

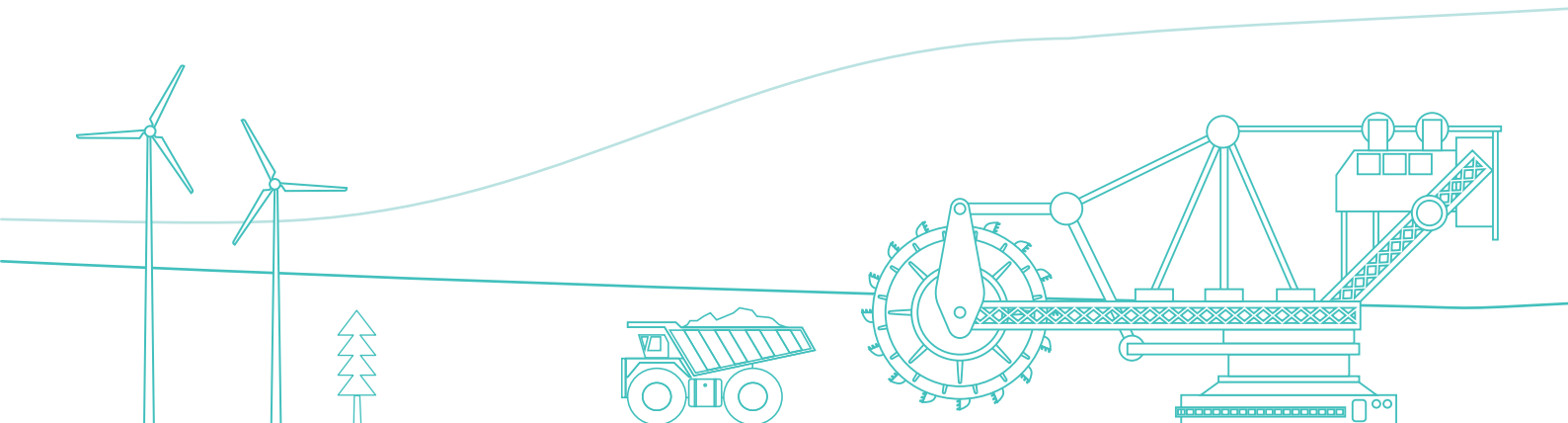
# Channelling growth opportunities



VEDANTA LIMITED

INTEGRATED REPORT AND ANNUAL ACCOUNTS

**2017-18**



# Management Assurance Statement

## Core Purpose

Vedanta is a globally diversified natural resources company with low-cost operations. We empower our people to drive excellence and innovation to create value for our stakeholders. We demonstrate world-class standards of governance, safety, sustainability and social responsibility.

## Our reporting theme

The theme for our 2018 Integrated Report is 'Channelling Growth Opportunities'. We expect FY2019 to be another productive year for your Company, with ramp-ups across Zinc, Oil & Gas and Aluminium businesses continuing. The next phase of growth projects announced during the year set a strong base for the future. With a strong balance sheet and a clear capital allocation strategy, we are confident about Vedanta's prospects for the coming years and are optimistic about the long-term outlook for the global resources sector.

## About the Report

This is the first Integrated Report of Vedanta Limited. The Report aims to provide a holistic picture of our financial and non-financial performance to our stakeholders. It aims to present the Company's preparedness for short, medium and long-term value creation across financial, environmental, social and governance aspects. It is in line with the Regulation 34 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and SEBI circular on voluntary adoption of Integrated Reporting, dated February 6, 2017.

The non-financial information, value-creation process, strategic framework, material issues and other key content elements of the Report are presented as per the Integrated Reporting <IR> framework of the Integrated Reporting Council (IIRC).

## Regarding the Financial Statements 2018

We have provided consolidated and standalone financial statements in our printed Report prepared in accordance with the Indian Accounting Standards (Ind AS) notified under the Companies (Indian Accounting Standards) Rules, 2015 (as amended from time to time).

In line with our ambition and value creation, this Report is structured around our stakeholders and reflects our transition, successes and future aspirations.

