

The Directors' Report

Purpose of the Directors' Report

The Directors are pleased to present their Annual Report on the business of the Group, together with the financial statements and auditors' report, for the year ended 31 March 2012.

The purpose of the Directors' Report is to provide shareholders with certain statutory information about the Company, its Directors and operations. The Business Review, which forms part of the Directors' Report, informs shareholders and helps them assess how the Directors have performed their duty to promote the success of the Company. In addition, as a company listed on the London Stock Exchange, it is required to provide information which includes amongst other things, details of the Company's share capital, voting rights, rules on directors' appointments and significant agreements that alter on change of control.

Principal Activities

Vedanta Resources plc is the UK parent company of a diversified metals and mining group. The Group's principal operations are in India, Zambia, Australia, Namibia, South Africa, Liberia and Ireland. The major metals produced are aluminium, copper, zinc, lead, silver and iron ore. The Group is also developing a commercial power generation business. The Group recently entered into the oil and gas sector after completing an acquisition of a controlling stake in Cairn India Limited. Analysis of revenue, operating profit, principal activities and geographical origins appears in Note 3 of the financial statements and a list of the principal subsidiaries and of the Group may be found in Note 41 to the financial statements.

Business Review

The Business Review has been prepared in accordance with the Companies Act 2006 which requires the Company to set out a fair review of the business of the Group during the financial year, including an analysis of the position of the Group at the end of the financial year and the trends and factors likely to affect the future development, performance and position of the business. The Business Review is comprised of the Overview, Strategy and Performance sections within this annual report on pages 2 to 38.

Specifically, the information that fulfils the requirements of the Business Review, including principal risks and uncertainties and key performance indicators, can be found within the following sections, which are incorporated in this report by reference:

| Information | Location in the Annual Report | Page |
|---|--|--------|
| Key Performance Indicators | Strategy section | 24 |
| Description of the principal risks and uncertainties facing the Group | Strategy section | 26 |
| Strategy | Chairman's Statement and Strategy section | 7 & 14 |
| Future developments | Market Overview | 10 |
| Review of operations | Operational Review | 38 |
| Financial Review | Financial Review | 32 |
| Environmental matters | Contained within separate Sustainable Development Report | |
| Health and safety matters | Contained within separate Sustainable Development Report | |
| Community issues | Contained within separate Sustainable Development Report | |

The Business Review and other sections of this annual report contain forward looking statements. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company's ability to control or predict. Forward looking statements and past performance are therefore not guarantees of future performance. The information contained in the Business Review has been prepared on the basis of information and knowledge available to Directors at the date of preparation and the Company does not undertake to update or revise the content during the year ahead.

Corporate Governance

In accordance with the Financial Services Authority's Disclosure and Transparency Rules ("DTR") 7.2.1 the disclosures required by DTR7.2.2R to DTR7.2.5 and DTR7.2.7 may be found in the Corporate Governance Report on pages 62 to 68. Information referred to in DTR7.2.6 is located in this Directors' Report.

Important Events Subsequent to the Year End

Events since the balance sheet date are summarised in Note 40 on page 162 of the financial statements.

Dividends

The Directors recommend a final dividend for the year ended 31 March 2012 of 35.0 US cents per ordinary share (2011: 32.5 US cents per ordinary share). Subject to shareholders approving this recommendation at the Annual General Meeting on 28 August 2012, the final dividend will be paid on 5 September 2012 to shareholders on the register of members as at 17 August 2012.

Taken together with the interim dividend of 20.0 US cents per ordinary share paid to shareholders on 15 December 2011, the total dividend for the year is 55.0 US cents per ordinary share (2011: 52.5 US cents per ordinary share).

Directors

The names, specific responsibilities and biographical details of the current Board of Directors are shown on pages 58 to 59 and details of the Directors who held office during the year ended 31 March 2012 are shown in the Corporate Governance Report on page 64. Details of the remuneration of the Directors, their interests in the shares of the Company and service contracts are contained in the Remuneration Report on pages 83 to 91.

Appointment and Replacement of Directors

The Company's Articles of Association specify that the minimum number of Directors of the Company, unless determined by ordinary resolution, shall be two. There is no limit on the maximum number of Directors. The Company or the Board may appoint any person to be a Director. Any Director appointed by the Board shall hold office only until the next general meeting and is then eligible for election by the shareholders. The Articles specify that at least one-third of the Directors, or if their number is not three or multiple of three, the number nearest to one-third, shall retire from office. The Directors to retire by rotation are those who have been longest in office since appointment or reappointment. However, in accordance with the requirements of the UK Corporate Governance Code all of the Directors will retire at the forthcoming Annual General Meeting and being eligible will offer themselves for re-election.

