

Directors' Report

The Directors present this Annual Report on the business of the Group, together with the financial statements and auditors' report, for the year ended 31 March 2009.

Principal Activities

Vedanta Resources plc is the UK parent company of a diversified metals and mining group. The four major areas of activity are as follows:

- Aluminium: bauxite mining, alumina refining and aluminium smelting operations in India.
- Copper: smelting and refining operations in India, copper ore mining in Australia and an integrated copper production operation in Zambia.
- Zinc: zinc-lead mining and smelting operations in India.
- Iron ore: Iron ore mine in India.

Analysis of revenue, operating profit, principal activities and geographical origins appears in note 3 of the financial statements and a list of the principal subsidiaries and associated undertakings of the Group may be found in note 38 to the financial statements.

The Chairman's Statement, the Business Review and Financial Review, which together give a fair view of the historic and likely future developments of the operations of the Group, should be read in conjunction with the Directors' Report. These sections together with the sections referred to in the Business Review section below form part of this Directors' Report.

There are no material changes from 31 March 2009 to the date of this report except as disclosed.

Business Review

The Company is required under Section 417 of the Companies Act 2006 to provide a business review the purpose of which is to inform the shareholders how the Directors have performed their duty to promote the success of the Company for the benefit of its members. The information that fulfils the requirements of the business review, including principal risks and uncertainties, can be found within the following sections, which are incorporated in this report by reference:

| Information | Location in the Annual Report | Page |
|---|--|------|
| Key Performance Indicators | Business Review | 06 |
| Description of the principal risks and uncertainties facing the Group | Financial Review | 28 |
| Strategy | Chairman's Statement and Business Review | 04 |
| Future developments | Business Review | 08 |
| Review of operations | Business Review | 08 |
| Financial Review | Financial Review | 24 |
| Environmental matters | Sustainable Development Report | 32 |
| Health and safety matters | Sustainable Development Report | 32 |
| Community issues | Sustainable Development Report | 32 |

The Business Review also includes details of the main trends and factors likely to affect the future development, performance and position of the Company's business, an indication of its activities in the field of research and development, details of the key performance indicators that management use and information about persons with whom the Company has contractual or other arrangements that are essential to the business of the Company.

Post Balance Sheet Events

There have been no significant events since the Balance Sheet date.

Dividends

The Directors recommend a final dividend for the year ended 31 March 2009 of 25 US cents per ordinary share (2008: 25 US cents per ordinary share). Subject to shareholders approving this recommendation at the Annual General Meeting on 27 July 2009, the final dividend will be paid on 5 August 2009 to shareholders on the register of members as at 10 July 2009.

Taken together with the interim dividend of 16.5 US cents per ordinary share paid to shareholders on 14 January 2009, the total dividend for the year is 41.5 US cents per ordinary share (2008: 41.5 US cents per ordinary share).

Directors

The names, specific responsibilities and biographical details of the current Board of Directors are shown on page 36. Details of the remuneration of the Directors, their interests in the shares of the Company and service contracts are contained in the Remuneration Report on pages 45 to 51.

The following Directors held office during the year ended 31 March 2009:

| | Appointed | Resigned | Designation |
|--------------------------------|------------------|-------------------|---------------------------|
| Executive Directors | | | |
| AK Agarwal | 16 May 2003 | | Executive Chairman |
| N Agarwal | 24 November 2004 | | Deputy Executive Chairman |
| MS Mehta | 1 October 2008 | | Chief Executive |
| Non-executive Directors | | | |
| N Chandra | 18 May 2004 | | Non-executive Director |
| A Mehta | 24 November 2004 | | Non-executive Director |
| ER Macdonald | 23 March 2005 | | Non-executive Director |
| Former Directors | | | |
| KK Kaura | 23 March 2005 | 30 September 2008 | Chief Executive |
| SK Tamotia | 24 November 2004 | 6 March 2009 | Non-executive Director |

Directors

Unless otherwise determined by ordinary resolution, the number of Directors (other than alternate Directors) shall not be subject to any maximum, but shall not be less than two. The powers of the Directors are described in the Corporate Governance Statement on page 38.

Retirement of Directors

The Company's Articles require that at every Annual General Meeting one-third of the Directors, or if their number is not three or multiple of three, the number nearest to one-third, shall retire from office. The Directors to retire by rotation shall be those who have been longest in office since appointment or re-appointment.

Accordingly Mr Anil Agarwal and Mr Naresh Chandra will retire by rotation at the forthcoming Annual General Meeting and being eligible will offer themselves for re-election. Mr MS Mehta will stand for election at the Annual General Meeting following his appointment to the Board on 1 October 2008.