Our primary stakeholders that Vedanta impacts, and who influence our ability to achieve our vision, have been identified as our people, shareholders, principals, suppliers, customers, communities and the environment.

Our material matters are derived by considering the factors that could substantially affect our ability to create value in the short, medium, or long term and these matters have formed the content of the Report.

An independent audit was performed by SR Batliboi & Co., LLP, expressing an unmodified opinion. The opinion on the financial statements is included in the IAR, on pages 188 and 271.

## Scope and Boundary

This Report covers information on manufacturing operations of Vedanta Limited, its subsidiaries, raw material locations and corporate offices.

## Board responsibility

The Board of Directors acknowledges its responsibilities to ensure the integrity of this Integrated Report. The Board believes the Report addresses all material issues and presents the integrated performance of the Group and its impact in a fair and accurate manner. The Board authorized this Report for release on 3 May, 2018.

## Forward-looking statements

Certain statements in this document constitute 'forward-looking statements' which involve known and unknown risks and opportunities, other uncertainties and important factors that could turn out to be materially different following the publication of actual results.

These forward-looking statements speak only as of the date of this document. The Company undertakes no obligation to update publicly, or release any revisions, to these forward-looking statements, to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events.



# Contents

## Strategic Report

|       |   |
|-------|---|
| IFC   | Core Purpose & Management Assurance Statement |
| 2-3   | Vedanta at a Glance                           |
| 4-5   | Highlights 2017-18                            |
| 6-7   | The Vedanta Investment Case                   |
| 8-9   | Chairman's Statement                          |
| 10-13 | CEO's Statement                               |

## Channelling Growth Opportunities

|       |   |
|-------|---|
| 14-15 | Oil for India, from India                       |
| 16-17 | Gamsberg: The Market's Major New Source of Zinc |
| 18-19 | Zinc India: Success Beneath the Surface         |

## Our Integrated Approach

|       |  |
|-------|--|
| 20-21 | Materiality Matrix                     |
| 22-23 | Our Six Capitals and Underlying Values |
| 24-25 | Value Creation Model                   |
| 26-27 | Strategic Framework                    |
| 28-29 | Key Performance Indicators             |
| 30-37 | Opportunities and Risks                |
| 38-41 | Stakeholder Engagement                 |
| 42-43 | Board of Directors                     |
| 44-47 | Executive Committee                    |
| 48-49 | Awards & Accolades                     |

## Management Review

|        |                                  |
|--------|----------------------------------|
| 50-55  | Market Review                    |
| 56-67  | Sustainability & CSR             |
| 68-105 | Management Discussion & Analysis |

## Statutory Reports

|         |                                |
|---------|--------------------------------|
| 106-117 | Business Responsibility Report |
| 118-163 | Directors' Report              |
| 164-188 | Report on Corporate Governance |

## Financial Statements

|         |                         |
|---------|-------------------------|
| 189-271 | Standalone Financials   |
| 272-372 | Consolidated Financials |



66

FY2018 was a transformational year for Vedanta. The diversified, well-invested and low-cost portfolio of the Company delivered industry-leading volume growth during the year.

99

Navin Agarwal  
Chairman



Gamsberg mine

## Vedanta at a Glance

# Large and diversified asset base of long-life, low-cost assets

### Building a world-class portfolio

#### Oil & Gas



Operator of

# 25%

of India's crude oil production

#### Business

Cairn India

#### Production volume in FY2018

# 186 kboepd

(Average daily gross production)

FY2018 exit: 200 kboepd

#### EBITDA FY2018 (₹ crore)

# 5,429

#### Asset highlights

- Largest private sector oil and gas producer in India
- Executing one of the largest polymer Enhanced Oil Recovery (EOR) projects in the world

#### Application areas

Crude oil is used by hydrocarbon refineries and natural gas is mainly used by the fertiliser and power generation sectors

