

VEDANTA RESOURCES plc  
ANNUAL REPORT 2006

## CREATING VALUE

Diversified metals and mining

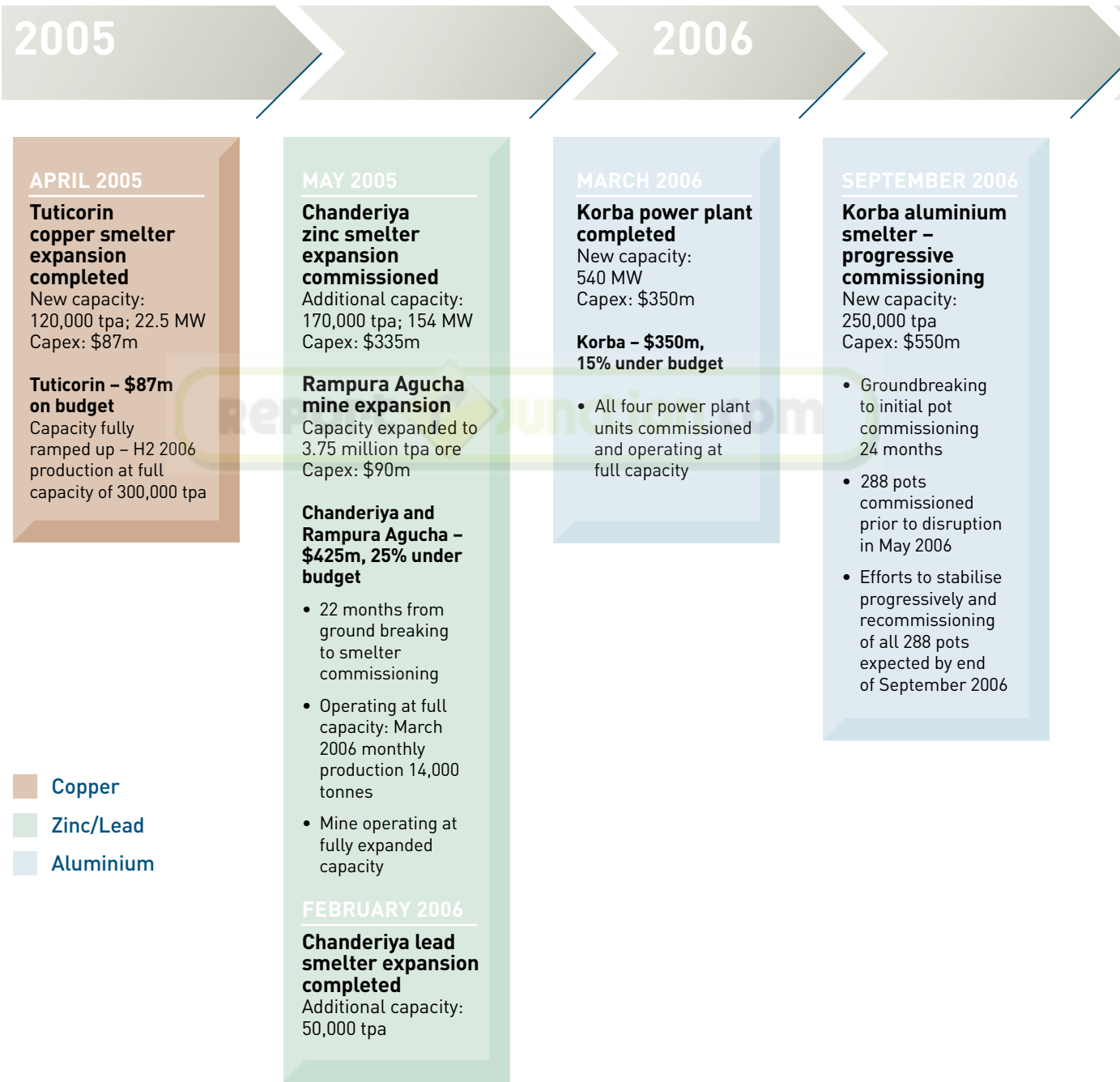
**Our mission is to create a world-class metals and mining group and generate strong financial returns.**



