

## Chairman's Statement

These are robust results in a challenging economic environment, which reflect the inherent strengths of Vedanta's business model



I have great pleasure in reporting another strong year for Vedanta Resources plc and our sixth as a London listed company. We reported strong revenues of US\$6.6 billion and EBITDA of US\$1.6 billion, despite sharply deteriorating commodity prices and economic environment. I am delighted to report that we are exceptionally well positioned in these uncertain times due to our strong balance sheet, low cost operations, strong organic growth pipeline and track record of delivering capital projects at benchmark low costs and timelines. This provides the foundation for delivering profitable growth and creating long-term shareholder value.

### Delivering operational efficiencies

In line with the first pillar of our strategy to optimise the performance of our existing assets, we remained focused on achieving productivity enhancements and operating efficiencies to ensure we retain our competitive advantage as one of the lowest cost producers of our commodities. In 2009, we also continued to aggressively implement the turnaround plan at our KCM operations which has begun to yield promising results, reflected in the sharp fall in costs over the last quarter.

### Organic growth opportunities

We continue to make excellent progress against our second strategic

pillar of delivering industry leading organic growth. The Group's attractive project pipeline is value accretive even at lower commodity prices and we are on track to produce 1 million tonnes each of copper and zinc-lead, 2.5 million tonnes of aluminium, 25 million tonnes of iron ore and 6,500 MW of captive and commercial power.

The first stream of the Lanjigarh alumina refinery is now fully operational. We also successfully commissioned the Nchanga smelter and the zinc concentrator at Rampura Agucha during the year. I am also pleased to report that the Indian Supreme Court cleared the bauxite mining project at Niyamgiri. We expect to commence mining our own bauxite from Niyamgiri in the current year.

Expansion of our reserve and resource base through exploration is an extension of our sustainable growth strategy and I am happy to report that we successfully added significant reserves at our Zinc and Iron Ore businesses.

### Well positioned through the cycle

The inherent strength of our sustainable low cost operations ensures we are well positioned in a period of difficult economic conditions and commodity prices. We have responded decisively and promptly to current market conditions, temporarily shutting down our MALCO smelter and a part of the BALCO I smelter. We have sold surplus power at attractive rates and optimised returns. We also reviewed our capital expenditure programme and reduced the total spend for our growth projects

## Our strategy

1. Optimising the performance of our existing assets

2. Pursuing organic growth opportunities

by US\$5.3 billion on account of savings and deferrals. Finally, working capital initiatives have enhanced free cash flow in the period. These initiatives, together with our growth programme, ensure we are also well positioned to deliver superior shareholder returns when commodity prices recover.

### Strong balance sheet and liquidity position

Excellent cash conversion in 2009 has ensured that we exited the year with a strong balance sheet despite the significant capital investment of US\$3 billion in the period. Net debt at the end of the year was US\$200 million. Furthermore, we have made substantial progress in strengthening Vedanta's liquidity. In addition to gross cash and liquid investments of US\$4.9 billion on the balance sheet at the year end, we have secured US\$3.7 billion of long-term project finance, including US\$2 billion which is subject to final documentation. Over the past five years, we have consistently generated strong free cash flow. We remain confident that even at distressed commodity prices we are well positioned to fund the remaining expenditure required to complete our expansion projects from existing liquid resources and internal cash generation.

### Consolidation of minorities

Consistent with the third pillar of our strategy to consolidate minorities and rationalise the group structure, the Group increased its holding in MALCO, Sesa Goa and Sterlite. In April 2008, we also successfully acquired ZCI's 28.4% stake in KCM, taking our total shareholding to 79.4%. In respect of the acquisition of the Indian Government's residual stakes in BALCO and HZL, we continue to make progress and anticipate an early resolution.

### Dividend and share buy-back

During the year the Board declared a dividend of US cents 41.5 per share, in line with last year. We also invested US\$80.3 million to buyback 3.3% of our own equity shares in FY 2009.

### Asarco acquisition

Pursuant to the fourth pillar of our strategy to leverage our existing skills and look for additional investment opportunities, we entered into an agreement in March 2009 with Asarco LLC, the third largest copper producer in the United States of America, to purchase substantially all of its operating assets for a renegotiated purchase consideration of US\$1.7 billion. Following approval, this transaction will create long-term value for our shareholders.

### Changes to the Board

In September 2008, MS Mehta was appointed as Vedanta's new Chief Executive to lead Vedanta through the next stage of its development. MS Mehta has been with the Company for over nine years and brings immense knowledge and experience of the markets in which we operate. He has already streamlined our management structure into focused commodity businesses and allowed operations to have greater autonomy and accountability. I would like to take this opportunity to express my gratitude to Kuldip Kaura, our previous Chief Executive, for his exceptional contribution to the Company. During this period, we became a major diversified mining company. During the year, one of our independent directors, Dr SK Tamotia, tendered his resignation, which was accepted by the Board.

### Sustainable development

Sustainable development is a key element of how we conduct our activities, and we believe that businesses play an important role in tackling and driving sustainability and climate change challenges. Our focus in this area reflects our determination to pursue value-creating projects for our shareholders that also effectively address our environmental, social, health and safety opportunities and risks. We are undertaking a process to ensure that our key stakeholders understand our approach and

performance in this important area. We intend over the coming months to develop this process, and to continue our efforts to actively engage with our stakeholders, concerning this integral aspect of our business philosophy.

### People

In a business like ours, people are at the centre of our operations and are key to achieving our objectives. Our performance and results speak of the outstanding people we have across our organisation. It is because of them that we have come a long way in a short time. On behalf of the Board I am thankful to all of them for their continuing support and efforts. We remain committed to provide a safe and supportive work environment for all. Being a truly global organisation the Group can offer exciting growth opportunities for all our employees.

### Outlook

The current economic environment has resulted in depressed commodity prices and an uncertain demand outlook for our industry. We have responded decisively to current market conditions and remain very well placed to prosper through the commodity cycle. We have a strong balance sheet and liquidity. In the short term, we remain focused on reducing our cost of production, delivering our organic growth programme on time and at benchmark low capital costs and generating strong free cash flow.

**Anil Agarwal**  
Chairman

6 May 2009

*3. Consolidate minorities and rationalise Group structure*

*4. Leverage our established skills and seek additional investment opportunities*

OVERVIEW

BUSINESS  
REVIEWFINANCIAL  
REVIEW

SUSTAINABILITY

BOARD + EXECUTIVE  
COMMITTEECORPORATE  
GOVERNANCEFINANCIAL  
STATEMENTS