

Financial Review

Highlights

- Revenues of US\$6.6 billion and EBITDA of US\$1.6 billion
- Free cash flow of US\$1.7 billion
- Investment of US\$3.0 billion in growth projects
- Strong balance sheet
- Capital employed of US\$7.6 billion
- Net debt of US\$0.2 billion
- Cash and liquid investments of US\$4.9 billion
- US\$397.1 million share buyback and increase in subsidiary stakes
- Long-term non-recourse project finance of US\$3.7 billion secured for project pipeline, including US\$2 billion which is subject to final documentation

Key financial performance indicators

(in US\$ million except as stated)	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
EBITDA	1,612.2	3,010.4	2,703.0	1,105.50	454.0
Underlying EPS (US cents per share)	119.7	303.9	327.0	130.2	48.9
Free cash flow	1,709.6	2,216.9	1,504.2	634.8	204.4
ROCE (excluding project capital WIP) (%)	24.4	45.6	78.5	37.9	32.0
Net (cash)/debt	200.8	(2,142.7)	(432.7)	11.9	74.3

Balance sheet and cash flows

We continue to have a strong balance sheet with capital employed of US\$7.6 billion and net debt of US\$200.8 million. Net debt comprises US\$4,912.6 million of cash and liquid investments offset by debt of US\$5,113.4 million. An explanation of the movement from net cash to net debt during the year is provided later in this review.

During the year we raised debt of US\$2,208 million of which US\$1.25 billion was raised by the parent company and the rest by the subsidiaries. The parent company issued 5 and 10 year bonds totalling US\$1.25 billion under difficult market conditions at an average coupon rate of c.9.2%. External debt held by operating subsidiaries rose to US\$1,718.3 million at 31 March 2009 compared to US\$757.3 million at 31 March 2008. This was due to additional project financing secured by some of our subsidiaries which are engaged in large capacity expansions. We refinanced a US\$1 billion loan taken out for the acquisition of Sesa and have increased the tenure of this loan by 4.6 years. At 31 March 2009, our balance sheet gearing was 2.6%.

In FY 2009 the Indian rupee, the functional currency of our Indian subsidiaries, depreciated approximately 27.5% against the US dollar. A large part of our shareholders' equity is contributed by our Indian subsidiaries. Since our presentation currency is the US dollar, the depreciation of the Indian rupee has resulted in a currency translation loss in shareholders' equity (including minority interests) of US\$2,195.3 million.

Cash and liquid investments at 31 March 2009 were US\$4.9 billion, the majority Indian rupee denominated. Of this, US\$380.5 million was cash and cash equivalents and US\$4,532.1 million was liquid investments. Cash and cash equivalents include cash and bank balances, short-term deposits with banks and short-term highly liquid investments. Liquid investments consist of investments in mutual funds and bank deposits with maturity of more than 90 days. Our policy is to invest only in those funds and banks which have a high credit rating. We place significant emphasis on safety and liquidity of the investments.

The movement in net (debt)/cash in FY 2009 is set out below.

(in US\$ million, except as stated)	FY 2009	FY 2008
EBITDA	1,612.2	3,010.4
Operating exceptional items	(31.9)	11.1
Working capital movements	620.6	(53.3)
Changes in long-term creditors and non-cash items	104.7	(19.4)
Sustaining capital expenditure ¹	(306.3)	(256.9)
Sale of tangible fixed assets	7.9	2.7
Net interest paid	(208.7)	33.0
Dividend received	241.9	144.5
Tax paid	(330.8)	(655.2)
Free cash flow	1,709.6	2,216.9
Expansion capital expenditure ¹	(3,021.3)	(1,997.7)
Issue of shares by subsidiary	-	1,969.4
Purchase of fixed assets investments	(85.4)	-
Acquisition of minorities	(316.8)	-
Acquisitions, net of cash and liquid investments acquired	-	(757.7)
Buyback of shares of Vedanta Resources plc	(80.3)	-
Sale of non-core business	-	83.1
Dividends paid to equity shareholders	(118.8)	(104.3)
Dividends paid to minority shareholders	(56.1)	(53.5)
Other movements ²	(374.4)	353.8
Movement in net (debt)/cash	(2,343.5)	1,710.0