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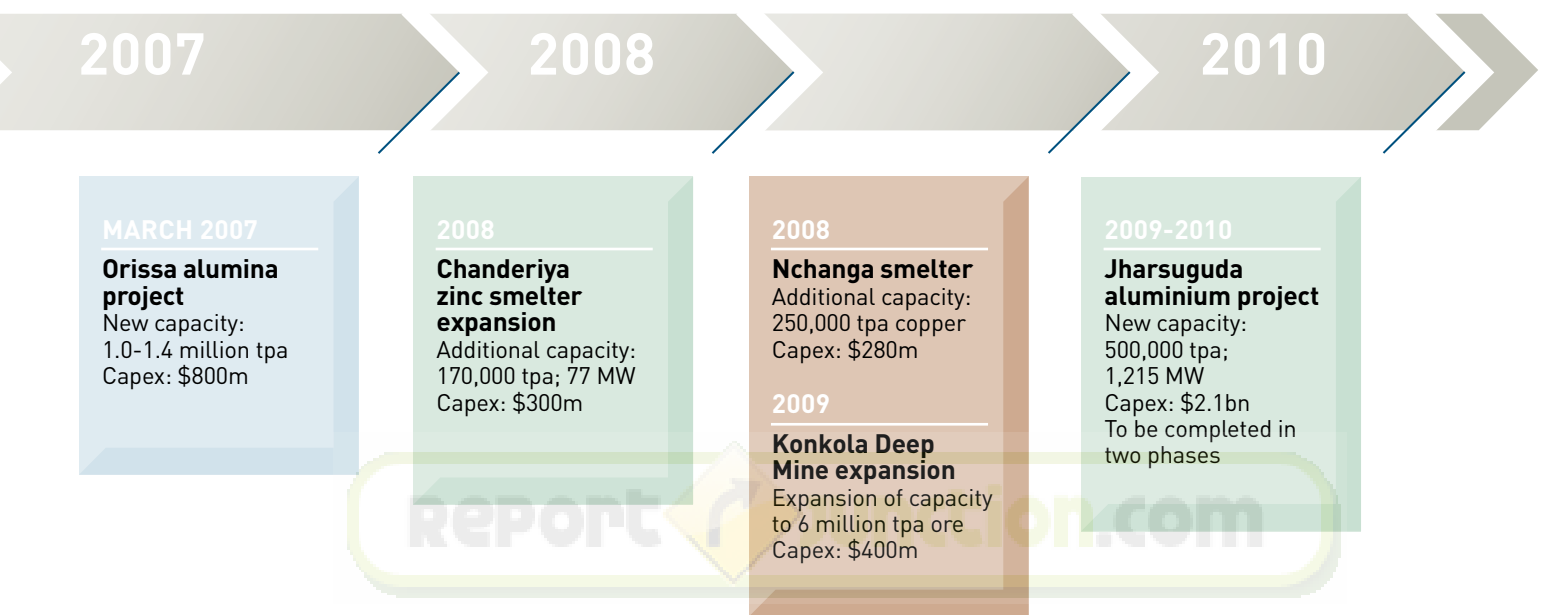
# Established Track Record for Project Delivery on Time and within Budget...

## Delivered/Commissioned



\$1.4bn of projects out of a committed \$2.2bn in Phase I already delivered.

## ...with Phase II Projects on course



## Development

- Phase II projects leverage existing strengths and core competencies:
  - Replicating current technologies;
  - Enhancing integration; and
  - Leveraging operations and market infrastructure.
- Staggered project implementation;
  - Benefits from project execution expertise and incorporates lessons learnt; and
  - Uses the same internal team and suppliers to deliver similar configurations at other Group locations.
- Development projects reduce overall project and business risks and support rapid growth by:
  - Being located close to resources
  - Benefiting from economies of scale
  - Further improving the Group's low cost position.

