

# Chairman's Statement

## Anil Agarwal

### A Transformational Year



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#### Overview

Vedanta has made significant progress in the execution of its strategy this year, delivering production growth and increasing Reserves and Resources across the portfolio, completing two acquisitions, and announcing a consolidation and simplification of the Group. Over the years, Vedanta has become a world-class, diversified resources company, and this year we added oil & gas to our portfolio.

#### Robust Financial Results

Despite volatile economic conditions across the world, Vedanta increased volumes across most of its commodities and successfully integrated recent acquisitions, which contributed to our strong EBITDA growth, up 13% to US\$4.0 billion. This was partially offset by higher operating costs and increased export duty rates on iron ore.

Net debt rose to US\$10.1 billion, (31 March 2011: US\$1.97 billion) and gearing increased to 35% reflecting the investment of US\$8.67 billion in Cairn India Limited (Cairn India), but we continued to maintain a strong and liquid balance sheet and robust credit metrics. Free cash flow remained robust at US\$2.5 billion, ahead of last year's US\$2.4 billion even though this only included approximately four months of cash flow from Cairn India.

#### Strong Operational Performance

Record production of refined zinc, lead including silver, power, aluminium, alumina and increased contributions from our recent acquisitions of Zinc-International and Cairn India assets were the key drivers of our strong operational performance as our growth projects started to yield results. The ramp up of the silver-rich Sindesar Khurd mine and the new silver refinery delivered an impressive 35% increase in silver production for the year, with production reaching a new high of 7.8moz and a US\$210 million contribution to EBITDA.

The commissioning of the 2,400MW Jharsuguda power plant and lead smelter at Dariba significantly boosted our power generation and lead production, respectively.

Our newly acquired assets performed well, with Cairn India driving production forward by 21% to an average of 172,887boepd gross with current capacity now at 175,000boepd following the ramp up of the Mangala and Bhagyam fields in Rajasthan and Zinc-International's output was well ahead of the last year at 444kt.

This performance is the result of the hard work and commitment of our 32,000 employees across the organisation and on behalf of the Board, I would like to thank them for their contribution to this excellent performance.

#### Market Conditions

Despite volatile global market conditions, demand for commodities remained strong throughout the year, driven by economic growth and urbanisation in emerging economies, which account for approximately 80% of our revenues. Commodity prices were strong in the first half of FY 2012, but corrected in the second half of the year, with the end result that prices for silver moved up substantially, iron ore showed a healthy increase, zinc prices fell and copper, aluminium and lead were marginally ahead of the previous year. Oil prices increased over the year.

Growth rates in India, our home market, moderated to 6.9% due to higher inflation. Demand for natural resources however continued its upward trend, particularly for aluminium with India projected to become the second largest consumer of aluminium in Asia during CY 2012. Over the long term, we believe that the increasing size of the domestic market in India and favourable demographics will continue to drive robust economic growth.

Vedanta is a significant contributor to the Indian economy and government exchequer. We meet 82% of India's zinc consumption and approximately 40% of its aluminium, copper and lead requirements.

The Group contributes 20% of India's crude oil production, reducing the requirement for imports and foreign currency expenditure. In this financial year, we contributed US\$4.4 billion, including US\$2.4 billion of Cairn for the full year, to the Indian exchequer towards direct and indirect taxes, royalty, cess on oil etc.

#### Key Strategic Developments Growth

We continued to focus on extending our existing resources and growing our assets organically, investing in projects that expand our high quality asset base and increase our production volumes. During the year, we invested US\$2.4 billion in our organic growth programme, increasing production of zinc-lead, silver, copper, aluminium, power and oil & gas.

We have successfully completed the integration of the assets acquired from Anglo American last year, now our Zinc-International segment. The assets we acquired also included the Gamsberg deposit in South Africa, which is one of the largest undeveloped zinc deposits in the world. With a resource base of 186mt deposit, Gamsberg has the potential to deliver over 400ktpa over a mine life of more than 20 years and a feasibility study is under way to scope the project.