#### Zinc-Lead-Silver



# 78%

of market share in India's zinc market

Zinc India (HZL)  
Zinc International

# 960 kt

Zinc-lead, Zinc India

# 558 tonnes

Silver, Zinc India

# 157 kt

Zinc-lead, Zinc International

# 12,258

Zinc India

# 1,415

Zinc International

- World's second-largest integrated zinc-lead producer, operating the world's largest zinc mine at Rampura Agucha, India
- Among the top 10 silver producers globally
- Gamsberg R&R potential of 215 mt with 15 mt of Zinc MIC

- Galvanising for infrastructure and construction sector
- Die-casting alloys, brass, oxides and chemicals

#### Aluminium



# 40%

share in India's primary market

Aluminium smelters at Jharsuguda and Korba (BALCO), Lanjigarh  
Alumina Refinery

# 1,675 kt

Aluminium

# 1,209 kt

Alumina

# 2,904

- Largest aluminium capacity in India of 2.3 mtpa
- Strategically located large-scale assets with integrated power plants and an alumina refinery

- Finds use in construction, transportation and electrical industries
- Used to produce ingots, wire rods, billets, primary foundry alloys and rolled products

## Power



# 9 GW

diversified power portfolio

Power plants at Talwandi Sabo, Jharsuguda and Korba

# 11 bn Kwh

(Power Sales)

# 1,669

- One of India's largest power generators
- 3.6 GW of commercial power generation capacity, balance for captive usage
- Leading producer of wind power in India

60% is for captive use while 40% is used for commercial purposes (92% is backed by long-term power purchase agreements with local Indian distribution companies)

## Copper



# 33%

market share for refined copper in India

Copper India

# 403 kt

# 1,308

- One of the largest copper producers in India

- Used for making cables, transformers, castings, motors and castings and alloy-based products

## Iron Ore



# Largest

private sector exporter in India

Iron Ore India

# 7.1 mt

# 460

- Karnataka iron ore mine Reserves and Resources (R&R) of 100 mt, with life of 20 years

- Essential for steel manufacturing
- Used in construction, infrastructure and automotive sectors

## Highlights 2017-18



### Financial highlights

- Revenue increased by 22% to ₹ 92,923 crore (FY2017: ₹ 76,171 crore) driven by firmer commodity prices and volume ramp-ups
- EBITDA at ₹ 25,470 crore, up 19% (FY2017: ₹ 21,437 crore)
- Robust adjusted EBITDA margin of 36% (FY2017: 39%)
- ROCE improved by 2.5% to 17.5% (FY2017: 15%)
- Free Cash Flow (FCF) post capex of ₹ 7,880 crore (FY2017: ₹ 13,312 crore)
- Gross debt at ₹ 58,159 crore (FY2017: ₹ 71,569 crore), a reduction of ₹ 8,512 crore in 12 months (excluding repayment of temporary borrowing by Zinc India and preference shares issued pursuant to the Cairn India merger in April 2017)
- Net debt at ₹ 21,958 crore (FY2017: ₹ 8,099 crore)
- Strong financial position with cash and liquid investments of ₹ 36,201 crore
- Crisil upgraded the Company's Rating (CFR) from 'AA/Stable' to 'AA/Positive'
- Vedanta Limited announced a record interim dividend of ₹ 7,881 crore in March 2018
- Contribution to the exchequer of c. ₹ 33,000 crore in FY2018
- Vedanta Limited's resolution plan to acquire Electrosteel Steels Limited approved by NCLT; the acquisition, subject to completion of due processes, will complement the Group's existing Iron Ore business through vertical integration

### Business highlights

#### Oil & Gas

- March 2018 exit run-rate of over 200 kboepd
- Growth projects on track with contracts of US\$1.3 billion (gross) awarded

#### Zinc India

- Record annual production of refined zinc-lead at 960 kt
- Record annual production of refined silver at 558 tonnes
- On track for ramp-up of mined metal to 1.2 mt by FY2020

#### Zinc International

- Annual production in line with guidance
- Gamsberg project on track with production expected by mid-CY2018

#### Iron Ore

- Mining cap allocation for Karnataka increased from 2.3 mt to 4.5 mt
- Goa mining operations shut due to state-wide ban

