corruption bring proved?
4. At the time of contracting /renewal, is the third party requesting to be paid into a personal bank account (except in case of proprietary firm) or a third party bank account (Except in case of proprietary firms) or seeking to divert payment to offshore accounts outside the country of registration of the firm ?
5. *Is the compensation structure above the arm's length amount?*
6. Is the compensation based on performance (i.e. success fee/ bonus fee) where the criterion of success is not measurable?
7. Has the third party requested for full/ a part of the payment in cash (in case contract provides that)?
8. Is the third party seeking payment for introducing government officials or for providing contacts government departments?

DUE DILIGENCE PROCEDURES

Introduction:

Need for due diligence:

We often enter into partnerships and use agents, contractors etc. in the course of doing business. One of the ways in which both bribery and political payments can occur indirectly is through ‘Associated Persons’. The risk increases when the operation takes place in new, hazardous or uncertain environments, or when the business relationship is not underpinned by effective controls, mutual understanding or clear agreements.

Unless we are careful in our dealings with stakeholders and other parties and have adequate controls at the time of on-boarding such relationships, it may lead to a risk of channeling inappropriate payments / benefits to them without our knowledge or consent. The behavior of such third parties can affect our reputation and may also lead to regulatory violations. Companies are more vulnerable, when knowledge of their associates is poor. Those who have carried out the appropriate due diligence procedures on associates will be better positioned to identify areas of risk and reduce the likelihood of corrupt practices and reputational damage.

Hence, due diligence is a key component for effective risk management. Due diligence procedures are designed to assist in decision-making by assessing the potential risk of conducting business with an associate. While companies cannot guarantee that improper conduct will never occur, they can take reasonable precautions to prevent it by use of appropriate due diligence and effective risk management. With bribery and corruption, due diligence systems must be designed to capture the risks faced by the organization while entering a market, setting up business partnerships, engaging in any other transaction-related activity. The approach to due diligence should be proportionate and risk-based.

Definitions:

Associated Person means anyone who is engaged or paid to represent any entity in the Group and includes agents, representatives, intermediaries, introducers, sponsors, consultants, contractors and advisers or anyone else who acts on behalf of the organisation whose ability to represent such entity is established or implied by the terms of their arrangement.

Due diligence includes

- the investigation and evaluation of a prospective associated person in order to identify bribery risks, ethical risks or areas of uncertainty by way of background checks and research; and
- review of integrity of management of an on-going business relationship.

Application, Coverage and Periodicity:

- All employees in the entity must comply with these standards.
- Due diligence needs to be done for the following:

- → All new associated persons at the time of on boarding (before entering into agreement); and
- → For all existing associated persons in accordance with this policy

- For existing associated persons, due diligence must be done:
  - → On a periodic basis (the entity may define the periodicity on the basis of a risk assessment); or
  - → When there is change in business structure / ownership structure; or
  - → whenever any warning sign appears (e.g. media reports indicating bribery and corruption issues)

  However, it must be done at least once in 2 years.

Important Principles:

- The entity must not proceed to sign or renew arrangements with any associated persons if they refuse to cooperate in due diligence, or where the results of due diligence raise concerns regarding the anti-bribery risk unless it receives the prior written approval of company:
  - → Chief Executive Officer; and
  - → Chief Financial Officer or AB & C Compliance Officer.