Directors' Remuneration

Details of Directors' service contracts and emoluments, options to subscribe for shares in the Company and interests in its share capital are shown in the Remuneration Report on pages 45 to 49.

Corporate Governance

Disclosures on the application of the principles and compliance with the provisions of the Combined Code can be found on pages 38 to 44.

Employees

Information on the Group's employees and its policies can be found in the Sustainable Development Report on pages 32 to 35.

Charitable Donations

During the year, the Group made charitable donations of US\$0.86 million paid to the Sterlite Foundation (2008: US\$0.6 million) and other charitable donations of US\$1.52million (2008: US\$2.9 million).

Further details about the Group's involvement with local communities during the year can be found in the Sustainable Development Report on pages 32 to 35.

UK and EU Political Donations

It is the Board's policy that neither Vedanta nor any of its subsidiary companies may, under any circumstances, make donations or contributions to political organisations within the United Kingdom or European Union. In exceptional circumstances where such political donations or contributions are deemed necessary for legitimate business reasons, they will not be made without the prior approval of the Board and the shareholders in the general meeting.

Directors' Report (continued)

Material Shareholdings

As at 2 June 2009, the Company had been notified under the Disclosure and Transparency Rules, of the following significant voting rights in its shares:

| Name of holder | Number of ordinary shares of US\$0.10 each | Percentage of total ordinary share capital |
|------------------------|--|--|
| Volcan Investments Ltd | 160,783,163 | 58.16% |
| AXA S.A. | 14,062,765 | 4.90% |

¹ The voting rights at 31 March 2009 were 279,200,089 ordinary shares.

Supplier Payment Policy

The Group does not follow any specific external code or standard on payment terms. Instead, responsibility for determining payment terms is delegated to the individual businesses within the Group, which take into consideration the commercial circumstances, local market and industry practice. The Group's policy is either to settle terms of payment with suppliers when agreeing the terms of each transaction or to ensure that the supplier is aware of the individual business's usual payment terms. Payment is made in accordance with contractual and other legal obligations and reflects local market practices.

Trade creditor days of the Company at 31 March 2009 were 86 days (2008: 92 days).

Value of Land

Land is carried in the Balance Sheet at historic cost. It is not practical to estimate the market value of land and mineral reserves and resources at any point in time since the market values depend on commodity prices which fluctuate on a day-to-day basis.

Research and Development

The Group's business units carry out research and development activities necessary to further their operations.

Policy on Derivatives and Financial Instruments

An explanation of the Group's financial management objectives and policies together with details of the Group's exposure to price risk, credit risk, liquidity risk and foreign currency risk appears in note 27 to the financial statements.

Directors' and Officers' Liability Insurance and indemnities

The Company purchases and maintains liability insurance for its Directors and officers and those of the subsidiaries of the Group, as permitted by the Companies Act 2006.

The Articles of Association of the Company contain an indemnity provision in favour of the Directors of the Company against proceedings brought by third parties subject to the Companies Act 2006.

Disclosure of Information to Auditors

Each person who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given in accordance with the provisions of section 234ZA of the Companies Act 1985.

Directors' Responsibility Statement

Each Director further confirms that, to the best of their knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- The Business and Financial Reviews, which are incorporated into the Directors' Report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Reappointment of Auditors

A resolution to re-appoint the auditors, Deloitte LLP, will be proposed at the forthcoming Annual General Meeting. The re-appointment of Deloitte LLP has been approved by the Audit Committee, which will also be responsible for determining their remuneration on behalf of the Board, subject to the approval of shareholders at the forthcoming Annual General Meeting.

Annual General Meeting

The sixth Annual General Meeting of the Company will be held at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED on 27 July 2009 at 3pm. The Notice convening the Annual General Meeting accompanies this Annual Report and sets out details of the business to be considered.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 08 to 31. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 24 to 27. In addition note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group requires funds both for short-term operational needs as well as for long-term investment programmes mainly in growth projects. The Group generates sufficient cash flows from its current operations which, together with the available cash and cash equivalents and liquid financial asset investments, provide liquidity both in the short term as well as in the long term. Anticipated future cash flows and undrawn committed facilities of US\$1,909.4 million, together with cash and liquid investments of US\$4,912.5 million as at 31 March 2009, are expected to be sufficient to meet the ongoing capital investment programme and liquidity requirement of the Group in the foreseeable future.

