Financial Review

"Our investment in growth projects is nearing completion and we have now reached an inflection point where we have positive free cash flow after growth capex for the first time."

Highlights

- Revenues up 22.6% to US$14.0 billion
- EBITDA up 12.9% to US$4.0 billion
- Underlying EPS at 142 US cents per share
- Acquisition of Cairn India has provided entry into the oil & gas sector: the acquisition is immediately EPS accretive
- Free cash flow of US$2.5 billion, translating into 63% EBITDA conversion
- Investment of US$2.4 billion in growth projects, strong project execution capabilities
- Net gearing of 35% and cash and liquid investments of US$6.9 billion

(In US$ millions, except as stated)	FY 2011–12 (pro forma)	FY 2011–12	FY 2010–11	FY 2009–10	FY 2008–09
EBITDA	**5,353.3**	**4,026.3**	3,566.8	2,295.9	1,612.2
Underlying EPS (US cents per share)	**209.4**	**142.0**	262.8	199.2	108.0
Free cash flow	**3,127.6**	**2,533.8**	2,347.3	1,814.3	1,733.8
Capital employed (Excluding capital WIP)	**22,404.4**	**21,946.6**	9,067.6	6,720.3	3,642.3
Return on operating capital (%)	**10.7**	**7.7**	21.2	19.9	24.4
Net (cash)/debt	**10,064.4**	**10,064.4**	1,970.3	947.2	200.8

Return on Operating Capital = Return on Capital Employed (excluding project capital WIP).
Underlying EPS – Earnings Per Share based on underlying profit which is profit for the year after adding back special items and other gains and losses and their related tax and non-controlling interest effects.

Group Revenue

(In US$ millions, except as stated)	2011–12	2010–11	% change
Zinc	**3,206.8**	2,378.4	34.8%
– India	**2,316.1**	2,159.5	7.3%
– International[1]	**890.7**	218.9	–
Iron Ore	**1,690.9**	1,979.5	(14.6)%
Copper	**5,915.0**	5,253.2	12.6%
– India/Australia	**4,205.2**	3,428.2	22.7%
– Zambia	**1,709.8**	1,825.0	(6.3)%
Aluminium	**1,873.5**	1,779.6	5.3%
Power	**458.3**	124.0	–
Oil & Gas[2]	**882.5**	–	–
Eliminations	**(21.7)**	(87.5)	–
Revenue	**14,005.3**	11,427.2	22.6%

1 Acquired in FY 2010–11.
2 Acquired in FY 2011–12.

2011–12 has been a year of mixed fortunes due to the significant change and volatility in the global economy. The eurozone crisis downgrade of sovereign credit ratings of various eurozone countries, sluggish growth in many industrialised countries including the USA, political unrest on the African continent and the resulting escalation in crude oil prices had all dampened the growth euphoria. Despite these challenges commodity prices generally averaged higher than during FY 2010–2011. Demand for commodities in 2012 will be supported by improving global economic growth particularly in Chinese and emerging markets, which are expected to remain relatively robust. The global developments constrained the Indian growth story, with India's GDP growing by 6.5% during FY 2011–12. India is expected to maintain its robust economic growth over the long term, due to its domestic market size and demographic advantage.

Group revenues in FY 2011–12 grew strongly to US$14,005.3 million, up 22.6% as compared with the previous year. Most of our businesses delivered higher volume growth as several of our growth projects were completed with production ramping up. Revenue increased due to the value accretive acquisition of Cairn India completed during the year and also the incremental revenue from a full year of operation at Zinc International. The volume growth in our power business, mainly at Sterlite Energy Ltd ('SEL'), and the doubling of silver revenues in Zinc-India also contributed to the revenue increase.

Iron ore revenues were impacted by lower sales volumes caused by the mining ban in Karnataka and the transport and logistics bottleneck in Goa. Iron ore sales were further reduced by US$201 million due to the rise in export duty to 20% in March 2011 and from 20–30% in the last quarter of FY 2011–12.