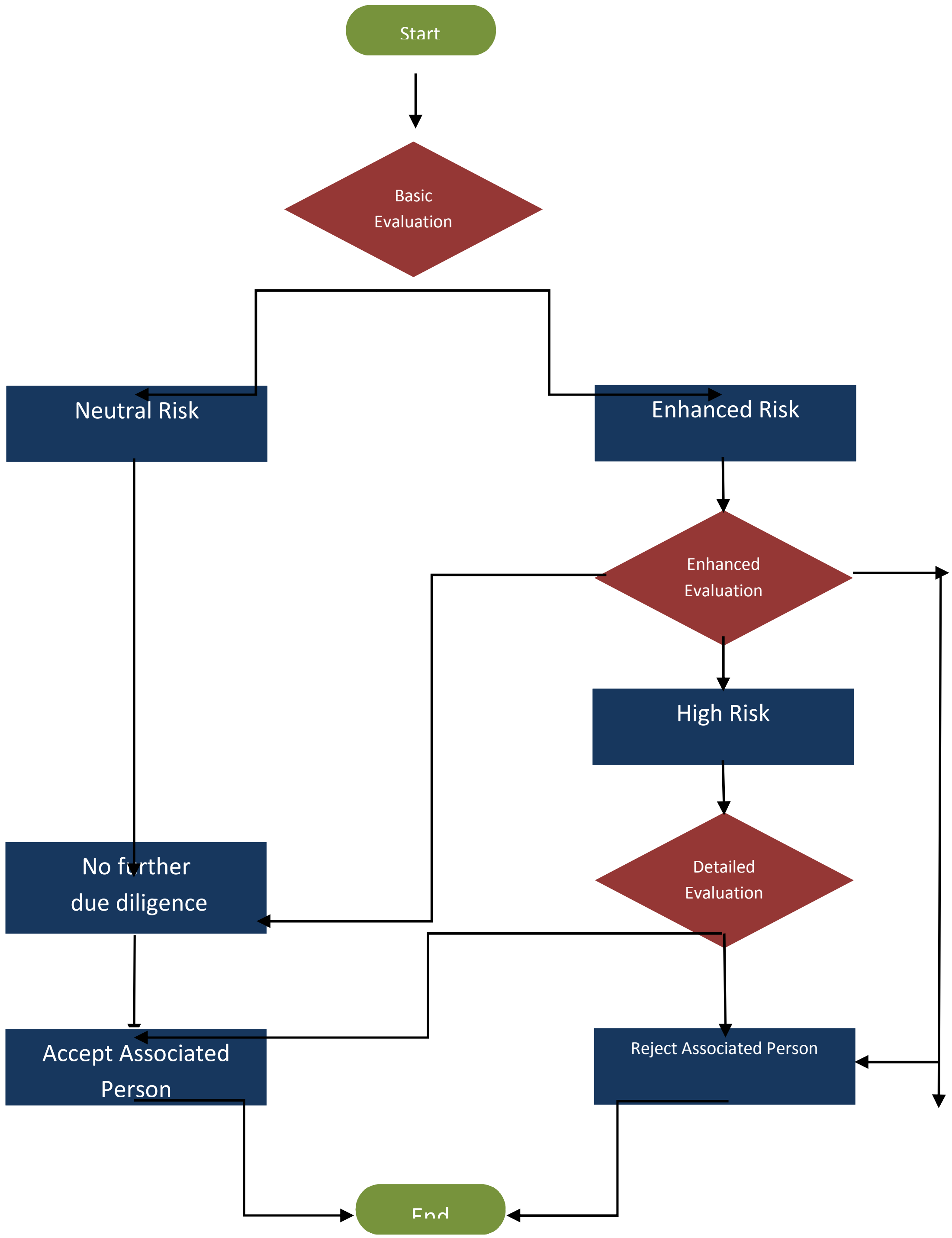
- Any agreement involving the compensation of agents or partners on a 'success fee' basis or 'any agreement engaging an agent or partner to obtain business or sales for the entity', must receive the prior written approval of the company Chief Financial Officer and Chief Executive Officer.

- Any agreement for appointment of agents / intermediaries within whose scope government approvals / government liaison falls, must receive prior written approval of company Chief Financial Officer and Chief Executive Officer.

- Without the prior written approval of the company Chief Executive Officer and Chief Financial Officer or AB&C Compliance Officer, the entity must not pay any of the following under any arrangements relating to associated persons:
  - → payments to accounts in tax havens and similar countries with a reputation for money laundering;
  - → where contract stipulates payments in cash;

- All associated persons must be informed of the existence of the Code of Conduct & Vendor Code of Ethics of the entity. They should be advised to operate in accordance with the policy in all their dealings for / on behalf of the entity.

Procedures



The following procedures form the basis of due diligence to be done by the entity:

1. Basic evaluation – preliminary assessment of risk and initial risk rating

2. Enhanced evaluation – Database search and final risk rating
3. Detailed evaluation
4. Collect relevant documents and maintain due diligence records
5. Centrally maintain list of approved associated persons.

Detailed steps under each procedure are explained below:

1. <u>Basic evaluation</u>

In due diligence, the first step is to do a preliminary assessment of risk presented by an associated person i.e. whether the associate may create potential liability (with reference to AB&C) for the entity as the relationship progresses. Please refer to the checklist in Appendix 1. The checklist provides basic information that needs to be collected for all associated persons.

The information compiled needs to be supplemented with results of an internet search using key words like fraud, default, penalty, corruption, misconduct, arbitration, money laundering, misappropriation, embezzlement, bribery, corruption, violation, inappropriate payments, litigation, court, police, CBI, investigation, CID, enforcement directorate, window dressing etc.

<u>Initial risk rating</u>

If answer to any of the questions from 4 to 20 in “Basic evaluation checklist” is yes and/or internet search results are “unfavorable”, then the initial risk rating would be “increased risk”

An “increased risk” rating would require an enhanced evaluation.

In all other cases, the risk rating would be “neutral risk” and no further due diligence procedures need to be carried out.

2. <u>Enhanced evaluation</u>

Once an associated person has been identified as an “increased risk”, the extent of due diligence procedures needs to be enhanced. In enhanced evaluation, background information shall be obtained from various sources and not restricted to information available in the public domain.

For all “increased risk” associated persons, information should be obtained from various databases. Lists of databases that may be used are attached in Appendix II. A sample of reporting format that may be used in also attached in Appendix II

Final risk rating

If any of the database results are not favorable or negative / adverse information is found, then the CEO of the company shall make any one of the following choices:

- Approve the associated person documenting the rationale for the same
- Assign it a high risk rating that would require detailed evaluation
- Make a decision to reject the associated person.

