Market Overview

Emerging markets continue to drive global demand

The Global Economy and Commodity Markets

Economic growth was led by emerging markets including China and India, albeit at a slower rate as their central banks tightened monetary policies. Developed countries retained expansionary monetary policies to sustain growth, given the eurozone financial crisis and high unemployment levels.

Commodity demand grew in absolute terms as emerging economies continued to invest in infrastructure, leading to higher levels of per capita metal consumption. Consensus view among economists indicates that China's growth will transition towards consumption. With infrastructure continuing to be a bottleneck to industrial growth in India, evolving government policies and a focus on investment in infrastructure remain key to mitigating supply constraints, even as consumption growth is driven by increasing urbanization and favourable demographics. Overall, growing prosperity in emerging market economies underpins their robust fundamentals, and Vedanta remains well-positioned with a strong operational and market presence in India, and proximity to China and other emerging markets.

Growth in commodity supply remained low, due to a variety of factors affecting output across the world, including rising capital and operating costs, declining grades, and many large mines nearing depletion. Political instability in the Middle East resulted in shocks to oil supply, leading to higher oil prices. Besides, evolving regulatory environments added to the political risk of mining and oil projects. With a well-invested capital expenditure program nearing completion, Vedanta remains focused on ramping-up projects to nearly double capacity in the near term, and create value on a long term basis.

Commodity prices US$/mt	FY 2009–10	FY 2010–11	FY 2011–12
Copper	6,112	8,138	8,475
Aluminium	1,868	2,257	2,313
Zinc	1,936	2,185	2,098
Lead	1,990	2,244	2,269
Silver ($/oz)	15.7	23.9	35.3
Iron Ore (63 Fe Grade)	79	144	149
Oil – Brent ($/bbl)	70	87	114

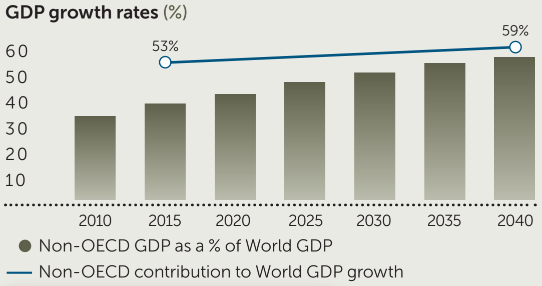
Source: London Metal Exchange, The London Bullion Market Association, Mysteel Iron Ore Index, Bloomberg.

Commodity prices were affected by the dynamics of physical supply-demand, the varying impact of financial contracts and slower economic growth, falling sharply in the October-December quarter, especially in the case of base metals like Aluminium, and Zinc, before partially rebounding in the next quarter. Marginal costs of production for each commodity provided support to prices, as high-cost producers curtailed production. Overall, average prices of most commodities in FY 2012 were higher than the previous year. In such a volatile environment, Vedanta benefited from a diversified portfolio of assets with low cost operations across base and precious metals, bulks and oil & gas.

Outlook

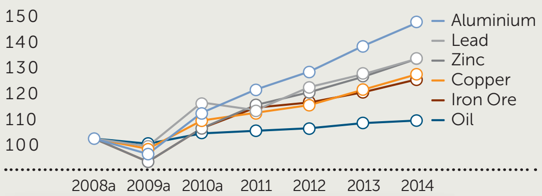
Fundamental demand for natural resources remains robust with metal consumption poised to increase as emerging economies progress on the road to development. Despite volatility in the short term and cost pressures, favourable supply-demand dynamics underpin strong support for long-term commodity prices. A more detailed review of market trends for each of Vedanta's businesses is included in the Operational Review on pages 38 to 57.

GDP growth rates (%)



Source: Global Insight, Morgan Stanley

Indexed Global Consumption by Commodity (2008 = 100)



Source: Brookhunt, Goldman Sachs Forecasts, and IEA