# Our Performance in 2006

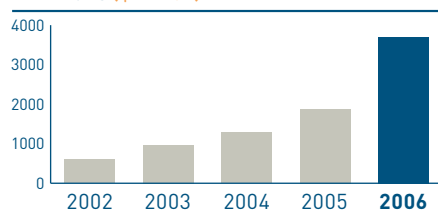
## Record Financial Performance

- Group revenue up 96.5% to \$3,702 million and Group EBITDA up 142.6% to \$1,102 million, driven by better prices and strong volume growth
- Operating profit up 187.7% to \$944 million
- Strong balance sheet with net assets of \$2.3 billion and gearing of under 1%
- ROCE (excluding project capital work in progress) significantly higher at 37.9% up from 32.0%
- Basic EPS up 108.3% at 130.2 US cents, EPS on the basis of Underlying Profits up 166.3%
- Final dividend proposed at 14.3 US cents per share bringing full year dividend to 20.0 US cents

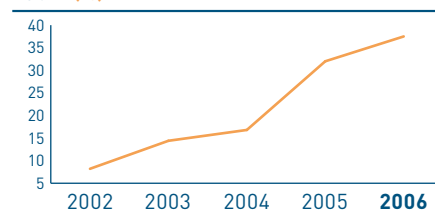
## Volume-Led Growth

- Phase I expansion projects in copper and zinc completed
- Korba aluminium smelter production being ramped up progressively
- Second phase of expansion projects totalling \$3.1 billion announced during the year
- 50,000 tpa lead plant commissioned making us India's largest primary producer of lead

REVENUES (\$million)



ROCE\* [%]

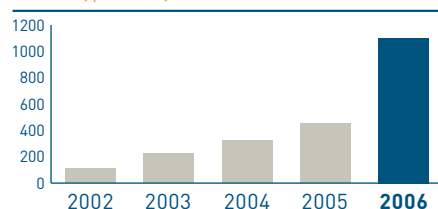


\* ROCE excludes capital work in progress

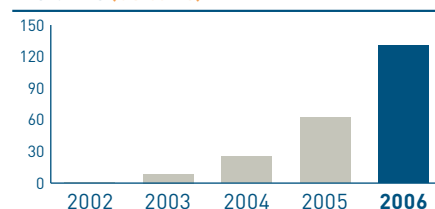
SHARE PRICE PERFORMANCE (£)



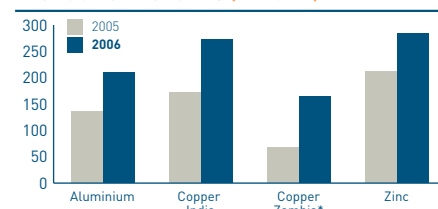
EBITDA (\$million)



BASIC EPS (US cents)



PRODUCTION VOLUMES ('000's mt)



The financial information for the above graphs for 2002-2004 is under UK GAAP

\* Copper Zambia 2005 numbers pertain for five months.

## Chairman's Statement

# Creating new value through vision, delivery and growth



### Performance in 2006

I am privileged to be writing to you following a year of spectacular growth in your company. Vedanta's market capitalisation now stands at over \$7 billion compared with under \$2 billion at the time of the IPO in December 2003. Total shareholder returns ('TSR') during the year ended 31 March 2006 were 204% with the Group achieving record EBITDA of over \$1.1 billion. Using the TSR measure, Vedanta's 2006 returns were superior to all diversified metals and mining companies listed on the UK main market.

I firmly believe we are unique due to the strength of our project growth pipeline. In our first phase of growth, the expanded Tuticorin copper smelter, the new zinc smelter at Chanderiya and the new aluminium smelter at Korba have been commissioned with capital costs and timeframes ahead of industry norms. The next phase of our growth with investments of over \$3 billion is well under way. These aspects make Vedanta a creator of value and 2006 saw significant new value created.

I also believe that Vedanta's competitive advantage is its relentless focus on improving the efficiency of its operations. Volume growth, productivity gains and other continuous improvement measures will enable us to achieve our vision of being amongst the lowest cost producers.