We extended our resources portfolio into oil & gas with the acquisition of the controlling stake in Cairn India for US\$8.67 billion, financed equally from our own resources and acquisition debt. Cairn India is the largest private crude producer in India. Its world class assets in Rajasthan currently contribute more than 20% of India's production. These assets carry gross recoverable oil Reserves and Resources of approximately one billion barrels and have a potential to produce roughly 40% of India's oil production. The acquisition of a controlling stake in Cairn India has added an additional high quality asset in an attractive natural resources segment and will contribute to the earnings profile of the Group.

During the year, we acquired iron ore deposits in Liberia in Western Africa, with Reserves and Resources estimated at over 1 billion tonnes. We intend to bring these assets, which comprise brown field as well as green field sites, into production over the next two to three years. With this acquisition, Vedanta will become a significant player in the upcoming West African iron ore hub catering to the seaborne iron ore trade. This acquisition is a logical and strategic fit with Sesa Goa's existing iron ore business and is expected to create significant long-term value for shareholders.

#### Long-term Value

We have maintained our position as a low cost producer through our culture of continuous improvement. As well as major investment projects, a myriad of small projects have been implemented across all our businesses to reduce energy consumption, improve productivity, debottleneck processes and increase efficiency.

To ensure the long-term future of the Group, we aim to grow our Reserves and Resources ('R&R') at a faster rate than we deplete them, through exploration and acquisitions. Exploration focus yielded excellent results during the year particularly for zinc, oil & gas and iron ore.

In line with our strategy to simplify our corporate structure, towards the end of the year we announced a merger of Sesa Goa Ltd and Sterlite Industries (India) Ltd to create Sesa Sterlite Ltd, and a consolidation of the Vedanta Group. As part of the Group consolidation, Vedanta's stake in Cairn India and Vedanta Aluminium will move under Sesa Sterlite. Sesa Sterlite Ltd is expected to be one of the world's largest global diversified natural resources majors, ranked by EBITDA.

# Chairman's Statement continued

"Our significant capital investment programme, which has largely been invested, will deliver near-term production growth across our portfolio, in turn driving strong cash flow growth."

The simplification of the Group structure is expected to yield significant benefits through a more efficient capital structure, increased flexibility to allocate capital, broader access to capital markets and enhanced visibility of earnings and cash flow. The merger will also generate significant synergies for the shareholders of Sesa Goa, Sterlite and Vedanta.

### Sustainability

We have continued to focus on aligning our policies and management systems to the sustainability standards recognised internationally by the IFC, ICMM and UNGC. This year we have completed the development of a comprehensive Sustainability Framework that is now being rolled out across our operations and I am pleased to say that we have signed the UN Global Compact.

We want to go even further and embed sustainable development into every aspect of what we do which is one of the five priorities that I have set. The others are to:

- > Improve our health and safety performance for a safer, more secure and healthier environment for every employee and contractor
  - We work in an inherently risky industry and it is with great regret that I have to report 22 fatalities this year. Our efforts to eliminate unsafe conditions and unsafe behaviour are starting to yield results. Our quarterly figures show good progress and our lost time injury rate continues to fall, reducing by 10% year on year.

- > Contribute further and in a more targeted way to local communities
  - We are passionately committed to making a difference to our local communities, contributing US\$38 million this year to community development projects, benefiting over 3 million people.
- > Continue to manage and minimise our impact on air, water and land
  - Our environmental focus on reducing specific consumption of energy and water is making sound progress with most of our operations yielding significant positive results.
- > Maintain a dialogue with Stakeholders to help us understand and respond to their material issues
  - So far over 1,000 people have received training in the new Sustainability Framework and implementation is continuing.

Achieving our goals will take a great deal of hard work, but we are committed to our journey of continuous improvement.

