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**Vedanta Resources plc**  
Annual Report 2005

Diversified metals and mining

# Delivery and Growth

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Vedanta is a London listed metals and mining company with its principal operations throughout India and further operations in Zambia and Australia. The major metals produced are aluminium, copper, zinc and lead.

Our goal is to generate strong financial returns and create a world-class metals and mining group.

**This year we have shown exceptional delivery in all areas of our strategy. Continuing to deliver on our unique growth profile is what drives our business forward.**

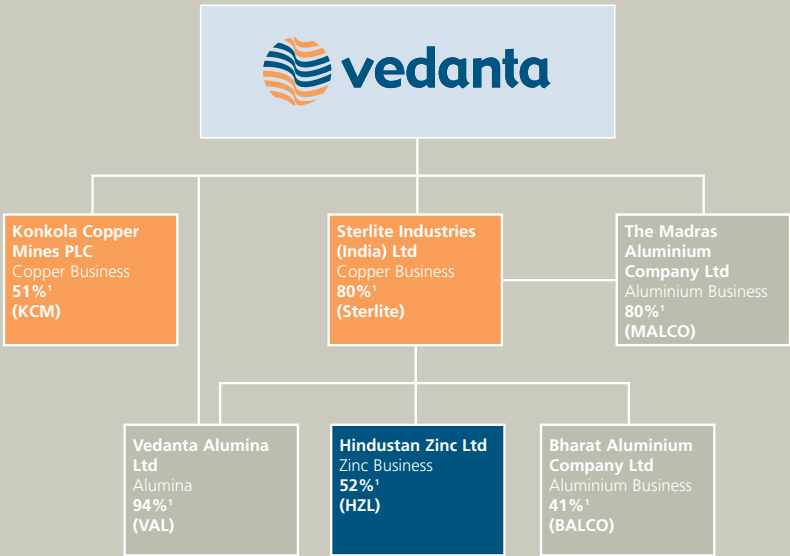
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# Vedanta at a Glance

## About Vedanta



Vedanta listed on the London Stock Exchange in December 2003. It is in the FTSE 250, Metals and Mining sector. The principal operations are located in India, with further operations in Zambia and Australia. Vedanta has a unique profile of organic growth with an investment pipeline of \$2.2 billion – expanding production in each of our metals. Vedanta offers access to the exceptional opportunities of India, which combines low metal consumption with world class but undeveloped mineral resources. The Group believes it has the skills and opportunities to deliver highly cost effective projects which will secure Vedanta's position as a world class, cost competitive producer.

<sup>1</sup>Economic Interest of Vedanta

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## Operations



Sterlite is principally a copper smelting and refining business in India with two small copper mines in Australia. The capacity at Tuticorin smelter was increased in April 2005 from 180,000 tpa to 300,000 tpa. The output is refined into copper cathode and rod at Tuticorin and Silvassa.

KCM is an integrated copper operation based in the heart of the Zambian copper belt. It was acquired in November 2004, with capacity for 250,000 tpa of finished copper.

MALCO and BALCO are integrated aluminium producers with captive bauxite mines. MALCO, in Tamil Nadu, is the only aluminium producer in southern India with capacity of 35,000 tpa. The more substantial operations at BALCO, in Chhattisgarh, are close to major supplies of bauxite and coal. Capacity at BALCO is being expanded from 100,000 tpa to 350,000 tpa, with commissioning expected in March 2006. VAL, in Orissa, is a new project which will mine bauxite and refine alumina mainly for the new aluminium capacity at BALCO.

HZL is India's only integrated lead and zinc producer and one of the lowest cost producers in the world. The main operations are in Rajasthan, north west India. In May 2005 the facilities were expanded to take capacity from 220,000 tpa to 390,000 tpa of finished zinc.

# Delivering against our strategy

## Optimise the performance of the existing assets

Vedanta's plans for its Businesses will de-bottleneck plants, improve efficiency, expand output and drive down unit costs. Major projects include a new power plant and zinc smelter at Chanderiya, expansion of the Rampura Agucha zinc mine and the expansion of the Tuticorin copper smelter.

Both of our new projects are now complete. In April 2005, a new copper smelter was commissioned at Tuticorin increasing capacity from 180,000 tpa to 300,000 tpa. In May 2005, the new power plant and zinc facilities at Chanderiya were commissioned, taking capacity from 220,000 tpa to 390,000 tpa.

