
VEDANTA RESOURCES PLC
ANNUAL REPORT FY2017

STRONGER
SMARTER
SUSTAINABLE

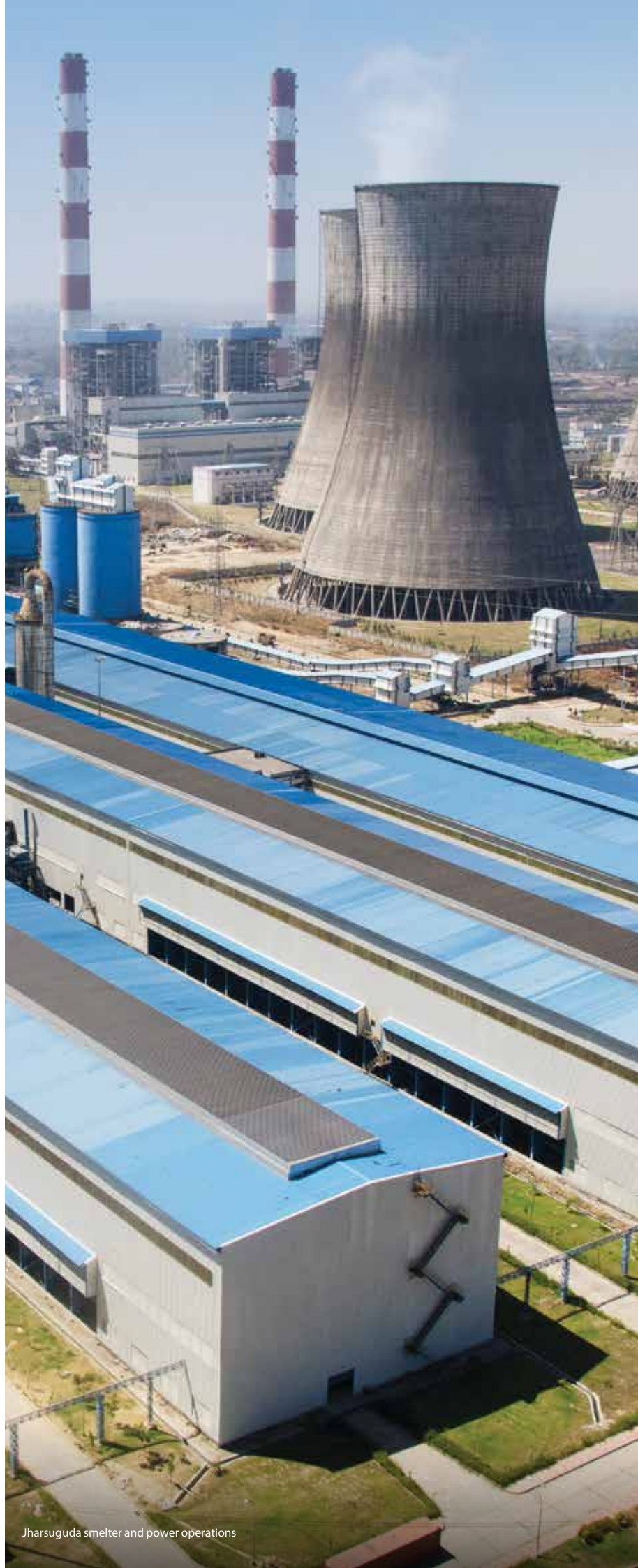
VEDANTA RESOURCES PLC IS A UK LISTED GLOBAL DIVERSIFIED NATURAL RESOURCES COMPANY.

OUR 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.



At a Glance
see pages 04–05




Jharsuguda smelter and power operations

WHAT'S INSIDE...

“

We delivered a strong set of results this year and took important steps towards achieving our strategic objectives. We reached record production levels across several of our businesses and I am confident of continued successful ramp ups from our world-class assets. An important milestone for us this year was the completion of the merger of Vedanta Limited and Cairn India, and our simplified group structure will support strong shareholder returns. We remain committed to a consistent strategy and de-levering the balance sheet, and look ahead to FY2018 in a stronger financial position and with more confidence than ever.