The Group has a strong Balance Sheet that gives sufficient headroom to raise further debt should the need arise. The Group's current ratings from Standard & Poor's and Moody's are BB and Ba1 respectively. These ratings support the necessary financial leverage and access to debt or equity markets at competitive terms, taking into consideration current market conditions. The Group generally maintains a healthy net debt-equity ratio and retains flexibility in the financing structure to alter the ratio when the need arises. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Additional Information for Shareholders

The following description summarises certain provisions in the Company's Articles of Association (the 'Articles') and applicable English law concerning companies (the Companies Act 1985 and the Companies Act 2006, together the 'Companies Acts'). This is a summary only and the relevant provisions of the Companies Acts or the Articles should be consulted if further information is required. The Articles may be amended by special resolution of the shareholders. Copies of the Company's current Articles are available for inspection at the Company's registered office.

Dividends and Distributions

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution.

Dividends may be declared and paid in any currency or currencies that the Board shall determine. The Board may also determine the exchange rate and the relevant date for determining the value of the dividend in any currency.

Rights and Obligations Attaching to Shares

The rights and obligations attaching to the ordinary and deferred shares are set out in the Articles of Association. Details of the authorised and issued share capital together with movements in the Company's issued share capital during the year are shown in note 32.

In February 2006, Vedanta Finance (Jersey) Limited ('VFJL') issued 4.6% US\$725 million guaranteed convertible bonds. The bonds are first convertible into exchangeable redeemable preference shares to be issued by VFJL, which are then exchanged automatically for ordinary shares of Vedanta Resources plc represented by depositary receipts, which do not carry voting rights. Further details of the convertible bonds are set out in note 26.

Each ordinary share carries the right to one vote at general meetings of the Company. Holders of deferred shares are not entitled to attend, speak or vote at any general meeting of the Company, nor are they entitled to the payment of any dividend or to receive notice of general meetings.

Further details of the rights attaching to the deferred shares are set out in the Articles and summarised in note 32.

Variation of Rights

Subject to the provisions of the Companies Acts, the rights attached to any class may be varied with the consent of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

Deadlines for Exercising Voting Rights

Votes may be exercised at general meetings in relation to the business being transacted either in person, by proxy or, in relation to corporate members, by corporate representative. The Articles provide that forms of proxy shall be submitted not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

Restrictions on Voting and the Transfer of Shares

No member shall be entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares in the capital of the Company, either in person or by proxy, in respect of any share held by him unless all moneys payable by him in respect of that share have been paid. Furthermore, no shareholder shall be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll if he has been served with a notice after failing to provide the Company with information concerning interests in his shares that is required to be provided under the Companies Acts.

Directors' Report (continued)

Issue of Shares

Under the Articles of Association, the Company has authority to allot the unissued shares of the Company. Such authority would be exercised having regard to the guidelines of the Investor Protection Committees.

Shares Held in Uncertificated Form

Subject to the provisions of the Uncertificated Securities Regulations 2001, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

Purchase of the Company's Own Shares

At the end of the year, the Directors had authority, under a shareholders' resolution dated 31 July 2008, to make market purchases of up to approximately 10% of the Company's ordinary shares.

The authority expires at the conclusion of the Annual General Meeting of the Company in 2009 or on 31 October 2009, whichever is the earlier. A resolution to obtain a further authority will be proposed at the 2009 Annual General Meeting.

On 2 December 2008, the Company announced a US\$250 million share buyback programme to purchase up to 10% of the Company's ordinary shares using the above authority. The Board believes the buyback programme is value enhancing for shareholders. Since 2 December 2008 and up to the date of this report 10,680,413 ordinary shares of US\$0.10 were purchased at an average price of £5.92, representing 3.70% of the Company's issued share capital. All shares purchased will be held in treasury for subsequent cancellation or sale.

Significant Agreements: Change of Control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, and capital market borrowing. Some of these are considered to be significant in terms of their likely impact on the business of the Group as a whole.

All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions.

Under the terms of the US\$725 million 4.6% Guaranteed Convertible Bonds due 2026 issued 21 February 2006, in the event of a change of control (defined as Relevant Event), the Exchange Price will be adjusted. The Change of Control Exchange Price shall only apply to Bonds in respect of which Conversion Rights are duly exercised and the Conversion Date falls within the period, commencing the date of the Relevant Event and ending on the date 60 days following the occurrence of the Relevant Event.

The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Key Relationships

The group has several significant relationships which are critical to its business. These include, but are not limited to, the group's relationships with its majority shareholders, customers, lenders, employees and governments in the jurisdiction in which it operates.

Deepak Kumar
Company Secretary
6 May 2009

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