Group EBITDA

(In US$ millions, except as stated)	FY 2011–12	FY 2010–11	% change	EBITDA Margin % 2011–12	EBITDA Margin % 2010–11
Zinc	**1,610.8**	1,320.9	21.9%	–	–
– India	**1,244.8**	1,219.6	2.1%	53.7%	56.7%
– International[1]	**366.0**	101.3	–	41.1%	46.3%
Iron Ore	**721.4**	1,174.1	(38.6)%	42.7%	59.3%
Copper	**685.9**	681.4	0.7%	–	–
– India/Australia	**298.0**	241.5	23.4%	7.1%	7.0%
– Zambia	**387.9**	439.9	(11.8)%	22.7%	24.1%
Aluminium	**182.5**	352.7	(48.3)%	9.7%	19.8%
Power	**122.0**	43.9	177.9%	26.6%	35.4%
Oil & Gas[2]	**713.0**	0.0	–	80.8%	–
Others	**(9.3)**	(6.2)	(50%)	–	–
Total	**4,026.3**	3,566.8	12.9%	28.7%	31.2%

1 Acquired in FY 2010–11.
2. Acquired in FY 2011–12.

Turbulence in the global market and the cost-inflationary environment prevailing in the metal and mining industry impacted our profitability in FY 2011–12. During the year, total cash costs increased due to mining sector inflation stemming from increased energy and fuel costs together with higher maintenance, labour and contractor costs, in line with the mining industry in general.

The EBITDA margin in our aluminium business reduced by 10.1%, due to an 11.3% increase in cost of production mainly due to higher alumina, carbon and coal costs. The EBITDA margin also reduced in our power business due to an 18.6% reduction in the sales price per unit.

Despite these tough conditions, we reported EBITDA of US$4.0 billion, 12.9% higher when compared with the previous year, underpinned by our diversified business portfolio which helps to insulate us from adverse performance in any one of our businesses.

Our diversification into the high margin oil & gas sector through our acquisition of Cairn India during the year and the full year benefit of operations from the Zinc-International business acquired in FY 2010–11, combined with our continued focus on cost control measures and operational improvements also contributed to the improvement in EBITDA for FY 2011–12.

However, EBITDA growth did not keep pace with revenue growth as operating costs rose, mainly due to higher coal costs and commodity linked costs. Lower sales of iron ore coupled with the hike in export duty also impacted EBITDA during the financial year.

EBITDA margin was 28.7% in FY 2011–12 compared with 31.2% in FY 2010–11. Excluding our copper custom smelting operations, our EBITDA margin in FY 2011–12 was 40.6% (FY 2010–11: 44.6%).

Conversion of EBITDA to free cash flow for the financial year was marginally lower at 62.9% compared with 65.8% in FY 2010–11. This reduction is mainly attributable to higher interest on borrowing for the Cairn India acquisition and higher ongoing capital expenditure.

We continued to maintain our strong balance sheet and funding position, with cash and liquid investments totalling US$6.9 billion. We generated free cash flow of US$2.5 billion which met the growth capital expenditure requirement of US$2.4 billion. Our investment in growth projects is nearing completion and we have now reached an inflection point where we have positive free cash flow after growth capex for the first time.

After investing US$8.7 billion in acquisitions, net debt as at 31 March 2012 was US$10.1 billion (31 March 2011: US$1.97 billion) and our gearing ratio was 35%.

During the year depreciation and amortisation increased by US$539.3 million to US$1.4 billion.

Depreciation charges during the year increased by US$372.7 million mainly due to additional depreciation of US$180.2 million for Cairn, US$90.7 million due to the full year of operation for Zinc International and the commissioning of the SEL power plant accounting for the balance.

Amortisation charges during the year increased by US$166.6 million mainly due to additional amortisation of reserves of US$166.5 million at Cairn, US$92.4 million at Zinc International, partially mitigated by a decrease at Sesa Goa due to lower output. Oil & gas assets are amortised on a unit of production basis over the total remaining proven and probable reserves.

Special items comprises of US$21 million spent on voluntary redundancy charges at some of our operations. A provision of US$89 million was made by Sterlite towards possible incidental damages payable to ASARCO as per the verdict of the bankruptcy court of the Southern District of Texas, US. We also spent US$73 million on costs relating to the acquisition of Cairn India and IPO expenses of US$13 million, for our subsidiary Konkola Copper Mines were also written off during the year. US$31 million was due to loss on revaluation of previously held interest in Cairn India as associate.

As explained above, the operating profit for the year was US$2.4 billion, marginally lower than in the previous year reflecting higher depreciation, amortisation charges and special items, despite the increase in EBITDA.