1

## Finance greenfield growth

Two large greenfield projects, the 250,000 tpa GAMI-based aluminium smelter at the Korba complex and the proposed 1.0 million tpa alumina refinery in Orissa, offer attractive economics and future growth.

The project at Korba is on track for commissioning in March 2006. The alumina for this expansion will come from the new bauxite mine and refinery now under construction at Orissa. Funding is fully in place for all projects.

2

## Consolidate the Group structure

Vedanta will seek to increase its direct ownership in the underlying Businesses.

The Group has made significant progress increasing and raising our share of profits from 46% in the prior year to 52% in the second half of the year. An option over the Government's 49% holding in BALCO is currently in progress. There is an option over the Government's 30% holding in HZL exercisable in 2007 and the potential to take ownership in KCM from 51% to 80%. Opportunities to consolidate the Group structure will continue to be pursued, where they add value.

3

## Leverage established skills

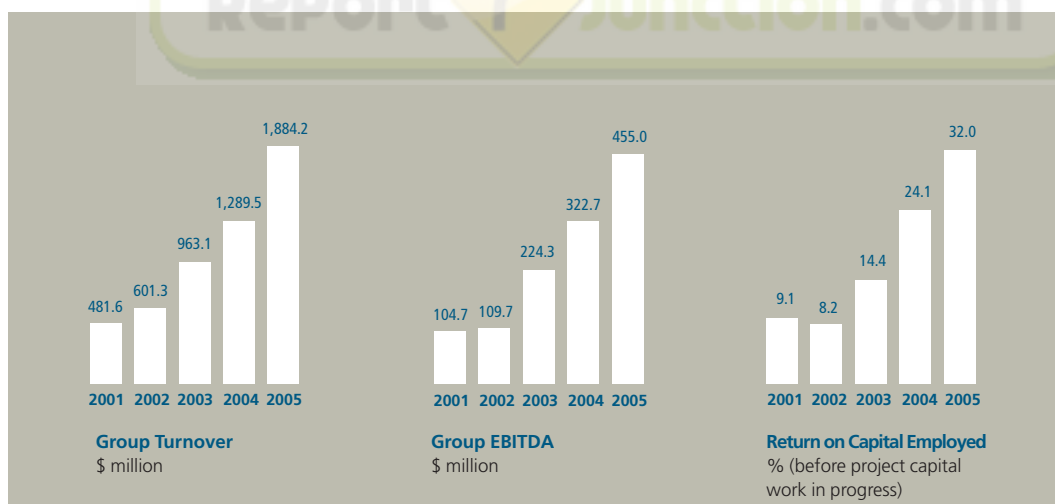
Vedanta will seek further growth opportunities in India, including the Government's privatisation programmes and also outside its traditional Indian base, in operations where its proven transactional, operating and turnaround skills can provide a competitive advantage.

The KCM operation in Zambia was acquired during the year, and expansion and improvement of this operation is anticipated using the experience developed at our existing operations. We will take advantage of further opportunities as they arise.

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# Highlights for 2005

- Group turnover<sup>1</sup> up by 46.1%
- Group EBITDA<sup>2</sup> up by 41.0%
- Group operating profit before exceptional items<sup>1</sup> up by 41.3%
- ROCE<sup>2</sup> up from 24.1% to 32.0%, excluding project capital work in progress
- EPS<sup>2</sup> based on Underlying Profit<sup>2</sup> up by 81% to 48.1 US cents per share
- Increased share of profits from 45.9% to 51.1%
- Expansion programme progressing well
  - Tuticorin copper smelter announced April 2005
  - Chanderiya zinc smelter announced May 2005
- Acquisition of Konkola Copper Mines in Zambia in November 2004



	2005	2004
Group turnover (\$ million)	<b>1,884.2</b>	1,289.5
Group EBITDA (\$ million)	<b>455.0</b>	322.7
Group EBITDA Margin <sup>2</sup>	<b>24.1%</b>	25.0%
Group operating profit before exceptional items (\$ million)	<b>353.7</b>	250.4
Group operating profit before exceptional items margin	<b>18.8%</b>	19.4%
Earnings per Share (based on Underlying Profit) (US cents per share)	<b>48.1</b>	26.6
Return on Capital Employed	<b>13.7%</b>	16.9%
Return on Capital Employed (excluding project capital work in progress)	<b>32.0%</b>	24.1%