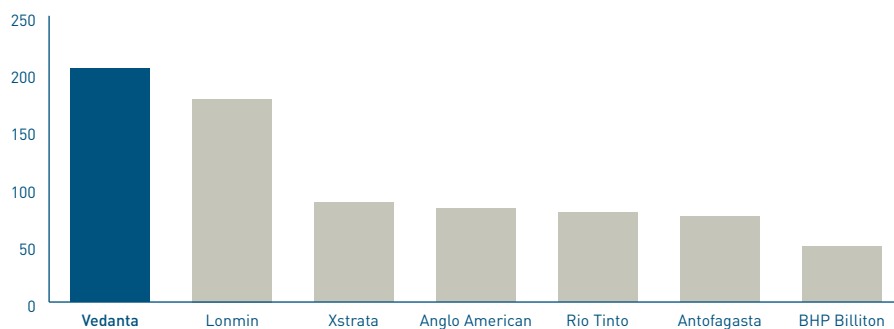
### Demand and Markets

Demand for metals continues to be robust. Primary and secondary metal demand is especially supported by increased activity in the industrial and infrastructure sectors in emerging markets and Asia will clearly be a driver of growth for metals in the short to medium term.

India is an attractive destination for metal producers in terms of being a natural resources hub, setting up

'I believe we have only just started to realise our full potential. We have a clear strategy for growth and the strength of our pipeline makes us unique in the industry.'

**VEDANTA TSR COMPARED TO OTHER UK-LISTED MINING COMPANIES (%)**  
1 April 2005–31 March 2006



Source: DataStream  
(Excludes Kazakhmys as it was listed for only part of the year)



Aerial view of Korba II smelter

capacities at attractive capital costs and providing access to rapidly growing domestic and nearby Asian markets. The Indian Government continues to maintain its policy of growth and liberalisation. The recently announced 2007 Union Budget promises a continuation of policies to grow the economy and encourage inward investment, by increasing budgetary allocations for infrastructure spending specifically in roads, ports, telecommunications and urban infrastructure. We expect these measures to ensure continuing and accelerating Indian demand growth for metals and the Group is well positioned to play a leading part in this growth.

#### Growth

We continue to remain focused on our vision of becoming a million-tonne-per-annum producer of each of our key metals and remain firmly on track to achieve this. For this next phase of our growth, several major projects with a total investment of \$3.1 billion were announced last year and are now being implemented.

We see a lot of promise in Zambia and believe that the copper industry will remain a major driver of its economy. The copper belt once produced nearly 750,000 tpa of copper but this has since reduced significantly. We foresee that with its rich copper resource, Zambia can regain its position as a major global producer of copper. Vedanta is making a major contribution to the Zambian economy by developing the Konkola deep ore body, one of the richest in the world with over 215 million tonnes of resource at 3.8% grade, by way of an investment of \$400 million. Our investment in Zambia includes a further \$280 million for a smelter expansion project which will increase our total smelting capacity to 400,000 tpa at KCM.

In India, we are investing in a new 170,000 tpa zinc smelter project at Chanderiya and also in the development and construction of India's largest aluminium asset with its associated 1,215 MW captive power plant in Jharsuguda, Orissa. Upon completion, these projects will service the rapidly increasing demand for these metals and strengthen our competitive position in the global copper, zinc and aluminium businesses.

Closely aligned with our expansion plans is our exploration programme focused on delivering adequate resources that meet and sustain our long-term metal production growth. We have put in place a sustainable exploration model by creating scaleable infrastructure and allocating appropriate resources. I believe these measures will yield good results.

These are landmark projects not only for Vedanta but also for the countries in which we operate. In addition to commercial benefits from primary and secondary economic activity, our investments will bring development to several regional communities in India and Zambia on a previously unforeseen scale.

The efficiency with which our growth projects continue to be delivered at low costs of development, set against the backdrop of rapidly expanding growth in industrial activity and infrastructure investment in India and Asia, allows us to benefit independently of the commodity cycle.

One of the most important aspects of growth is the careful management of the Group's finances. We manage our expansion programmes within conservative gearing levels. Our issue



## Chairman's Statement continued

'We are on track to becoming the only company providing one million tonnes per annum in each of our three metals as well as achieving cost leadership. We have already announced \$3.1 billion of investments this year and Vedanta is very well positioned to realise further opportunities in India.'

of \$725 million in convertible bonds in February 2006 demonstrated our ability to obtain efficient financing that complements our expansion programme and optimises overall financing costs of the business.