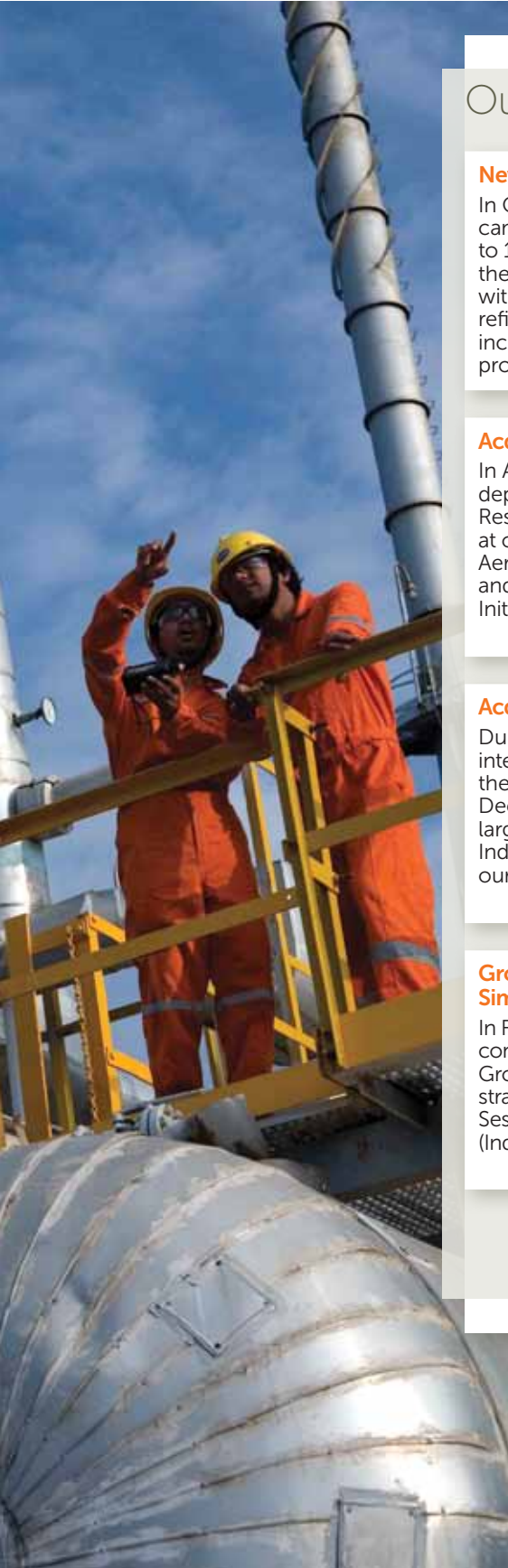
### Dividends

In line with our policy to progressively increase our dividend payments to shareholders, the Board has recommended a final dividend of 35 US cents per share, an increase of 8% that will be paid on 5 September 2012 to shareholders on the register on 17 August 2012. This takes the total dividend for the year to 55 US cents per share, 5% above last year.

### Looking Forward

We start the new financial year with a world-class asset portfolio, a low cost structure and a strong near-term growth profile. The outlook for natural resources remains robust: industrialisation and urbanisation in China and India and other emerging economies continues to drive demand and Vedanta is well-positioned to serve these markets. Our significant capital investment programme, which has largely been invested, will deliver near-term production growth across our portfolio, in turn driving strong cash flow growth. Looking further forward, Cairn India, Liberia and Gamsberg offer outstanding opportunities to grow our production well into the future.

Anil Agarwal  
Chairman  
16 May 2012



## Our Year in Review

### New Silver Refinery Commissioned

In Q3 FY 2012 our new silver refinery came on stream, taking our capacity to 16moz of silver. The ramp up of the Sindesar Khurd mine combined with the contribution from the silver refinery delivered an impressive 35% increase in silver production, with production reaching a record 7.8moz.



### Acquired Iron Ore Assets in Liberia

In August 2011, we acquired iron ore deposits in Liberia, West Africa, with Reserves and Resources estimated at over 1 billion tonnes. Currently, an Aeromagnetic study has been completed, and the Feasibility study is under way. Initial drilling indicates potential upside.



### Acquired and Integrated Cairn India

During the year we completed the integration of Cairn India, following the acquisition of a majority stake in December 2011. Cairn India is the largest private crude oil producer in India and this acquisition extended our portfolio into oil & gas.



### Group Consolidation and Simplification Announced

In February 2012, we announced the consolidation and simplification of Group structure in line with our stated strategy. This includes a merger of Sesa Goa Ltd and Sterlite Industries (India) Ltd to create Sesa Sterlite Ltd.



Main image: Ravva onshore terminal, Andhra Pradesh.