<sup>1</sup> Refer to consolidated profit and loss account on page 68

<sup>2</sup> Refer to Glossary and Definitions on page 123

All \$ figures in this report refer to US dollars

# Delivering performance...

Aluminium		<b>Turnover</b> \$281.7 million	<b>EBITDA</b> \$75.6 million	<b>Production</b> 135,926 tonnes	<b>Operating companies/ Economic Interest</b> BALCO 41 % MALCO 80 %	<b>Activity</b> Integrated aluminium producers
Copper	India/Australia	<b>Turnover</b> \$765.5 million	<b>EBITDA</b> \$85.2 million	<b>Production</b> 171,992 tonnes	<b>Operating companies/ Economic Interest</b> Sterlite 80 % CMT 80 % TCM 80 %	<b>Activity</b> Copper smelter and refinery with our mines supplying approximately 20% of copper concentrate requirements
	Zambia	<b>Turnover</b> \$249.2 million	<b>EBITDA</b> \$76.0 million	<b>Production</b> 67,547 tonnes	<b>Operating company/ Economic Interest</b> KCM 51 %	<b>Activity</b> Integrated copper producer
Zinc		<b>Turnover</b> \$486.4 million	<b>EBITDA</b> \$218.8 million	<b>Production</b> 212,445 tonnes	<b>Operating company/ Economic Interest</b> HZL 52 %	<b>Activity</b> Integrated zinc producer

2004 / 2005

**May 2004**  
New Government elected in India.

**September 2004**  
Economic Interest in Sterlite increased to 81% following Sterlite rights issue.

**November 2004**  
Acquired 51% of Konkola Copper Mines PLC.

**December 2004/  
January 2005**  
Issue of \$600 million 6.625% bonds due February 2010.

# ...in all areas of the business

**Employees**  
5,300

**Capacity**  
135,000 tpa

**Capacity post expansion**  
385,000 tpa

**Commentary**

The existing assets operated well through the year with production at full capacity for the period. Profits rose sharply, benefiting from rising metal prices. Considerable progress has been made on the major expansion at the Korba plant, BALCO with \$562 million of the \$900 million budget spent to date. The project is on track for commissioning in March 2006.



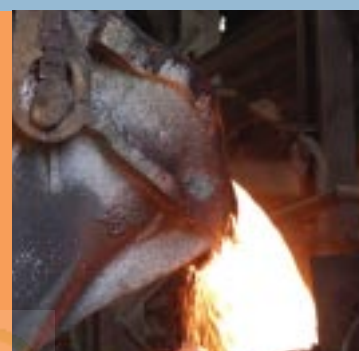
**Employees**  
1,000

**Capacity**  
180,000 tpa

**Capacity post expansion**  
300,000 tpa

**Commentary**

The expansion at Tuticorin received permission in April 2005 which will take our production of finished copper from 180,000 tpa to 300,000 tpa. Costs have continued to be held under control, declining from 7.8 US cents per pound to 7.1 US cents per pound. With the expanded capacity we hope to reduce costs toward our target of 6.0 US cents per pound, which will reinforce our status as one of the lowest cost operators globally.

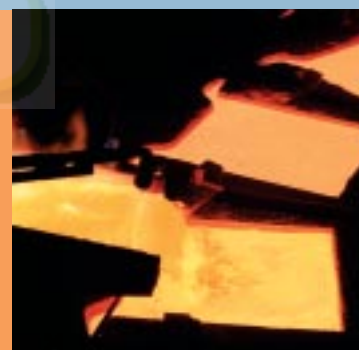


**Employees**  
10,200

**Capacity**  
250,000 tpa

**Commentary**

Vedanta acquired a 51 % stake in Konkola Copper Mines of Zambia in November 2004. This transaction has been earnings enhancing in its first year. The immediate aim is to stabilise and raise production, and reduce unit costs. We are pursuing the development of the Konkola Ore Body Extension Project, which will dramatically change the output and life-of-mine at the operations.



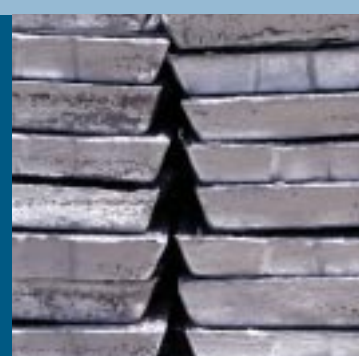
**Employees**  
6,000

**Capacity**  
220,000 tpa

**Capacity post expansion**  
390,000 tpa

**Commentary**

The financial performance of HZL was exceptional over the course of the year, benefiting from high zinc prices and strong sales. The expanded smelter was commissioned in May 2005 and raises the capacity from 220,000 tpa to 390,000 tpa. It was delivered on schedule and below budget.