#### Copper India

- Record annual production

#### Aluminium

- Record annual production at 1.7 mt, with an exit run-rate of c. 2.0 mtpa

#### Power

- 1,980 MW Talwandi Sabo power plant achieved 93% availability in Q4 FY2018 (FY2018: 74%)





## Consolidated results

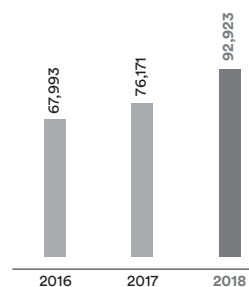
(₹ crore, unless stated)

|   | FY2018 | FY2017 | % change |
|---|--------|--------|----------|
| Net Sales/Income from Operations                    | 92,923 | 76,171 | 22%      |
| EBITDA  | 25,470 | 21,437 | 19%      |
| EBITDA Margin <sup>1</sup> (%)                      | 36%    | 39%    | -        |
| Profit before Depreciation and Taxes                | 22,955 | 20,058 | 14%      |
| Profit before Exceptional Items                     | 16,672 | 13,766 | 21%      |
| Profit After Taxes                                  | 13,692 | 11,319 | 21%      |
| Profit After Taxes (before Exceptional Items)       | 12,869 | 11,467 | 12%      |
| Profit After Taxes (before Exceptional Items & DDT) | 11,333 | 11,663 | (3)%     |
| Attributable PAT after Exceptional Items            | 10,342 | 6,958  | 49%      |
| Attributable PAT (before Exceptional Items)         | 9,561  | 7,127  | 34%      |
| Attributable PAT (before Exceptional Items & DDT)   | 8,025  | 7,323  | 10%      |
| Basic Earnings Per Share (₹/share)                  | 28.30  | 23.47  | 21%      |
| Basic EPS before Exceptional Items (₹/share)        | 26.17  | 24.04  | 9%       |
| Basic EPS before Exceptional Items & DDT (₹/share)  | 21.96  | 24.70  | (11)%    |
| ROCE (%)  | 17.5   | 15.0   | 17%      |
| Total Dividend (₹/share)                            | 21.20  | 19.45  | 9%       |

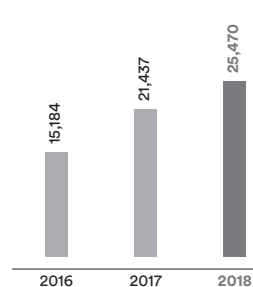
1. Excludes custom smelting at Copper India and Zinc India operations.

2. Previous period figures have been regrouped/rearranged wherever necessary to conform to current period presentation.

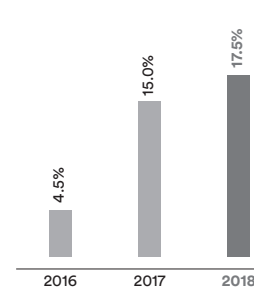
**Revenue**  
(₹ crore)



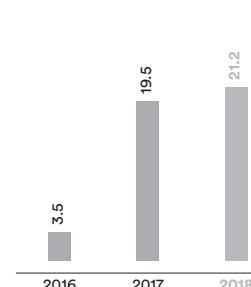
**EBITDA**  
(₹ crore)



**Return on Capital Employed (ROCE) (%)**



**Dividend**  
(₹ per share)



# The Vedanta Investment Case

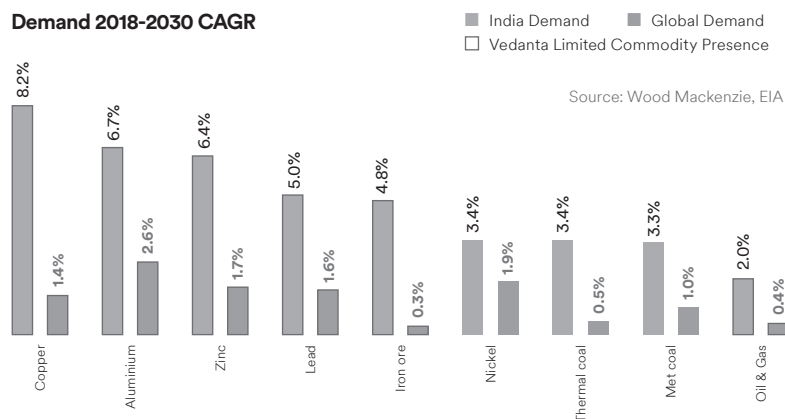
Our investment case is focused on delivering sustainable long-term returns to our shareholders and creating value for our broader stakeholder base.