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Group Operating Results

Group operating results for FY 2011–12 are set out below:

(In US$ millions, except as stated)	FY 2011–12 (pro forma)	FY 2011–12	FY 2010–11	% change
Revenue	**15,615.9**	**14,005.3**	11,427.2	22.6
EBITDA	**5,353.3**	**4,026.3**	3,566.8	12.9
EBITDA margin (%)	**34.3%**	**28.7%**	31.2%	–
EBITDA margin without custom smelting (%)	**46.7%**	**40.6%**	44.7%	–
Special items	**(230.2)**	**(230.2)**	(163.4)	(40.9)
Depreciation	**(1,220.7)**	**(927.3)**	(554.6)	(67.2)
Amortisation	**(736.8)**	**(481.1)**	(314.5)	(53.0)
Operating profit	**3,165.6**	**2,387.7**	2,534.3	(5.8)
Net interest expense	**(617.1)**	**(420.3)**	(103.1)	(307.7)
Other gains and (losses)	**(314.2)**	**(314.2)**	252.1	(224.6)
Income from associate	**–**	**92.2**	–	–
Profit before taxation	**2,234.3**	**1,745.4**	2,683.3	(35.0)
Income tax expense	**(547.4)**	**(516.7)**	(649.5)	(20.4)
Effective tax rate (%)	**24.5%**	**29.6%**	24.2%	-
Profit for the year	**1,686.9**	**1,228.7**	2,033.8	(39.6)
Minority interest	**1,478.9**	**1,168.9**	1,263.0	(7.5)
Minority interest (%)	**87.7%**	**95.1%**	62.1%	–
Attributable profit	**208.0**	**59.8**	770.8	(92.2)
Basic earnings per share (US cents per share)	**76.3**	**21.9**	283.2	(92.3)
Underlying earnings per share (US cents per share)	**209.4**	**142.0**	262.8	(46.0)

Gross finance costs increased to US$1,170.5 million in FY 2011–12, up from US$718.0 million in FY 2010–11. Costs increased as a result of higher average debt at US$13,750.4 million in FY 2011–12, up from US$8,895.7 million in the previous year. Gross debt during the year increased mainly to finance the Cairn India acquisition and to fund our growth projects. Interest costs also increased due to a higher interest rate for rupee borrowing in India. Of the total interest cost, US$224.8 million relating to our ongoing capital expansion projects was capitalised as compared with US$183.3 million in FY 2010–11, reflecting the increased capitalisation in our ongoing projects at Vedanta Aluminium Ltd (VAL), BALCO and Talwandi Sabo.

Investment income in FY 2011–12 was US$525.4 million, compared with US$431.6 million in FY 2010–11, mainly due to the higher interest rate environment.

We recognised a loss of US$314.2 million as a result of mark-to-market losses on our foreign currency borrowings primarily at our Indian entities, and following changes in the fair value of embedded derivatives relating to foreign currency convertible bonds at Sterlite and Sesa Goa. During FY 2011–12, the mark-to-market loss on borrowings was US$411.3 million against a gain of US$63.7 million in the previous year. These mark-to-market losses were caused by volatility in the Indian rupee/dollar exchange rate, which depreciated sharply by 14.7% in the year, moving from US$1 = Rs44.65 to US$1 = Rs51.16. The rupee depreciation impacted the uncovered loans denominated in US dollars.

By contrast, we experienced a mark-to-market gains on our embedded derivatives of US$97.1 million primarily on the foreign currency convertible bonds at Sterlite and Sesa Goa. Since the issue of these bonds the cumulative gain has been US$211.0 million. The gain is primarily correlated with the movement in the respective subsidiary's share price and may reverse in the future.

Profit before taxation also decreased by 35.0% to US$1.7 billion compared against US$2.7 billion achieved during FY 2010–11. Profit after tax decreased by 39.6% to US$1.2 billion due to higher interest costs, mark-to-market losses on our foreign currency borrowings and higher tax rates. Our effective tax rate increased from 24.2% in FY 2010–11 to 29.6% during FY 2011–12 as a result of changes in profit mix at the operating companies during the year and also due to losses at VAL.

The tax charge decreased to US$516.7 million in FY 2011–12, 20% down from US$649.5 million in FY 2010–11 reflecting the lower profit before tax.