ANIL AGARWAL
CHAIRMAN

 For more information
see page 6



STRONGER

We continued to strengthen our financial position, through our focus on deleveraging our balance sheet and production growth.

 For more information
see pages 12–13



SMARTER


In a country focused on technology and digitalisation we are acquiring best-in-class technology for our assets, and focusing on creating our own.

 For more information
see pages 14–15



SUSTAINABLE

We operate as a responsible business, minimising our impacts and promoting social inclusion across our operations through our focus on safety, environmental protection and community engagement.

 For more information
see pages 16–17

STRATEGIC REPORT

Highlights	02
At a Glance	04
Chairman's Statement	06
Investment Case	10
Strategic Overview	12
Chief Executive's Statement	18
Market Review	22
Business Model	28
Strategic Framework	32
Key Performance Indicators	34
Principal Risks and Uncertainties	36
Sustainability Report	46
Finance Review	62
Divisional Review	70
Oil & Gas	70
Zinc India	76
Zinc International	80
Iron Ore	84
Copper India/Australia	88
Copper Zambia	92
Aluminium	96
Power	100

DIRECTORS' REPORT

Board of Directors	104
Executive Committee	106
Corporate Governance Report	108
Audit Committee Report	123
Nominations Committee Report	129
Sustainability Committee Report	133
Remuneration Committee Report	135
Directors' Remuneration Policy Report	136
Annual Report on Remuneration	141
Directors' Report	148
Directors' Responsibilities Statement	155

FINANCIAL STATEMENTS

Independent Auditor's Report	156
Consolidated Income Statement	166
Consolidated Statement of Comprehensive Income	167
Consolidated Statement of Financial Position	168
Consolidated Cash Flow Statement	170
Consolidated Statement of Changes in Equity	171
Notes to the Financial Statements	173

ADDITIONAL INFORMATION

Five Year Summary	251
Production and Reserves Summary	255
Other Information	260
Glossary and Definitions	262
Shareholder Information	268
Contacts	IBC



GROUP HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- › Revenue increased by 7% to US\$11.5 billion (FY2016: US\$10.7 billion) driven by firmer commodity prices and volume ramp up
- › EBITDA increased by 37% to US\$3.2 billion (FY2016: EBITDA: US\$2.3 billion)
- › Adjusted EBITDA margin of 36% (FY2016: 28%), driven by firmer commodity prices and operational efficiencies
- › Free cash flow (FCF)♦ post capex of US\$1.5 billion (FY2016: US\$1.8 billion). Excluding one-time working capital initiatives FCF at US\$1.4 billion (FY2016: US\$0.9 billion)
- › Gross debt at US\$18.2 billion (FY2016: US\$16.3 billion), higher on account of temporary borrowings at HZL (US\$1.2 billion) for special dividend payment
- › Gross debt reduced by US\$1.4 billion post 31 March 2017
- › Net debt♦ at US\$8.5 billion (FY2016: US\$7.3 billion), higher, driven by dividends paid to minorities and the associated dividend distribution tax
- › Vedanta Limited and Cairn India merger completed
- › Underlying profit♦ per share of 1.1 US cents (FY2016: loss of 131.9 US cents)
- › Positive credit rating movements
 - S&P upgraded the issuer credit rating from B/Stable Outlook to B+/Stable Outlook
 - Moody's upgraded the Company's Corporate Family Rating (CFR) by one notch from B2/Negative to B1/Stable
- › Announced a final dividend of 35 US cents per share (total dividend 55 US cents per share), dividend yield of 6.5%
- › Declaration of record interim dividend by subsidiaries in March 2017
 - Hindustan Zinc Limited announced dividend of US\$2.1 billion including dividend distribution tax
 - Vedanta Limited announced a dividend of US\$1.0 billion, of which US\$500 million was received by Vedanta Resources plc