Whilst mergers and acquisitions are not the central platform of our growth, we will evaluate inorganic opportunities that create compelling shareholder value. Given our demonstrated strength in the turn around of underperforming assets, we will look at opportunities where we can add substantial value.

### Sustainable and Responsible Development

Sustainable development is at the very heart of our business strategy. Whilst we are humbled by the vast impact of our industry towards the basics of life, we also recognise the potential impact upon the environment and on occupational hazards and safety for communities and habitats close to our operations.

Our continued focus on safety has shown improvements, with the safety

index – LTIFR – improving by 30% during the year. In spite of these efforts, we experienced some fatalities at our operations during the year. Any loss of life is not tolerable and we have instituted guidelines and procedures to prevent the recurrence of such incidents.

Sustainable development for us also encompasses conservation of natural resources like water, especially in arid regions such as Rajasthan. We have taken the utmost care in all our expansion projects in selecting energy efficient and environmentally friendly technologies.

I am also pleased to report significant extensions in all parts of the Group's social, health and safety and environmental activities in Zambia. Our investment in a company-wide community-based HIV immunisation programme and our sponsorship of soccer have been both unprecedented

and uplifting. In India, our involvement with micro-enterprise through the self help groups ('SHGs') especially with women at Lanjigarh, Tuticorin and our other locations has been a great success. Over 3,600 women have been trained for micro-enterprise management and are a part of over 180 SHGs. These SHGs play an active role in the development of the communities. We continue to support education for children through Bal Wadis, supplemented with midday meal schemes and health checkups. In our state-of-the-art hospitals and clinics at our various operating locations and through mobile health camps conducted in the surrounding villages, we provide quality health care to over a quarter of a million people.

With a conducive policy framework in place and a robust implementation and governance structure, we remain committed to raising the quality of life







and social well being of all the communities in which we operate.

#### Board and Management

We have a Board that brings together a broad range of backgrounds and experience. Each Board member brings an individual outlook, which has improved our collective decision-making process. Given the increased scale of the Group's operations, the work of the several Board Committees is an enormous task and I wish to thank the chairmen and members of these committees for their contribution in the year. I also remain grateful for the healthy and constructive direction and support the Board continues to provide to our management team.

In addition, specifically, I am pleased that Mr Kuldip Kaura's service contract with the Company which was due to expire on 30 June 2006 has been extended to 31 March 2008.

#### People

The successes that I have been able to report in this statement are due to the outstanding commitment and contribution of our employees and I wish to thank them on behalf of the entire Board.

We are proud of the knowledge and intellectual capital that our young professional workforce brings to the organisation. The challenging assignments they are given at an early stage in their careers make them highly motivated, committed and enthusiastic. Our hands-on participative style of

management continues to strengthen our organisational culture and values through to grass-root levels.

Talent management remains a key driver of performance across Vedanta. Our access to the substantial pool of high quality professional talent, especially in India, enables us to consistently attract world-class professionals. We have created attractive working environments with highly competitive incentive arrangements, which ensure that we are amongst the most preferred employers in the regions in which we operate. I am particularly pleased to report that we have recently issued long-term incentive options to a large proportion of our employees re-emphasising a collective commitment to the enhancement of shareholder value over the long-term.

#### Outlook

In the last 24 months, Vedanta has built a strong reputation for creating lasting shareholder value underpinned by delivery and growth. Looking ahead, we must progress the next phase of our growth in a responsible manner commensurate with our position as a leading metals and mining Group while continuing to generate superior returns for our shareholders. In light of my comments on demand and markets, I remain confident that we are well on our way to delivering on this.

**Anil Agarwal**  
**Chairman**

31 May 2006

# Operations at a Glance

## Delivering performance

### Operations



Sterlite is principally a copper smelting and refining business in India with a copper mine in Australia. The capacity at the 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.

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 40,000 tpa. The more substantial operations at BALCO, in Chhattisgarh, are close to major supplies of bauxite and coal. Capacity at BALCO is being expanded to around 350,000 tpa, with progressive commissioning. VAL, in Orissa, will mine bauxite and refine alumina mainly for the new aluminium capacity.

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 to 400,000 tpa of finished zinc.

Maps not to scale.