Attributable profit for the year at US$59.8 million is significantly lower than the US$770.8 million in the previous year which was impacted by increased amortisation and depreciation charges, interest expenses related to funding for the Cairn India acquisition, mark-to-market losses on foreign currency borrowings at our Indian entities and losses at VAL.

Basic Earnings per Share ('EPS) for FY 2011–12 was 21.9 US cents per share compared to 283.2 US cents per share in FY 2010–11, reflecting the fall in attributable profit. Fully diluted EPS was 21.6 US cents per share (FY 2010–11: 270.2 US cents per share). Underlying EPS was 142.0 US cents per share as against 262.8 US cents per share in the previous year.

These factors, combined with the fact that Cairn India only contributed to profitability for less than four months, resulted in returns generated on operating capital reducing to 7.7%. Using 12 month proforma earnings from Cairn, our return on operating capital would be 10.7%.

Balance Sheet and Cash Flow

We continue to have a strong balance sheet with capital employed of US$18.4 billion and net debt of US$10.1 billion. Net debt comprised debt of US$17.0 billion offset by US$6.9 billion of cash and liquid investments. Anticipated future cash flows and undrawn committed facilities of US$2,897.3 million, together with cash and liquid investments of US$6,885.3 million as at 31 March 2012, are expected to be sufficient to meet the ongoing capital investment programme and liquidity requirements of the Group in the near future. The Company continued to maintain its ratings from Standard & Poor's, Moody's & Fitch Ratings are BB, Ba1 and BB+ respectively. The Company generally maintains a healthy net debt-equity ratio and retains flexibility to raise funds as and when required. Even though FY 2011–12 witnessed a rise in debt of US$7.2 billion to fund the Cairn India acquisition and planned expansion programme, our balance sheet remained strong with net gearing of 35.3%.

The movement in net (debt)/cash in FY 2011–12 is set out below.

(In US$ millions, except as stated)	FY 2011–12	FY 2010–11
EBITDA	**4,026.3**	3,566.8
Operating exceptional items	**(230.2)**	(163.4)
Working capital movements	**439.2**	(652.0)
Increase in operational buyer's credit	**60.1**	12.5
Increase/(decrease) in supplier's credit	**(124.2)**	335.3
Changes in long-term creditors and non-cash items	**35.8**	128.8
Sustaining capital expenditure	**(386.2)**	(239.5)
Sale of tangible fixed assets	**23.6**	28.3
Net interest paid and dividend received	**(394.8)**	87.1
Tax paid	**(915.8)**	(756.6)
Free cash flow	**2,533.8**	2,347.3
Expansion capital expenditure[1]	**(2,398.2)**	(2,517.2)
Sale/(purchase) of fixed assets investments	**(3.9)**	(25.9)
Acquisition of minorities	**(60.3)**	(122.0)
Acquisitions, net of cash & liquid investments acquired	**(7,115.7)**	(1,036.7)
Purchase of mining assets	**(131.8)**	–
Buyback of shares of Vedanta Resources plc	**–**	(128.0)
Dividends paid to equity shareholders	**(144.0)**	(129.9)
Dividends paid to minority shareholders	**(219.7)**	(87.4)
Convertible Bond transfer and conversion	**–**	430.2
Other movement[2]	**(554.3)**	246.5
Movement in net (debt)/cash	**(8,094.1)**	(1,023.1)

1 On an accrual basis.
2 Includes foreign exchange movements.

On a proforma basis, as at 31 March 2012, we had a multiple of 1.9x net debt/EBITDA, 4.5x EBITDA/ gross interest expenses and 2.5x net asset/debt, which reflects a robust and strong balance sheet.

Of our total gross debt of US$17.0 billion, debt at our subsidiaries is US$7.7 billion with the balance in the holding company.

Following the Group structure simplification, debt liability at the holding company reduced by 65% to US$3.2 billion and debt service costs reduced significantly. Dividend policies at subsidiaries will result in significantly higher dividends at the holding company which will cover debt servicing.

Finance Strategy

The Company's capital management objectives are to safeguard continuity, maintain a strong credit rating and healthy capital ratios in order to support its business and provide adequate return to shareholders through continuing growth.