BUSINESS HIGHLIGHTS

- › Record annual production at Aluminium, Power, Zinc India (zinc and silver) and Copper India
- › Successful ramp up from Mangala EOR with production level of 56,000boepd in Q4 at Cairn Oil & Gas
- › Zinc International
 - Highest quarterly production in Q4 at Black Mountain in four years
 - Mobilisation on Skorpion Pit layback commenced in April
 - Gamsberg project on track to commence production in mid CY2018
- › Aluminium: Strong production during the year; volumes impacted by a pot outage in April
- › Power:
 - 1,980MW Talwandi Sabo Power Plant (TSPL) operating at 85% availability in Q4
 - TSPL operations impacted by a shutdown due to a fire in April. Rectification in process and expected to recommence operations by the end of June 2017
- › Iron ore:
 - Achieved 2.6 million tonnes of the additional production capacity granted in Goa for FY2017
- › Copper Zambia
 - Strong custom production
 - Lower integrated production due to lower equipment availability
 - Ramp up commenced at reconfigured Nchanga underground mine
- › Delivered cumulative cost and marketing savings of US\$814 million over the past two years; ahead of plan to deliver US\$1.3 billion in four years



Image opposite: Employees at Sindesar Khurd Mine, HZL

Image left: Employee at packing area of Jharsuguda aluminium cast house

Image right: Women empowerment through self-help groups

CONSOLIDATED GROUP RESULTS

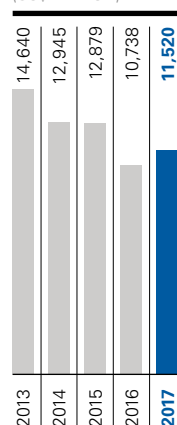
(US\$ MILLIONS, EXCEPT AS STATED)

	FY2017	FY2016
Revenue	11,520.1	10,737.9
EBITDA	3,191.1	2,336.4
EBITDA margin (%)	27.7%	21.8%
EBITDA margin excluding custom smelting* (%)	36.5%	27.6%
Operating profit before special items	2,160.6	881.2
Loss attributable to equity holders	(22.7)	(1,837.4)
Underlying attributable profit/(loss)*	3.0	(364.1)
Basic loss per share (US cents)	(8.2)	(665.8)
Profit/(loss) per share on underlying profit (US cents)	1.1	(131.9)
ROCE* (%)	15.6%	6.2%*
Total dividend (US cents per share)	55	30

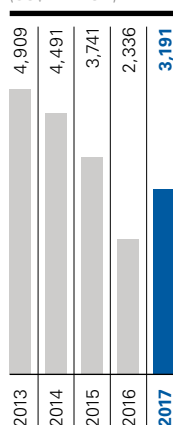
* Before impairment

♦ Indicates alternate performance measures which are defined in detail in 'Other information'

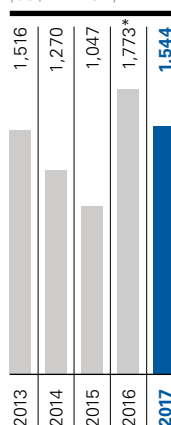
REVENUE (US\$ MILLION)



EBITDA (US\$ MILLION)



FCF POST CAPEX (US\$ MILLION)



* Restated

DIVIDEND (US CENTS PER SHARE)



VEDANTA AT A GLANCE

04

LARGE, LONG-LIFE, LOW-COST, SCALABLE ASSETS



OIL & GAS



ZINC-LEAD-SILVER



IRON ORE



COPPER



ALUMINIUM



POWER

BUSINESSES

- Cairn Oil & Gas

- Zinc India (HZL)

- Zinc International

- Iron Ore India

- Copper India

- Konkola Copper Mines (KCM)

- Lanjigarh refinery
- Jharsuguda and Balco aluminium smelters

- Talwandi Sabo
- Jharsuguda and Korba Power Plants

PRODUCTION VOLUMES

- 190kboepd
(average daily gross operating production)