## 1 A large, low-cost and diversified asset base with an attractive commodity mix

Vedanta's large-scale, diversified asset portfolio, with attractive cost positions in some of the core businesses, positions the Company well to deliver strong margins and free cash flows through the commodity cycle. Vedanta's focus on base metals and oil, commodities with strong fundamentals and leading demand growth, makes the Company's commodity mix particularly attractive.

In FY2018, markets have seen an upturn driven by improved demand and supply-side constraints. This has benefitted the commodities sector, and in particular Vedanta's core commodities, including zinc, aluminium and oil & gas.

Demand 2018-2030 CAGR



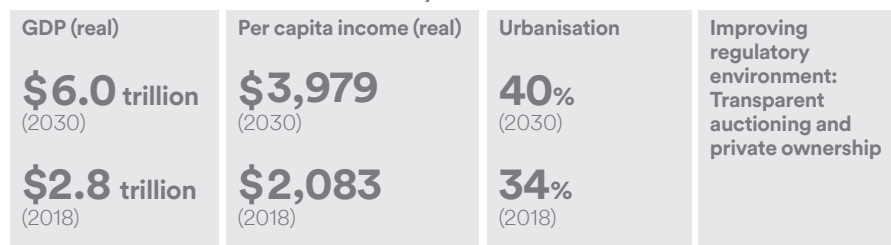
## 2 We're ideally positioned to capitalise on India's growth potential

India is Vedanta's main market, and one that has huge growth potential. Current per capita metal consumption in India is significantly lower than the global average. Urbanisation and industrialisation, supported by government initiatives on infrastructure and housing, continue to drive strong economic growth and generate demand for natural resources.

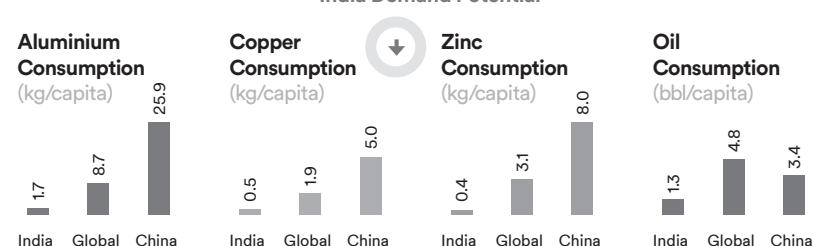
We are strongly and uniquely positioned to benefit from this growth due to our:

- Established operations in India;
- Strong market position across our businesses: we are India's largest base metals producer and the largest private sector oil producer; and
- Operating team with a strong track record of executing growth in India.

India Key Metrics



India Demand Potential



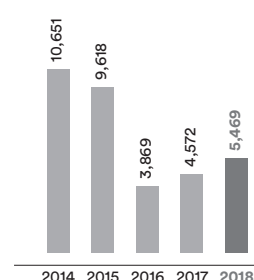
Source: Wood Mackenzie, EIA, BMI, Global Insight

Note: All commodities-demand correspond to primary demand

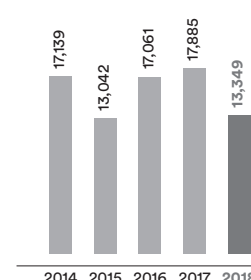
## 3 Well-invested assets driving cash flow growth

We are ramping up production across a number of our businesses as a result of investments in the past years. We have already started seeing the results of our investments, with Zinc India and Aluminium delivering record output in the past year. Now, with the new growth plans for Oil & Gas that we initiated in FY2018, we expect further delivery on ramp-ups and strong growth in FCF generation.

