Principal Risks and Uncertainties

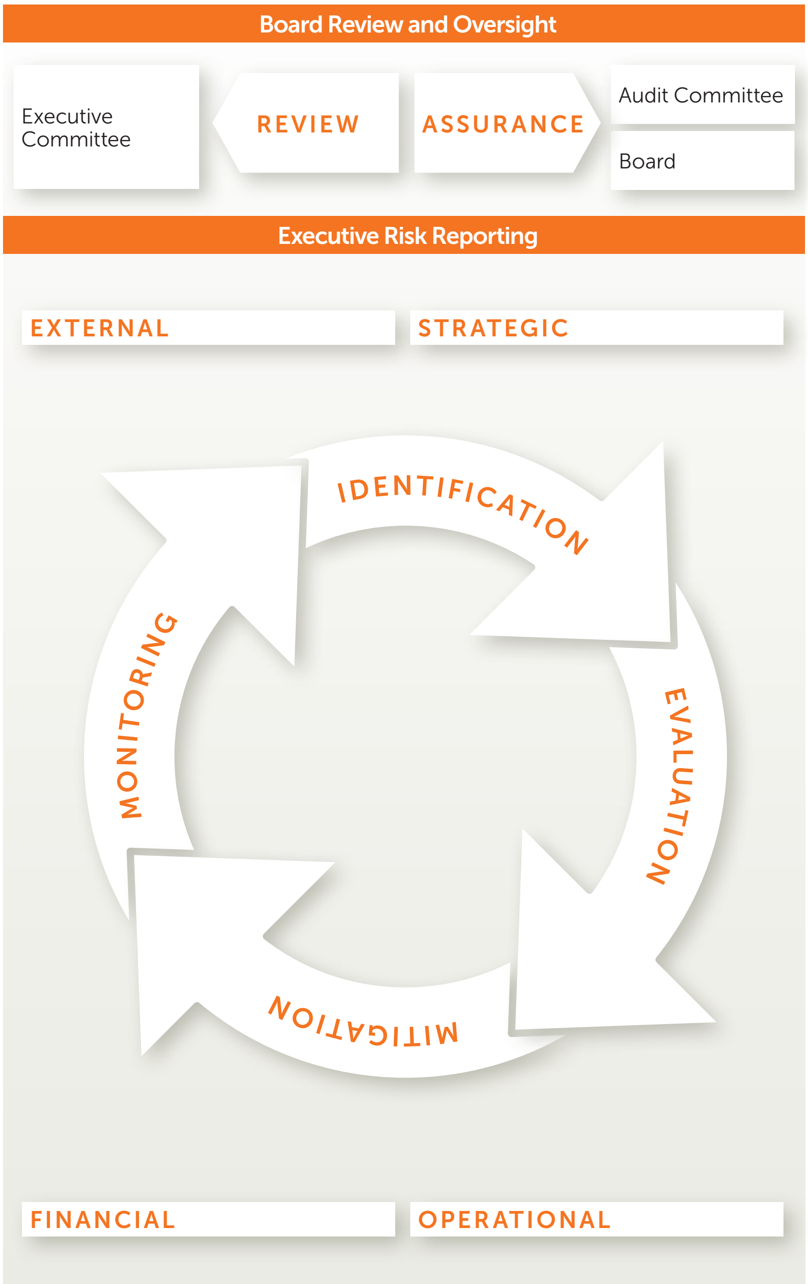
The management of risk is critical to the success of the Vedanta Group. The Group is exposed to a variety of risks which are inherent in an international mining and resources business. Understanding our risk and developing an adequate risk management system is critical to allow us to pursue growth opportunities, increase shareholder value and also manage a variety of risks which could have a strategic, financial, operational or reputational impact.

We are committed to a robust system of risk identification, backed by a robust risk management framework.

Our risk management framework acts as an effective tool in mitigating the various risks which our businesses are exposed to in the course of their operations as well as in their strategic actions. We have a continuous process to identify, analyse, evaluate and respond to possible future events or risks that might impact the achievement of objectives.

We are planning to set up an Risk Management Committee to be chaired by the Group Chief Executive Officer (CEO). This committee will meet quarterly to review risks as well as progress against the planned actions. Risk officers will be nominated both at Vedanta as well as operating company level. The committee will be briefed every quarter on risk management. The role of Chief Risk Officer (CRO) is being created to heighten awareness of the risk management framework at senior management level. The CRO will help the organisation to enhance its risk management progress and ensure that the risk management framework matures and grows with the organisation.