- 907kt

- 156kt

- 10.9mt

- 402kt

- 180kt

- Alumina: 1.2 mt
- Aluminium: 1.2 mt

- 12.9 billion kwh

COST CURVE POSITION

- 1st quartile

For more information see pages 70-75

- 1st quartile

- 2nd quartile

For more information see pages 76-83

- 1st quartile

For more information see pages 84-87

- 1st quartile

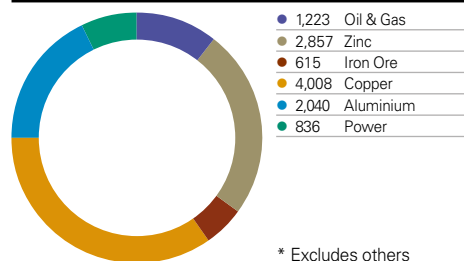
- 4th quartile

For more information see pages 88-95

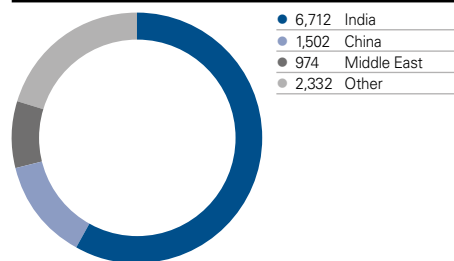
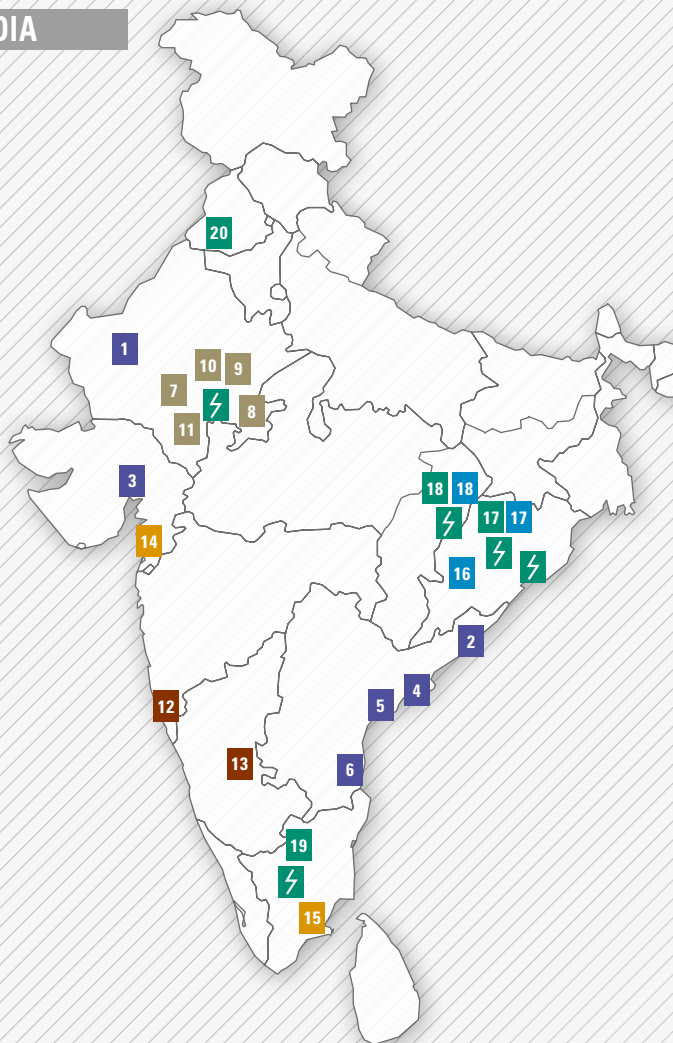
- 2nd quartile

For more information see pages 96-99

For more information see pages 100-103

REVENUE BY COMMODITY
 (US\$ MILLION)*


* Excludes others

REVENUE BY GEOGRAPHY
 (US\$ MILLION)