The Company sets the amount of capital required on the basis of annual business and long-term operating plans which include capital and other strategic investments. The funding requirement is met through a mixture of equity, internal accruals, convertible bonds and other long-term and short-term borrowings.

The Company monitors capital using a gearing ratio, (the ratio of net debt as a percentage of total capital) which at 31 March 2012 was 35.3%.

Our investments are consistent with our policy of investing in funds and banks with a low credit risk and high credit ratings. Investment portfolios of our Indian subsidiaries have been independently reviewed by the rating agency CRISIL as "Very Good".

We believe our strengthening presence across diverse businesses should further strengthen our credit profile and we are working towards improving our ratings to investment grade.

Post the acquisition of Cairn India, our priority is to reduce the debt at the holding company level. We are committed to maintain net debt to EBITDA at less than 2.75 times and net gearing below 40% through the cycle, as a prudent measure in our cyclical industry. We achieved net debt to EBITDA of 2.5 times and net gearing of 35% at the end of FY 2011–12. In an effort to further reduce these metrics, we continue to focus on higher EBITDA-free cash flow conversion by prioritising cost control and reviewing the capital expenditure programme.

We have also announced a new simplified corporate structure, which once approved by stake holders and regulatory authorities, should yield significant benefits through a more efficient capital structure, increased flexibility to allocate capital, broader access to markets and enhanced visibility of earnings and cash flow.

Financial Review continued

Project Capex

Sector	Project	Production volume	Country	Completion date	Project cost
Alumina	Lanjigarh I Alumina Refinery	1.0mtpa	India	Completed	1,015.3
	Debottlenecking Lanjigarh I	1.0mtpa	India	On hold	150.0
	Lanjigarh II Alumina Refinery	3.0mtpa	India	On hold	1,570.0
Aluminium	Korba III Smelter	325 KT	India	1st metal tapping by Q3 FY 2012–13	720.0
		1200MW CPP		1st unit synchronisation in Q1 FY 2012–13	1,100.0
	Jharsuguda I Smelter	0.5mtpa & 1215MW CPP	India	Completed	2,400.0
	Jharsuguda II Smelter	1.25mtpa	India	Progressively by Q3 FY 2013–14	2,920.0
	Balco Coal Block	211mt	India	Progressively by FY 2012–13	150.0
Power	Talwandi Sabo Power Project	1,980MW	India	FY 2013–14 (1st unit synchronisation in Q4 FY 2012–13)	2,150.0
	HZL WPP Project	150MW	India	Completed	190.0
	SEL IPP	2,400MW	India	4th unit synchronised in Q4 FY 2011–12	1,900.0
Zinc	Smelting	210ktpa Zinc	India	Completed	900.0
		100ktpa Lead	India	Completed	
		160MW CPP	India	Completed	
	Mining	RA 5 to 6mtpa	India	Completed	
		SK –2mtpa	India	Progressive	
Copper	KCM KDMP Project	7.5mtpa	Zambia	Q3 FY 2012–13	973.0
	KCM Nchanga Smelter	311ktpa	Zambia	Completed	473.0
	SIIL Expansion Project	400ktpa	India	EC awaited	367.2
		160MW CPP	India	1st unit in Q1 FY 2012–13, 2nd unit in Q2 FY 2012–13	132.8
Iron Ore	Pig Iron Expansion	375ktpa	India	Q1 FY 2013	150.0
	Sesa Iron Ore Mine Expansion	36mt	India	FY 2012–13	500.0
Infrastructure	Vizag Coal Berth		India	FY 2012–13	150.0
	Paradeep Port		India	–	88.0
	Total				17,999.3
	Other projects				
	Total				**17,999.3**

The conversion of EBITDA to free cash was at the rate of 62.9% in FY 2011–12 as compared to 65.8% in FY 2010–11. This decline, despite the release of working capital of approximately US$375.1 million, was due to higher routine capital expenditure and interest payments.

Investing in Organic Growth

We spent US$2,398.2 million on capital expenditure for growth projects in FY 2011–12 which was in line with our project capital expenditure spend in FY 2010–11. During the last five years we have invested US$12.6 billion in growth projects.

In its Power business, the Company has decided to pursue only the 1,980MW (3x660MW) thermal coal based power plant at Talwandi Sabo and the project work is progressing well.