**April 2005**

Discussions with Orissa State Government with a view to development of an iron ore mine in that State.

**April 2005**

Support from the President of Zambia for expansion at Konkola Copper Mines and Nkana smelter.

**April 2005**

Permission received to operate the Tuticorin copper smelter in the State of Tamil Nadu, increasing production of copper from 180,000 tpa to 300,000 tpa.

**May 2005**

Expanded smelter commissioned at HZL which raises capacity from 220,000 tpa to 390,000 tpa.

# Chairman's Statement



Vedanta is a unique growth story and our profile of organic growth is unrivalled in the metals and mining industry. This has been an exciting year for Vedanta. We have made strong progress and have delivered on several of our development projects. We continue to focus on our growth strategy and have moved forward in all areas. We remain confident of continuing to deliver this growth in the year ahead.

At the time of our Listing we set out a four part strategy. The first pillar of our strategy is to optimise the performance of our existing assets, which includes the expansions in our copper and zinc operations. In April 2005, we started commissioning our copper smelter at Tuticorin and the new 300,000 tpa facility is producing metal. On 31 May 2005, we announced the commissioning of the new facilities at Chanderiya, supported by the expanded output at Rampura Agucha mine. This was completed around 15% below the forecast budget of \$425 million and well below the benchmark costs for comparable international projects. We will continue to look for opportunities to optimise performance and lower costs in all aspects of our operations.

The second part of our strategy is to complete the two greenfield projects; the 250,000 tpa aluminium complex at BALCO, and the new 1 million tpa alumina plant at Orissa. The facilities at BALCO are proceeding on schedule, we are carrying out technology trials on some of the pots and are producing metal. The alumina refinery at Orissa is also on track and budget. As mentioned in our April 2005 production report, public interest submissions regarding environmental clearance are currently being addressed within a timetable set by the Supreme Court of India.

The third pillar of our strategy is the consolidation of our Group structure and further good progress has been made over the year. The most significant change came from the \$434 million rights issue in Sterlite which allowed us to increase our Economic Interest in Sterlite to 81% and to inject funds into Sterlite for use in our expansion programme. The exercise of the option in BALCO continues to proceed with independent valuers having been appointed by the Government. We will continue to pursue opportunities to simplify the structure of the Group where possible.

In November 2004 we completed our acquisition of Konkola Copper Mines, at a gross cost of \$49.2 million. This forms the fourth pillar of our strategy; leveraging our existing skills through investment opportunities. At current high copper prices Konkola is profitable, but the aim is to place the operations in a position where they are more profitable through the commodity cycle and to give KCM a more solid long-term outlook. Our immediate focus is to improve processes and stabilise production levels. There are considerable opportunities for future development at KCM, including the world class Konkola Ore Body with resources of 210 million tonnes containing copper at 3.8%.

During the year the Company received its first credit rating, Baa3/BB, since upgraded to BB+. This placed us at the Indian sovereign limit, which given the dominance of Indian assets was as high as could be expected. We raised \$600 million in a bond issue and the Board believes that we have a well balanced mix of funding in place for our current expansion projects. Over the year we have spent \$735 million on our \$2.2 billion project pipeline. This brings total spending to date to \$1,029 million. We are confident of remaining within our gearing target of under 45% of Capital Employed throughout our current spending programme.

We believe that there are several opportunities that will allow us to develop our growth strategy further and extend the expansion pipeline. This will take advantage of the strong cashflow that will be produced as the current projects come into production and reflects the many options that we have to continue to achieve volume growth in the long-term.

We are reviewing further aluminium smelting capacity, to take advantage of the production from VAL, with the possibility over time of an additional 500,000 tonnes of finished aluminium per annum. We also signed a memorandum of understanding with the State Government of Orissa regarding an iron ore project with related steel facilities. These are both at an early stage and any projects will be pursued on the basis of maintaining positive financial returns. There are opportunities for expansions elsewhere in our existing operations, and we are evaluating projects in both zinc and copper.

## Chairman's Statement *continued*

This has been an exceptional period for metal prices driven by strong demand from China. This has also had an impact on several input prices, particularly energy related costs such as oil and coal. There has been much talk of a super cycle and the potential for a prolonged period of above average commodity prices. Our policy is to remain focused on delivering our new projects and lowering our costs, which will allow us to take advantage of the significant growth opportunities offered within India and to stay profitable regardless of the commodity market cycles.