INDIA

India operations

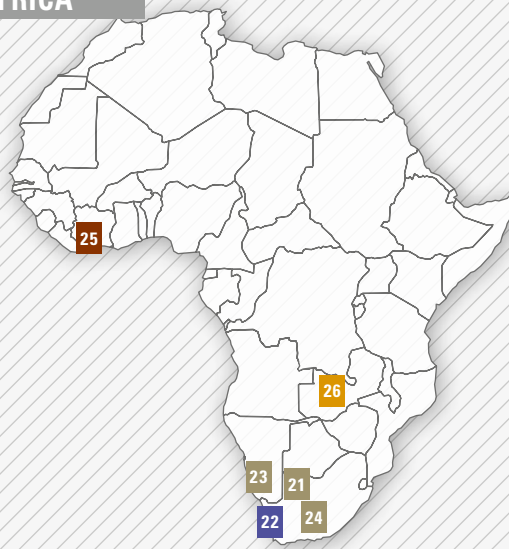
- 1 Rajasthan block
- 2 Ravva (PKG-M-1) block
- 3 Cambay (CB/052) block
- 4 KG-ONN-2003/1 block
- 5 KG-OSN-2009/3 block
- 6 PR-OSN-2004/1 block
- 7 Debari smelter
- 8 Chanderiya smelters
- 9 Rampura Agucha mine
- 10 Rajpura Dariba mine and smelters and Sindesar Khurd mine
- 11 Zawar mine
- 12 Iron Ore operations – Goa
- 13 Iron Ore operations – Karnataka
- 14 Silvassa refinery
- 15 Tuticorin smelter
- 16 Lanjigarh alumina refinery
- 17 Jharsuguda smelter and power plant
- 18 Korba smelter and power plant

- 19 MALCO power plant
- 20 Talwandi Sabo power plant
- ⚡ Captive thermal power plant

International operations

- 21 Gamsberg, South Africa (under development)
- 22 South Africa Block 1
- 23 Skorpion mine, Namibia
- 24 Black Mountain mine, South Africa
- 25 Iron Ore project, Liberia
- 26 Konkola and Nchanga copper mines and Nchanga smelter, Zambia
- 27 Lisheen mine, Ireland¹
- 28 Mt Lyell mine, Australia²

- 1 Lisheen had safe, detailed and fully costed closure after 17 years of operations in November 2015.
- 2 Under care and maintenance.

AFRICA

IRELAND

AUSTRALIA


CHAIRMAN'S STATEMENT

ANIL AGARWAL

PRICES IN COPPER, ALUMINIUM, ZINC, IRON ORE, OIL AND GAS HAVE ALL SHOWN A STRONG RECOVERY LAST YEAR, SO WE APPROACH FY2018 WITH A CAUTIOUS OPTIMISM AND A CONTINUING DISCIPLINE IN OUR CAPITAL ALLOCATION.



OUR CORE VALUES



TRUST

We actively foster a culture of mutual trust in our interactions with our stakeholders and encourage an open dialogue which ensures mutual respect.



INTEGRITY

We place utmost importance on engaging ethically and transparently with all our stakeholders, taking accountability of our actions to maintain the highest standards of professionalism and complying with international policies and procedures.



EXCELLENCE

Our primary focus is delivering value of the highest standard to our stakeholders. We are constantly motivated by improving our costs and our quality of production in each of our business through a culture of best practice benchmarking.



CARE

As we continue to grow, we are committed to the triple bottom line of People, Planet and Prosperity, to create a sustainable future in a zero harm environment for our communities.



RESPECT

We lay consistent emphasis on human rights, respect the principle of free, prior, informed consent, while our engagements with stakeholders give local communities the opportunity to voice their opinions and concerns.



INNOVATION

We embrace a conducive environment for encouraging innovation that leads to a zero harm environment and exemplifying optimal utilisation of natural resources, improved efficiencies and recoveries of by-products.



ENTREPRENEURSHIP

At Vedanta, our people are our most important assets. We actively encourage their development and support them in pursuing their goals.

After FY2016, where we showed our resilience in the face of a challenging economic climate, it is a pleasure to report that FY2017 was about price recovery and exciting potential.

Three key characteristics of Vedanta emerged from the year.

First, we are stronger. Having weathered the prior year's market downturn, we have continued to build on our status as a low-cost, diversified producer. During FY2017 we also delivered our promised merger of Cairn India Limited (Cairn India) and Vedanta Limited, simplifying the Group structure. This is a significant step forward towards achieving our stated long-term vision of alignment of interests between all shareholders for the creation of long-term sustainable value. We continued to strengthen our financial position, through our focus on deleveraging our balance sheet and extending maturity commitments. We have also enjoyed the upturn in the market, with the strong zinc and aluminium prices playing to our particular strengths.