A consistently applied methodology using the Turnbull matrix is used to identify risk at the individual company level covering operations and projects. All the risks related to our businesses are identified and the top 20 risks are reviewed. Risk identification is also undertaken for support and corporate functions. Risk management is undertaken through a series of meetings at Company level and at key stages of projects. An update is performed periodically through the internal audit process.



Vedanta Risk Matrix

Risk		Gross Impact	Gross Likelihood
1. Delays in expansions and new projects	**Strategic**	●●●●○	●●●●○
2. Liquidity risks in terms of being able to fund operations and growth	**Financial**	●●●●○	●●●●○
3. Regulatory, economic, social and political uncertainty	**External**	●●●●○	●●●●○
4. Discovery risks	**Operational**	●●●●○	●●●○○
5. Commodity prices	**External**	●●●●○	●●●○○
6. Currency fluctuations may negatively affect our financial results	**Financial**	●●●○○	●●●○○
7. Failure to meet production and costs target	**Operational**	●●●○○	●●○○○
8. Health, safety, environmental risks	**Strategic**	●●●●○	●●●○○
9. Employee risks	**Strategic**	●●●○○	●●●○○

Once identified, the risk evaluation is done using a matrix to establish financial and non-financial impacts, the likelihoods of occurrence and the root causes analysis of the risk. The current controls to mitigate the risk are then reviewed to enable the development of a prioritised risk management plan.

The risk matrix is then reviewed by a committee comprising of the Group CEO, Group Chief Financial Officer ('CFO') and the Director-Management Assurance. The committee reviews the risks, changes in the nature and extent of the major risks since the last assessment, controls and action plans.

Many of the mitigation measures stated in the risk matrix relate to Group policies, the audit process and the audit plan to cover the key risks identified through the risk management programme. The control measures stated in the risk matrix are closely reviewed by the operating management teams to verify their effectiveness.

External Risks

Commodity Prices

Commodity prices may be volatile, which may have a material adverse effect on the Group's revenue and operating results.

Commodity prices and demand are cyclical and strongly influenced by world economic conditions. Commodity price volatility can result in material and adverse movements in the Group's revenue and operating results and a sustained drop would have a material adverse effect on its businesses, operating results, financial conditions and/or prospects. The Group's normal policy is to sell its products at prevailing market prices and not to enter into price hedging arrangements other than for businesses which are not fully integrated where back to back hedging is used to mitigate pricing risks. In rare circumstances we may enter into strategic commodity hedging but only with prior approval of the Executive Committee. Persistent economic imbalances that have led to recent volatility in commodity prices and demand may continue.

The key commodity price sensitivities on EBITDA resulting from a 10% increase in commodity prices are set out below:

	Average market price in FY 2011–12 (US$/tonne)	Effect on EBITDA of 10% change in LME (US$ million)	Effect on Underlying Attributable PAT
Copper	8,475	139.9	74.3
Aluminium	2,313	161.5	107.8
Zinc	2,098	221.0	81.0
Lead	2,269	37.3	12.5
Silver	35.3	23.9	7.2
Oil & gas	114	246.7	116.2

The above sensitivities are based on FY 2011–12 volumes, costs and exchange rates and provide the estimated impact on EBITDA of changes in prices assuming that all other variables remain constant.

Principal Risks and Uncertainties continued

External Risks continued

Regulatory, Economic, Social and Political Uncertainty

Regulatory, economic, social and political uncertainty in any of the countries and jurisdictions in which the Group operates including changes to fiscal regimes or other regulatory regimes.

Our mining, smelting and oil & gas operations are located in India, Zambia, Namibia, South Africa, Ireland, Australia, Sri Lanka and our holding and investment companies are located in jurisdictions including the United Kingdom, Jersey, Mauritius, the Netherlands, Cyprus and Australia.

The operation and expansion of various assets within the Group remain subject to legal proceedings, most notably the expansion of the Lanjigarh refinery in VAL, the Tuticorin smelter in Sterlite and the mines in the Karnataka area within Sesa Goa. Progress has been made during the year to clarify the actions needed to settle these matters and we are hopeful that the necessary approvals will be obtained within the foreseeable future.

The political, legal, fiscal and other regulatory regimes in these countries may result in higher operating costs or restrictions such as the imposition or increase in royalties or taxation rates, impact on mining rights and change in legislation pertaining to repatriation of money. Changes to government policies such as changes in royalty rates, a reduction in import tariffs in India, a reduction in assistance given by the GoI for exports and the reduction or curtailment of income tax benefits available to some of our operations in India, Namibia and Zambia are some of the examples of risks under this category. We may also be affected by the political acts of governments in these countries over which we have no control.