Powers of the Directors

Subject to the provisions of the Companies Acts and the Articles of Association and to any directions given by special resolution, the business of the Company is to be managed by the Board which may exercise all the powers of the Company.

Directors' and Officers' Liability Insurance and indemnities

The Company purchases and maintains liability insurance for its Directors and officers and those of the subsidiaries of the Group, as permitted by the Companies Act 2006. The insurance policy does not provide cover where the Director has acted fraudulently or dishonestly. The Company believes that it is appropriate to provide such cover to protect Directors from innocent error as the Directors carry significant liability under criminal and civil law and under the UK Listing, Prospectus and Disclosure and Transparency Rules, and face a range of penalties.

In addition the Articles of Association of the Company contain an indemnity provision in favour of the Directors of the Company against proceedings brought by third parties, subject to the Companies Act 2006, to allow the Company to pay defence costs for the Director where the Director is exonerated.

Employees

Information on the Group's employees and its policies with respect to employees can be found in the Sustainable Development Report.

Charitable Donations

During the year, the Group made charitable donations of a total of US\$3.12 million (2011: US\$3.03 million). US\$2.31 million was paid to the Vedanta Foundation (2011: US\$1.68 million) and other charitable donations of US\$0.81 million (2011: US\$1.35 million) were made.

Further details about the Group's involvement with local communities during the year can be found in the Sustainable Development Report.

Political Donations

It is the Board's policy that neither Vedanta nor any of its subsidiary companies may, under any circumstances, make donations or contributions to political organisations within the United Kingdom or European Union. In exceptional circumstances, where such political donations or contributions are to be paid in the United Kingdom and European Union, and if deemed necessary for legitimate business reasons, they will not be made without the approval of the Board and the shareholders in the general meeting.

During the year, the Group made political donations in India of US\$2.01 million (2011: US\$0.02 million) either through a trust or directly in respect of the Indian general election. The Board believes that supporting the political process in India will encourage and strengthen the democratic process.

Supplier Payment Policy

The responsibility for determining payment terms is delegated to the individual businesses within the Group, which take into consideration the commercial circumstances, local market and industry practice. The Group's policy is either to settle terms of payment with suppliers when agreeing the terms of each transaction or to ensure that the supplier is aware of the individual business's usual payment terms. Payment is made in accordance with contractual and other legal obligations and reflects local market practices.

Trade creditor days of the Company at 31 March 2012 were 30 days (2011: 42 days).

Value of Land

Land is carried in the Balance Sheet at historic cost. It is not practical to estimate the market value of land at each balance sheet date.

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Research and Development

The Group's business units carry out research and development activities necessary to further their operations.

Material Shareholdings

As at 18 June 2012, the Company had been notified under the Disclosure and Transparency Rules, of the following significant voting rights in its shares:

| Name of holder | Number of ordinary shares of US\$0.10 each | Percentage of total ordinary share capital ¹ |
|------------------------|--|---|
| Volcan Investments Ltd | 167,953,056 | 56.57% |
| Chase Nominees Ltd | 8,996,515 | 3.03% |

¹ The voting rights at 31 March 2012 were 265,733,940 ordinary shares (net of treasury shares and shares held in GDR).

Articles of Association, Share Capital and Voting Rights

The following description summarises certain provisions in the Company's Articles of Association (the 'Articles') and applicable English law concerning companies (the Companies Act 2006, the 'Act'). This is a summary only and the relevant provisions of the Act or the Articles should be consulted if further information is required. Copies of the Company's current Articles are available for inspection at the Company's registered office.

Amendments to the Articles of Association

The Articles may be amended by only by special resolution passed by the Company's shareholders.

Share Capital

As at 31 March 2012 the issued share capital of the Company was comprised of 296,908,045 ordinary shares of US\$0.10 each and 50,000 deferred shares of £1 each.

Rights and Obligations Attaching to Shares

The rights and obligations attaching to the ordinary and deferred shares are set out in the Articles of Association. Details of the authorised and issued share capital together with movements in the Company's issued share capital during the year are shown in Note 33 of the financial statements.

6,904,995 ordinary shares of US10 cents each were issued on the conversion of certain convertible bonds issued by one of the company's subsidiaries. These 6,904,995 ordinary shares are held through a global depository receipt and carry no voting rights. Apart from the above, each ordinary share carries the right to one vote at general meetings of the Company. Holders of deferred shares are not entitled to attend, speak or vote at any general meeting of the Company, nor are they entitled to the payment of any dividend or to receive notice of general meetings.