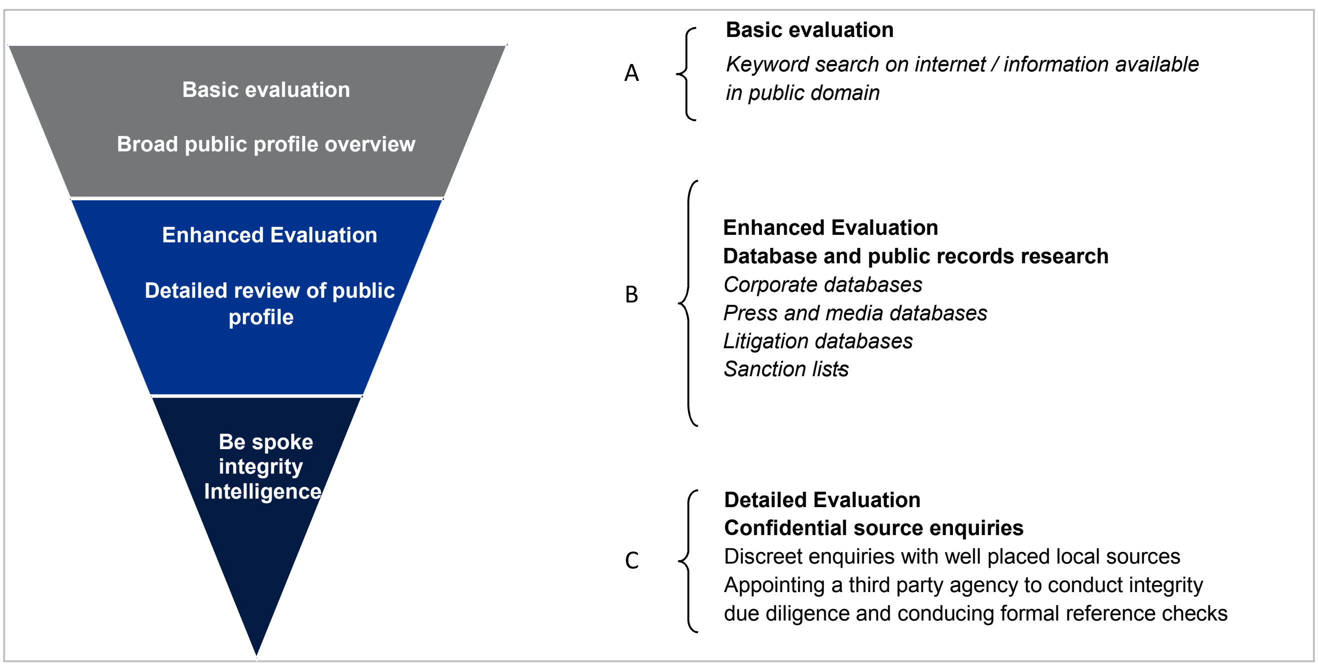
3. Detailed evaluation

Detailed evaluation needs to be done for "high risk" associated persons. Detailed evaluation would include:

a) Conducting discreet enquiries with well-placed local sources that are able to provide insights and intelligence about the relevant associated persons
b) Appointing a third party agency to conduct integrity due diligence
c) Formal reference checks

The results of the detailed evaluation should be analysed and a decision to accept or reject the associated person should be documented with the approval of the company CEO.

A diagram is presented below to provide a bird's eye view of the evaluation procedures



4. **Collect relevant documents and maintain due diligence records**

Adequate documentation including due diligence materials should by maintained to support the selection of associated persons. All records and documents at all stages of work should be stored and maintained at a secure location. Separate files should be created for filing documents relating to individual associated persons.

5. **Centrally maintain list of approved associated persons**

Commercial / Legal department and AB & C Compliance officer should maintain an independent and separate database of all associated persons on whom due diligence exercise was done and should record the results for the same. There should be a separate list giving details all associated persons of the entity. The list should ideally include the following columns:

a. Name of the associated person
b. Concerned business unit
c. Date of entering into relationship
d. Last date of due diligence review
e. Major observations noted and
f. Remarks column

Special considerations:

Mergers and acquisitions

Mergers and acquisitions carry particularly important due diligence implications and can present considerable risks from bribery. When undertaking M&A, the entity should carry out due diligence throughout the M&A process. The key questions to be addressed during due diligence would include:

1. In which jurisdiction and sector does the target entity operate? Are these jurisdictions / section known to be high-risk areas
2. Does the target entity have its own anti-bribery program? Is the program adequate?
3. If the program is not adequate, what are the actions plans to put in place adequate anti bribery program?
4. Are there any "legacy risks" associated with bribery that may be passed on due to the proposed M&A?

Joint ventures and Consortia

Joint ventures and consortia may be formed for financial risk sharing, meeting local laws and various other reasons. The entity may be liable for corrupt acts of the venture. These business structures present a peculiar risk as the entity may not be the managing partner or having effective control in certain situations. Hence, it is important to conduct a due diligence to provide assurance about the integrity of the prospective partners. The points to be considered during due diligence would include:

1. Jurisdiction and sector in which the Joint venture would operate and whether these areas are high-risk from a bribery and corruption standpoint?
2. Reputation of the prospective partners
3. Are there any past or current allegations of bribery and corruption against the prospective partners?