Second, we are working smarter. In a country focused on technology and digitalisation we are acquiring best-in-class technology for our assets, and focusing on creating our own. During the year, we initiated a US\$30 million investment fund for in-house R&D, supporting our wealth of knowledge and spirit of innovation with meaningful resources. We are also actively incentivising our people to contribute their own ideas.

Third, we continue to operate sustainably, focusing on creating value and opportunity for all our stakeholders: employees, communities, investors and the countries we operate in. This is coupled with a firm aim to achieve 'zero harm, zero waste and zero discharge'. We are determined to mine safely and sensitively, minimising our environmental impact and being receptive to the needs of the local people.



For more information
see pages 60-61

We are in the business of producing commodities and supplying energy that make lives and economies better, from the essentials for creating infrastructure, to the basic needs of transportation and power and the material requirements of manufacturing consumer goods. We are also excellently located: Vedanta operates primarily in India and Africa, countries that are endowed with an abundant supply of natural resources, and have growing economies waiting to make good use of them.

As an efficient and experienced natural resources player, we offer investors an opportunity to take part in the extraordinary growth story of India as it seeks to improve its infrastructure, house its growing population and develop its manufacturing base.

HOW WE PERFORMED

With a strong operational performance and a supportive market environment, we were able to deliver encouraging numbers for FY2017.

Revenues rose to US\$11.5 billion with EBITDA at US\$3.2 billion. EBITDA margin (excluding custom smelting at Zinc India and Copper) was 36% and we delivered strong free cash flow of US\$1.5 billion.

This led the Board to recommend a final dividend of 35 US cents per share.

I was pleased that we were able to ramp up our production, despite some operational issues at the Aluminium and Power businesses and the Konkola Copper Mines (KCM). We were also successful in controlling costs at the majority of our businesses.

I also deeply regret that the year saw seven fatalities in the course of our operations. There are no circumstances in which this is acceptable, and I am personally committed to eradicating such incidents.

INDIA

Vedanta sits at the heart of the fastest-growing economy in the world, and around 58% of our revenues are derived from our operations in the country.

India is an exciting place to be. Prime Minister Modi's government is spearheading huge changes in the business environment, and in turn this is making India a prime destination for investment. India attracted record foreign direct investment of more than US\$45 billion¹ in CY2016, and the country looks increasingly attractive to manufacturers and digital industries.

The 'Make in India' government campaign to encourage national and multi-national companies to manufacture their products in India, is driving an exciting agenda of domestic growth. We expect to see the GDP growth of the nation translating into meaningful increases in metals and energy demand.

Currently, India only produces 20% of its oil and mineral requirements and mining represents just 2.4% of GDP and the country is spending US\$500 billion on imports. Yet we have a similar geology to Africa and Australia with highly attractive prospects for oil, base and precious metals, and other minerals.

We remain a proud corporate citizen of India, and in FY2017 we contributed US\$6 billion to the exchequer and supported, directly or indirectly, at least 70,000 jobs.



Vedanta Chairman and CEO meet Zambia President, His Excellency Mr Edgar Lungu during State House visit in March 2017

¹ Source: Department of Industry Policy and Promotion February 2017.

CHAIRMAN'S STATEMENT

CONTINUED

AFRICA

Vedanta enjoys a productive and long-standing relationship with Africa, and during the year I was pleased to accompany India's Prime Minister on a visit to South Africa, as part of his business delegation.

We continue to invest in projects and assets in both India and Africa. Our zinc project in Gamsberg, South Africa is under active construction as we prepare to mine one of the world's largest deposits of zinc. Given strong zinc market fundamentals, this venture looks increasingly well-timed and we look forward to production going live in 2018. We are also looking at extending the life of the successful Black Mountain and Skorpion zinc mines. This is in sharp contrast to a few years ago, when Skorpion was being considered for closure.

In Zambia, although we experienced some operational challenges during the year, we continue to focus on being a leading player in copper. We have exciting technical projects planned, and are looking at initiatives both to ramp up volumes and develop captive power generation sources over the coming years.