For example, the GoI has increased the cess on crude production by 81% which impacts the oil assets we recently acquired with Cairn India. The Government of India has also significantly revised the export duty on Iron Ore from 20% to 30% during FY 2011–12 impacting the profitability of our iron ore operations.

Any change in government policies and legislation, including resource nationalisation, may also affect our business and profitability, including any retrospective changes in government policy and legislation.

The majority of our Group revenues and profits are derived from commodities sold to customers in India. Any downturn in the overall health of the Indian economy or any political or regional instability may impact revenue margins, including any impact arising as a result import tariffs prevailing in India. For example in July 2011, the Supreme Court of India banned the mining of iron ore in the State of Karnataka in India, which affected our iron ore production and profitability during the year.

Financial Risks

Currency Fluctuations May Negatively Affect our Financial Results

Our assets, earnings and cash flows are influenced by a variety of currencies due to the diversity of the countries in which we operate. Fluctuations in the exchange rates of those currencies may have a significant impact on our financial results.

Although the majority of the Group's revenue is tied to commodity prices that are typically priced by reference to the US dollar, most of its expenses are incurred and paid in local currency such as the Indian rupee and, to a lesser extent, the Australian dollar, the South African rand, the Zambian kwacha and the euro. The exchange rates between the various currencies in which we incur expenses have changed substantially in recent years and may fluctuate substantially in the future.

Our Group borrowings are predominantly denominated in US dollars while a large percentage of cash and liquid investments are held in other currencies, mainly in the Indian rupee. Some financial assets and liabilities are not held in the local currency of the respective subsidiary.

For the financial year 2011–12 there was volatility in the Indian currency vis a vis the US dollar and the Indian rupee depreciated significantly, which increased our mark-to-market losses on US dollar loans. Our attributable profit is also impacted significantly where our companies have higher attributable shares.

The Group seeks to mitigate the impact of short-term movements in currency on its businesses by hedging its short-term exposures progressively based on their maturity. However, large or prolonged movements in exchange rates may have a material adverse effect on the Group's businesses, operating results, financial condition and/or prospects.

Financial Risks continued

Liquidity Risks in Terms of Being Able to Fund Operations and Growth

We require funds both for short-term operational needs as well as for long-term investment programmes mainly in growth projects.

If the Group is unable to obtain sufficient credit due to capital market conditions, it may not be able to raise sufficient funds to develop new projects, fund acquisitions or meet its ongoing financing needs. As a result, revenues, operating results, cash flows or financial position may be adversely affected.

The Group generates sufficient cash flows from the current operations which together with the available cash and cash equivalents and liquid financial asset investments provide liquidity both in the short term as well as in the long term.

Anticipated future cash flows and undrawn committed facilities of US$2,897.3 million, together with cash and liquid investments of US$6,885.4 million as at 31 March 2012, are expected to be sufficient to meet the ongoing capital investment programme and liquidity requirement of the Group in the near future.

The Group has a strong balance sheet that gives sufficient headroom to raise further debt should the need arise. The Group's current ratings from Standard & Poor's, Moody's & Fitch Ratings are BB, Ba1 and BB+ respectively (2011: BB, Ba1 and BB+ respectively). These ratings support the necessary financial leverage and access to debt or equity markets at competitive terms. The Group generally maintains a healthy net debt-equity ratio and retains flexibility in the financing structure to alter the ratio when the need arises.

Strategic Risks

Delays in Expansions and New Projects

If the Group's planned expansions and new projects are delayed, this could have a material adverse effect on the Group's businesses, operating results, financial condition and/or prospects.

The Group has a number of significant expansion plans for its existing operations and planned green field projects, which involve significant capital expenditure. The timing, implementation and cost of these expansion projects are subject to a number of risks, including the failure to obtain necessary licences, permits, consents and approvals, or funding for the projects. Any failure to obtain the requisite regulatory approvals may delay or prevent the Group from commencing commercial operations at certain of these projects.

For instance, the Group does not currently have all of the required environmental approvals for the proposed expansion at the alumina refinery at Lanjigarh and related mining operations in Niyamgiri Hills in the State of Orissa. These are subject to the outcome of certain legal proceedings pending before the Supreme Court of India.

In order to satisfy our bauxite requirements, we are in communications with the Orissa Government and other sources regarding the allocation of new mining leases. Sourcing of bauxite from mines in neighbouring states is also being pursued.

Any delay in completing planned expansions, revocation of existing clearances, failure to obtain or renew regulatory approvals, non-compliance with applicable regulations or conditions stipulated in the approvals obtained, suspension of current projects or cost overruns or operational difficulties once the projects are commissioned may have a material adverse effect on the Group's businesses, operating results, financial condition and/or prospects. Any delay in completing planned expansions could have a material adverse effect on Vedanta's credit rating, which may increase its borrowing costs.