We also spent US$386.2 million on routine capital expenditure in FY 2011–12, higher than the previous year's expenditure of US$239.5 million. This expenditure is for the upkeep of our plant and equipment, to continually optimise and improve operational standards and to increase the scale of our operations.

Return on Operating Capital ('ROOC') during FY 2011–12 was 7.7%, lower than the 21.2% generated during FY 2010–11. This reflected the fact that the investment in Cairn generated returns for a period of less than four months (as a subsidiary from 8 December 2011). On an annualised basis, the returns from Cairn stood at 10.7% during the year. ROOC is an important Key Performance Indicator ('KPI') for our businesses. Capital productivity is a high priority and we plan to enhance this ratio by optimising asset performance.

Spent in FY12	Spent to 31 March 12	Unspent on 31 March 12
–	982.0	33.3
1.4	73.7	76.3
20.6	825.2	744.8
248.4	596.1	123.9
128.3	803.8	296.2
–	2,324.4	75.6
305.5	2,280.8	639.2
7.2	12.0	138.0
612.0	973.5	1,176.5
113.9	190.0	–
136.1	1,651.7	248.3
46.6	799.8	100.2
33.4	830.2	142.8
11.8	472.3	0.7
2.7	109.8	257.4
–	150.0	–
54.3	138.7	11.3
51.9	128.9	371.1
39.0	58.7	91.3
–	–	88.0
1,889.7	13,377.0	4,622.3
508.5	558.9	
2,398.2	**13,935.9**	

Based on the expansion projects currently under way, approximately US$4.6 billion of funds are required to complete these projects over the next three years. This will be financed from existing cash resources, internal accruals and project financing.

In the coming year, US$4,152 million of debt falls due for repayment. Our cash and liquid investments, free cash generation and funds investment are sufficient to meet our capital and debt commitments. We have cash and liquid investments of US$6,885.3 million as at 31 March 2012 along with unused funding facilities of US$2,897.3 million, providing good liquidity.

Our debt maturity now averages 3.46 years as at 31 March 2012, as compared with three years as at 31 March 2011. Our current debt maturity profile in US$ million is outlined below:

Particulars	**Debt at Plc Companies**	Debt at Subsidiaries	Total
FY 2012–13	**996**	3,156	4,152
FY 2013–14	**1,950**	456	2,406
FY 2014–15	**1,383**	1,079	2,462
FY 2015–16	**310**	410	720
FY 2016–17	**2,515**	269	2,784
FY 2017–18 onwards	**2,121**	2,310	4,431
Total	**9,275**	7,680	16,955

Acquisitions

On 8 December 2011 we completed the acquisition of Cairn India Limited by acquiring 59% for an aggregate consideration of US$8.67 billion. A 39% stake is held by Vedanta Resources plc with the balancing 20% stake held through the Group's subsidiary Sesa Goa. Roughly 50% of the acquisition consideration was funded through internally generated cash flows, and only U$4.43 billion was funded through external debt.

In accordance with the requirement of the reverse takeover rules prescribed under the UK Listing Authority ('UKLA'), an application was made to the UKLA and the London Stock Exchange for readmission to listing of the Company's shares on the official list.

During the FY 2011–12, Sesa Goa acquired Iron Ore deposits in Liberia in Western Africa for a total consideration of US$90 million. In addition US$25 million of licence fees was paid to the Government of Liberia. This iron ore project comprises three deposits in Bomi Hills, Bea Mountain and Mano River with estimated deposits of over 1 billion tonnes of iron ore.

On 1 March 2012, Vedanta Resources plc, through its subsidiary Sesa Goa, acquired a 100% stake in Goa Energy Private Limited ('GEPL') from Videocon Industries at a consideration of US$9.5 million. The operating and financial results of GEPL have been consolidated from 1 March 2012. GEPL is in the business of power generation.

We continue to focus on enhancing the returns to our shareholders through periodic buyback of shares. During FY 2011–12 we had spent US$60.3 million on buying back shares in Sterlite.

The Government of India ('GoI') holds the minority stake in two of our Group companies – HZL (29.5%) and BALCO (49%). In line with our commitment to enhance the returns to our shareholders, we approached the GoI communicating our desire to purchase its stake in both companies. Whilst the GoI did not respond, we believe purchasing this stake would further improve the returns to our stakeholders.