Growth Capex  
(₹ Cr)



Free Cash Flow pre Capex  
(₹ Cr)

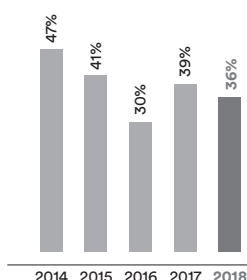




## 4 Operational excellence and technology, driving efficiency and sustainability

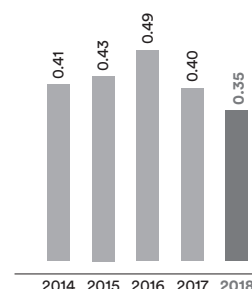
We constantly strive to improve our operations, integrate our businesses through the value chain and optimise our performance through operational efficiencies and innovative technological solutions. We employ these tools to further ensure that our operations have a positive impact on our stakeholders and, more broadly, society.

**EBITDA Margin**  
(%\*)



\* Excludes custom smelting at Zinc India and Copper operations

**LTIFR**



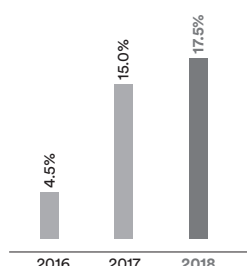
Note: ICMM 2014 methodology adopted from FY2016 onwards

## 5 Strong financial profile

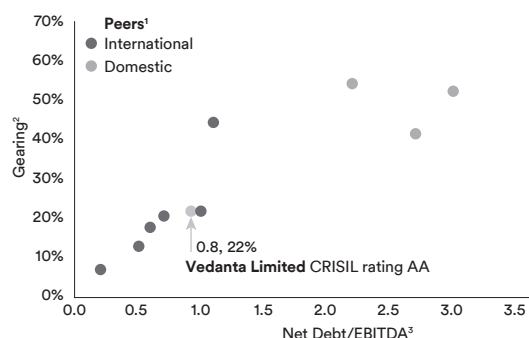
Our operational performance coupled with a strong focus on optimisation of capital allocation has helped strengthen Vedanta's financial profile. In FY2018, operational delivery, supported by the robust price environment, has helped deliver:

- Strong FCF post growth capex of ₹ 7,880 crore
- Gross debt reduction of ₹ 8,512 crore
- Robust ROCE of 17.5%
- Highest ever interim dividend of ₹ 7,881 crore paid in FY2018 (dividend yield of 8%)
- Amongst the strongest balance sheets, with respect to Net Debt/ EBITDA (0.9x) and gearing, amidst global diversified peers, and the best in India
- Cash and liquid investments of ₹ 36,201 crore
- CRISIL (subsidiary of S&P) and India Ratings revised outlook to 'AA/Positive' from 'AA/Stable' in March 2018 and October 2017, respectively

**ROCE**  
(%)



**Strong Balance Sheet**

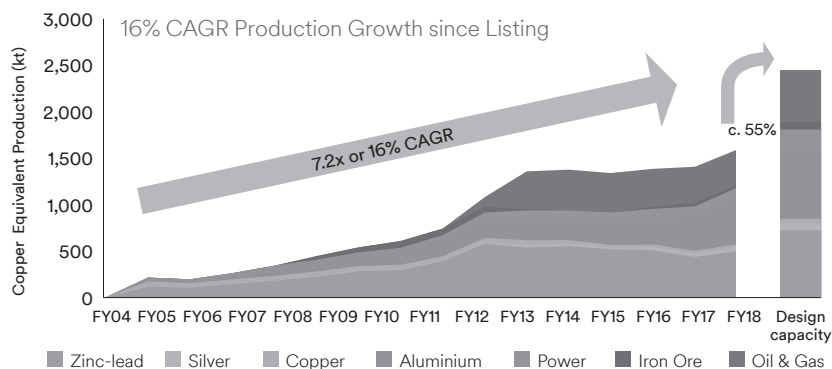


1. Peers include BHP Billiton, Rio Tinto, Anglo American, Glencore, Teck Resources, Freeport, Hindalco, Tata Steel and JSW Steel
2. Gearing is calculated as Net Debt divided by the sum of Net Debt and Equity (based on reported numbers)
3. Net Debt as per last reported EBITDA as per CY2018 consensus estimates

## 6 Proven track record

We have a proven management team with a diverse and extensive range of sector and global experience who ensure that operations are run efficiently and responsibly. We have taken a disciplined approach to development, growing our production steadily across our operations with an ongoing focus on operational efficiency and cost savings. Since our listing in 2003, our assets have delivered an average of 16% CAGR production growth.