A new Government, led by the Congress party, was elected in India in May 2004. The new Government has maintained a policy of growth and liberalisation. Metal use in India continues to grow above global levels and the long-term attractions of the Indian economy remain considerable. India has been much talked about as an attractive investment destination, attracting growing levels of foreign investment and the potential to become a major regional manufacturing hub. I believe we are well placed both to take advantage of this growth and also to contribute to the future development of India by providing vital basic resources.

In March 2005, I took over as Chairman of the Board and KK Kaura became Chief Executive. I would like to thank Michael Fowle, my predecessor as Chairman, and Jean-Pierre Rodier for their guidance and input during the past year. Sir David Gore-Booth sadly died during the year and his counsel will be greatly missed. I am pleased that we have appointed three new Non-executive Directors with complementary experience and we intend to appoint a further senior independent Non-executive Director in due course.

The Board is proposing a final dividend for the year of 11.55 US cents per Ordinary Share, an increase of 5% on last year's implied final dividend of 11.0 US cents. Last year we paid a single dividend of 5.5 US cents per Ordinary Share, for the four months for which we were listed, equivalent to an annual payment of 16.5 US cents per Ordinary Share. The total dividend for the year is 17.05 US cents per Ordinary Share. The increase in dividend at this early stage reflects the Board's confidence in continued successful delivery and we remain committed to a progressive dividend policy.

The delivery of our projects and the growth of our business could not have been achieved without the efforts of the Board, management and employees of Vedanta, who have shown great commitment to building this success.

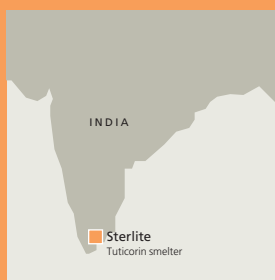
The success in all areas of our strategy over the past year has been encouraging and in the next twelve months we will see progressive benefit from the recently commissioned facilities at Chanderiya and Tuticorin and a full year's contribution from KCM. We remain focused on completing Korba and Orissa as well as evaluating opportunities to extend our unique growth pipeline. We are confident of showing good progress over the next twelve months and delivering value to all stakeholders.

Anil Agarwal  
Chairman  
1 June 2005

# Delivering a \$2bn expansion programme

## Tuticorin copper smelter

Investment  
**\$87m**



The copper operations of Sterlite have now been significantly expanded taking total capacity from 180,000 tpa to 300,000 tpa. The project included new acid and oxygen plants and a 22.5 MW power plant. A new cathode refinery of 120,000 tpa and 100,000 tpa rod plant have also been built at Tuticorin.

The site is well placed for export from the nearby port of Tuticorin. Anode from Tuticorin will continue to be refined at the existing plant at Silvassa for the domestic market. Sterlite is already one of the lowest cost copper producers in the world and the new facilities should allow costs to be reduced further towards our target of 6.0 US cents per pound.

COMPLETED

## Rampura Agucha zinc mine

Investment  
**\$90m**



At the heart of the operations at Hindustan Zinc is the Rampura Agucha mine, a world class ore body, highly regarded for its consistent and high grade ores and low cost of production.

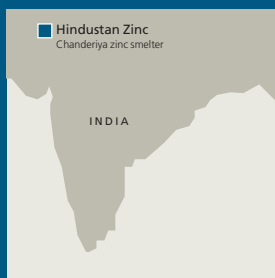
Expansion has taken place to increase the output from the Rampura Agucha mine from 2.0 million tpa to 3.75 million tpa. This will meet the requirements of the new smelting facility at Chanderiya.

Drilling work has also been undertaken around the mine which has taken reserves to 50.1 million tonnes. This has extended the life of the mine by three years at the expanded level of production. Further exploration is being undertaken.

COMPLETED

## Chanderiya zinc smelter

Investment  
**\$335m**



HZL is India's only integrated zinc company, operating from mine to finished metal. The ore produced at the mines contains lead which is smelted alongside the zinc.

New facilities at Chanderiya were commissioned in May 2005, taking total zinc capacity from 220,000 tpa to 390,000 tpa. The project was delivered on time and significantly below our budget and the international benchmarks. HZL is already one of the lowest cost producers of zinc globally and the expansion will allow costs to be reduced further.

A new 50,000 tpa lead smelter is also being built, which will take total capacity to 85,000 tpa and should be commissioned by the end of the financial year.

COMPLETED