A COMPANY FOR COMMUNITIES

For two decades now, Vedanta has maintained that financial returns alone are not the mark of a good business. We also care passionately about the well-being of our employees and, equally, the local communities in which we operate.

I am therefore proud to say that during the year, we backed our commitment to the communities we operate in with an investment of US\$18 million towards community initiatives.

A key part of our work in this area is to empower women and to give children the best possible start in life. As an example, Vedanta is participating in India's 'Nand Ghars' (also known as Anganwadi) programme, helping to transform 4,000 state-run child welfare centres across the country to support women and children by providing the education, skills development and healthcare they need.

In total, we support projects focused on constructive welfare and sustainability, impacting the lives of around 2.2 million people.

OUR PEOPLE

Following the difficult market environment of the prior year, I want to thank all of our employees whose energy, talents and commitment came to fruition in FY2017.

I would also like to thank my fellow Directors for their wise counsel and, in particular, our CEO Tom Albanese, who has been instrumental to Vedanta's performance in his three years in the organisation. Tom's contract came to its scheduled end in March, and he decided it was an appropriate juncture to make the personal decision to re-join his family in the US.

He leaves the Company having made a strong impact with his ideas and efficiencies starting to show positive results. I thank him warmly for the successful part he has played in our story and we wish him well. Tom remains in his position until August 2017 and the search for his successor is well underway.

As announced earlier in the year, Euan Macdonald, Non-Executive Director and Chairman of the Remuneration Committee and Sustainability Committee, retired from the Board. I would like to thank Euan for his huge contribution to sustainability at Vedanta, including improved safety standards and best practices in site closures. Katya Zotova, a member of our Sustainability Committee, will be leading its priorities in the coming year. Further, Edward Story has been appointed as a Non-Executive Director of the Company with effect from 1 June 2017. He will also be appointed as a member of the Company's Audit Committee with effect from 1 June 2017. I am delighted to welcome him to our Board. His background and domain experience in the oil & gas industry will significantly enhance our ability to grow and develop Vedanta's oil & gas business.

I also welcome Ravi Rajagopal to his new roles, both as a Non-Executive Director of Vedanta Resources and to the Audit and Sustainability Committees. He comes with a wealth of experience across finance and operational roles in a FTSE 100 company.

In line with regulatory guidance, Mr Aman Mehta will retire at the conclusion of this year's AGM. Meanwhile, he has overseen the Company's transition to a new auditor for the Group and I would like to thank him for his sound guidance and commitment over the years.

On behalf of the entire Board, I would also like to thank all our investors, communities and the governments of the countries in which we operate, for their constant support.

FY2018: OPTIMISM AND DISCIPLINE

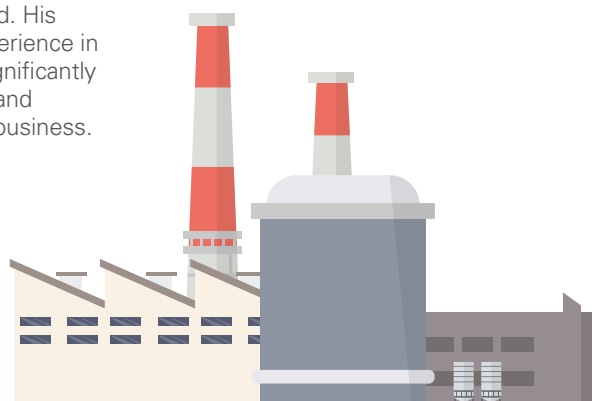
I am optimistic that the improvement in commodity markets we have experienced this year may be with us for the foreseeable future.

Prices in copper, aluminium, zinc, iron ore, oil and gas have all shown a strong recovery last year, so we approach FY2018 with a cautious optimism and a continuing discipline in our capital allocation.

Meanwhile, we will continue to contribute to India's exciting growth trajectory, working with the Indian Government, our employees and communities to make a difference.

Anil Agarwal
Chairman

24 May 2017



Main image: Employees at the control room at Goa iron ore operations