**Total Production**  
(Copper equivalent kt)



Note: All commodity and power capacities rebased to copper equivalent capacity (defined as production x commodity price/copper price) using average commodity prices for FY2018. Power rebased using FY2018 realisations, copper custom smelting production rebased at TC/RC for FY2018, iron ore volumes refer to sales with prices rebased at realised prices for FY2018

## Chairman's Statement



# Sound foundations for the future

Navin Agarwal  
Chairman

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**I am delighted to report that your Company delivered another excellent year in FY2018.** 99

Strong operational achievements were complemented by a robust financial performance that returned significant cash to shareholders. This was made possible by the skill and commitment of our management and employees, who delivered the planned ramp-ups across our portfolio of well-invested Tier-I assets.

A disciplined capital allocation approach, underpinned by strong commodity prices, provided further strength to our performance.

But we are equally proud of the increasingly significant role we are playing in Indian society. As one of the country's largest corporates, we continued to create jobs, support our host communities, generate value along our entire supply chain and contribute to the national exchequer.

As you will see, this is our first Integrated Report, another step that underlines our commitment to providing transparent and meaningful disclosures to all our stakeholders. Vedanta aspires to work to the highest standards of governance and transparency, and this report, based on the 'six capitals' approach, reflects that commitment.

### A strong performance

The improving commodity market we saw in the previous year gathered further momentum in FY2018 and we rapidly boosted productivity across our various segments to maximise the favourable conditions. This blend of positive market sentiment and production ramp-up led to a remarkable, and indeed record-breaking, performance. We delivered unprecedented annual production of refined zinc-lead and silver at Zinc India as we made the successful transition to underground mining. Our aluminium business also saw an all-time-high exit rate at c. 2.0 mt.

These record volumes translated into robust financials. We registered 22% revenue growth at ₹ 92,923 crore. Our strong cash flow and productivity focus helped to drive 19% y-o-y growth in EBITDA at ₹ 25,470 crore, and sustained our EBITDA margin at a healthy 36%. In keeping with our philosophy of continually rewarding our shareholders, we paid our highest-ever interim dividend of ₹ 21.2 per share, aggregating to a total payout of ₹ 7,881 crore during the year.

### Committed to sustainability

We continued to make significant efforts to strengthen our Health, Safety and Environmental (HSE) practices, leading to the lowest Lost-time Injury Frequency Rate (LTIFR) since 2012. However, with deep regret, we reported seven fatalities during the year in our operations. We are determined to create an environment where everyone goes home safe every

day and to this end, we have bolstered our HSE organisation by recruiting ten experts with global experience and methods. The safety of our colleagues is a top priority for me personally as well as for the Board, and our CEO Kuldip Kaura addresses this further in his statement.

In the wider community, we have always believed that a company's performance should be measured not just by what it creates but also by what it gives back.

Over the course of FY2018, Vedanta invested over ₹ 244 crore in social programmes, directly touching the lives of 3.36 million people across 1,400+ villages. This includes our participation in the 'Nand Ghar' programme in rural India, which involves setting up and transforming 4,000 state-of-the-art child welfare centres across the country.

Our social initiatives straddle important intervention areas such as skill-building; education for girls; providing safe, clean drinking water; nutrition and healthcare and encouraging the health and social benefits that come through sport. Vedanta, through the Vedanta Medical Research Foundation, also inaugurated central India's first world-class cancer facility in Raipur, Chhattisgarh in the past year. This initiative aligns with the larger vision of Vedanta Group's commitment to give back to society and I look forward to many more R&D initiatives from the foundation going forward.

During the year, our continuing investments also helped us to make measurable progress in reducing our environmental, energy and carbon footprint. Indeed,