The Company is also trying to develop relationships with private coal mines as well as actively working with the Government of India on how coal stock movement bottlenecks can be eliminated at State mines.

Principal Risks and Uncertainties continued

Strategic Risks continued

Health, Safety, Environmental Risks

Health, safety, environmental risks and related regulations may adversely affect our operations and reputation or licence to operate.

We are engaged in mining activity, power generation and now oil and gas and our operations are subject to extensive health, safety and environmental ('HSE') regulations and legislations. As regulatory standards and expectations are constantly developing, we may be exposed to increased litigation, compliance costs and unforeseen environmental rehabilitation expenses.

Potential health, safety, environmental and community events that may have a material adverse impact on our operations include rock fall incidents in underground mining operations, well blow-outs, explosions or gas leaks, uncontrolled tailings breaches, escape of polluting substances, uncontrolled releases of hydrocarbons, human rights breaches and community protests or civil unrest.

Longer-term health impacts may arise due to unanticipated workplace exposures or historical exposures to employees or site contractors. These effects may create future financial compensation obligations. We may continue to be exposed to increased operational costs due to the costs and lost time associated with infectious diseases such as HIV/AIDS and malaria mainly within our African workforce and the increasing global burden of chronic disease.

We have a structured programme of proactive engagement with our stake-holders on sustainability related matters.

Employee Risks

The Group depends on the experience and management skill of certain of its key employees.

The Group's efforts to continue its growth will place significant demands on its management and other resources and the Group will be required to continue to improve operational, financial and other internal controls, both in and outside India across all locations. The Group's ability to maintain and grow its existing businesses and integrate new businesses will depend on its ability to maintain the necessary management resources and on its ability to attract, train and retain personnel with the skills that enable it to keep pace with growing demands and evolving industry standards.

The Group is, in particular, dependent to a large degree on the continued service and performance of the executive management team of Vedanta and other key team members in the Group's business units. These key personnel possess technical and business capabilities that are difficult to replace. The loss or diminution in the services of Vedanta's executive management or other key team members, or its failure otherwise to maintain the necessary management and other resources to maintain and grow its businesses, could have a material adverse effect on its businesses, operating results, financial condition and/or prospects.

Operational Risks

Discovery Risks

Failure to discover new reserves, maintain or enhance existing reserves or develop new operations could negatively affect our future results and financial condition.

The increased demand for our products and increased production rates from our operations in recent years has resulted in existing reserves being depleted at an accelerated rate.

Actual reserves, resources or mineral potential may not conform to the geological, metallurgical or other expectations and the volume and grade of ore and/or hydrocarbons recovered may be below the estimated levels. As our revenues and profits are related to minerals and resource operations, our results and financial condition are directly related to our ability to replace existing reserves and the success of our exploration.

A failure in our ability to discover new reserves, enhance existing reserves or develop new operations in sufficient quantities to maintain or grow the current level of our reserves could negatively affect our results, financial condition and prospects. There are numerous uncertainties inherent in estimating ore and oil & gas reserves, and geological, technical and economic assumptions that are valid at the time of estimation may change significantly when new information becomes available. The uncertain global financial outlook may affect economic assumptions related to reserve recovery and require reserve restatements which could negatively affect our results and prospects.

Failure to Meet Production and Costs Targets

Our operations are subject to conditions and events beyond our control that could, among other matters, increase our mining, transportation or production costs, disrupt or halt operations at our mines, smelters and power plants and production facilities for varying lengths of time or even permanently. These conditions and events include disruptions in mining and production due to equipment failures, unexpected maintenance problems and other interruptions, non-availability of raw materials of appropriate quantity and quality for our energy requirements, disruptions to or increased cost of transport services or strikes and industrial actions or disputes. While many of these risks are beyond our control, we have adequate and competent experience in these areas and have consistently demonstrated our ability to manage these problems proactively.

The newly acquired oil & gas operations are also subject to common operational risks such as interruptions to power supplies, technical facilities, flooding, or other accidents.

Such risks and hazards may result in damage or harm to, or destruction of, properties, production, facilities, people and the environment. In addition, if a spill or other contamination results from production, storage, export, shipment or sale of oil or other hydrocarbon products occurs, this could result in significant environmental liabilities.

It is our policy to realise market prices for our commodities and the profitability of our operations is dependent upon our ability to produce metals at a low cost which in turn is a factor of our commercial and operational efficiencies and productivity. The prices of many of our input materials are influenced by a variety of factors including demand and supply as well as inflation.

An increase in the cost of such input materials would adversely impact our competitiveness