Further details of the rights attaching to the deferred shares are set out in the Articles and summarised in Note 33 of the financial statements.

Variation of Rights

Subject to the provisions of the Act, the rights attached to any class may be varied with the consent of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

Deadlines for Exercising Voting Rights

Votes may be exercised at general meetings in relation to the business being transacted either in person, by proxy or, in relation to corporate members, by corporate representative. The Articles provide that forms of proxy shall be submitted not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

Restrictions on Voting and the Transfer of Shares

No member shall be entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares in the capital of the Company, either in person or by proxy, in respect of any share held by him unless all moneys payable by him in respect of that share have been fully paid. Furthermore, no shareholder shall be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll if he has been served with a notice after failing to provide the Company with information concerning interests in his shares that is required to be provided under the Act.

Issue of Shares

Under the Articles of Association, the Company has authority to allot new shares in the Company. Such authority would be exercised having regard to the Statement of Principles published by the Pre-emption Group.

Shares Held in Uncertificated Form

Subject to the provisions of the Uncertificated Securities Regulations 2001, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

Dividends and Distributions

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution. The treasury shares directly held by the Company are not entitled to receive a dividend.

Dividends may be declared and paid in any currency or currencies that the Board shall determine. The Board may also determine the exchange rate and the relevant date for determining the value of the dividend in any currency.

Purchase of the Company's Own Shares

At the end of the year, the Directors had authority, under a shareholders' resolution dated 27 July 2011, to make market purchases of up to approximately 10% of the Company's ordinary shares.

The authority expires at the conclusion of the Annual General Meeting of the Company in 2012 or on 1 October 2012, whichever is the earlier. A resolution to obtain a further authority will be proposed at the 2012 Annual General Meeting.

During the year the Company did not purchase any shares under its previously announced share buyback programme.

As at 31 March 2012 the Company held a total of 24,206,816 ordinary shares in treasury equal to 8.15% of the issued share capital.

Significant Agreements: Change of Control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, and capital market borrowing. The following are considered to be significant in terms of their likely impact on the business of the Group as a whole:

1. The US\$1.25 billion 5.50% guaranteed convertible bonds issued in July 2009 and the US\$883 million 4.0% guaranteed convertible bonds issued in March 2010, where a change of control gives investors the option to require the issuer to redeem their bonds at the principal amount, together with any accrued and unpaid interest, or convert their bonds at an adjusted exchange price for a certain period following the relevant event.
2. The US\$500 million 8.75% bonds due 2014 and US\$750 million 9.5% bonds due 2018, where a change of control requires the Company to make an offer to purchase all of the outstanding bonds at 101% of the principal amount together with any accrued and unpaid interest with a rating decline.
3. The US\$1 billion and US\$373 million syndicated loan and US\$200 million loan from ICICI Bank UK plc, where a change of control gives the majority lenders the right to declare the loans immediately payable.
4. In Cairn Financing where a change of control gives the majority lenders the right to declare the loans immediately payable.

All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions.

There is no contract between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Disclosure of Information to Auditors

In accordance with section 418 of the Companies Act 2006, each Director who held office at the date of approval of this Directors' Report confirms that:

- > so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- > they have taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Reappointment of Auditors

A resolution to reappoint the auditors, Deloitte LLP, will be proposed at the forthcoming Annual General Meeting. The reappointment of Deloitte LLP has been approved by the Audit Committee, which will also be responsible for determining the auditors' remuneration on behalf of the Board, subject to the approval of shareholders at the forthcoming Annual General Meeting.

Policy on Derivatives and Financial Instruments

An explanation of the Group's financial management objectives and policies together with details of the Group's exposure to price risk, credit risk, liquidity risk and foreign currency risk appears in Note 27 to the financial statements.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 57. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 32 to 37. In addition Note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group requires funds both for short-term operational needs as well as for long-term investment programmes mainly in growth projects. The Group generates sufficient cash flows from its 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 million, together with cash and liquid investments of US\$6,885 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 foreseeable future.

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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 and Fitch are BB, Ba1 and BB+ respectively. These ratings support the necessary financial leverage and access to debt or equity markets at competitive terms, taking into consideration current market conditions. The Group generally maintains a healthy gearing ratio and retains flexibility in the financing structure to alter the ratio when the need arises. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Annual General Meeting

The ninth Annual General Meeting of the Company will be held on 28 August 2012 at 3pm. The Notice convening the Annual General Meeting accompanies this Annual Report and sets out details of the business to be considered.

Signed on behalf of the Board

Deepak Kumar
Company Secretary
16 May 2012

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