1 On an accruals basis.

2 Includes foreign exchange movements.

Cash generation and conservation are key business drivers and more so in the current economic environment. Free cash flow ('FCF') was US\$1.7 billion in FY 2009, down 22.7% compared with FCF of US\$2.2 billion in FY 2008. FCF as a percentage of EBITDA has improved significantly to 106% in FY 2009 up from 74% in FY 2008. Strong focus on working capital management has resulted in a contribution of US\$620.6 million to free cash flow during the year.

Gross working capital, represented by inventory and receivables, reduced from US\$2,346.8 million at 31 March 2008 to US\$1,644.1 million at 31 March 2009. Gross working capital turnover, a parameter to determine efficiency of working capital management, improved from 3.5 times revenue in FY 2008 to 4.0 times revenue in FY 2009. Our net working capital, represented by gross working capital less trade and other payables, in FY 2009 was approximately negative 4.9% of turnover compared with 4.0% of turnover in FY 2008. Some of our subsidiaries, which are not fully integrated operations normally, carry relatively higher working capital levels. These operations manage their working capital effectively by matching their receivable and payable cycles. Tax outflow reduced to US\$330.8

million in FY 2009 from US\$655.2 million in 2008 partially due to tax effectiveness measures put in place in previous years, the benefit of which has accrued during the year and also due to lower taxable profits.

Of the total interest cost of US\$362.2 million in FY 2009, US\$250.2 million is charged in the income statement and the remainder has been capitalised as a part of our expansion in fixed assets. Interest expense (including capitalised interest) of US\$362.2 million is higher than the previous year by US\$60.1 million due to an increase in average debt taken to fund expansion projects. Interest rates also increased during the year as a result of tighter liquidity and an increase in credit spreads. Consequently our borrowing rates in FY 2009, despite being competitive in the current market environment, were at a rate higher than the average of FY 2008.

Sustaining capital expenditure of US\$306.3 million in FY 2009 is higher than the previous year mainly due to investments to improve operational efficiencies, to modernise our older plants and to meet our health, safety and environmental goals. During H2 FY 2009, we have significantly scaled down our sustaining capital expenditure.

We invested US\$3.0 billion in expansion projects. We remain committed to completing our expansion projects at or under budget and at or ahead of the estimated timelines.

During the year we reviewed some of our major expansion projects and have deferred spending on some of the projects to remain focused on conserving cash. A large part of the expansion capital expenditure was spent in our aluminium and energy businesses. We have spent US\$375 million on the 1.25 mtpa Jharsuguda smelter expansion project and US\$882 million in the 2,400 MW commercial energy project at the same location.

We spent US\$397.1 million in buying back shares of Vedanta as well as buying shares in our subsidiaries - KCM, MALCO, Sesa and Sterlite. We continue to look for opportunities to increase our stake in key subsidiaries at attractive prices.

Return on Capital Employed ('ROCE') in FY 2009 was 24.4%, lower than 45.6% in FY 2008 due to lower operating profits, largely a factor of lower metal prices during the year. ROCE is an important KPI in our businesses. We accord high priority to capital productivity and we enhance the ratio by optimising asset performance and by minimising capital investment. The operating review has discussed the measures we have taken and the results of these measures in improving our asset performance. We have demonstrated our strong track record of completing our expansion projects on or ahead of schedule as well as within their budget. A good example of the former measure is the significantly higher output of iron ore in FY 2009 over FY 2008 without incurring any major capital expenditure. ROCE is also affected by the timing of expansion projects being delivered during the year due to the time lag in capturing the full benefit from additional capacities.

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Capital resources and liquidity

Our cash and liquid investments of US\$4.9 billion provide us with a strong platform to fund our growth projects and other commitments. Our net debt as at 31 March 2009 was US\$200.8 million. We continue to generate strong cash flows and generated about US\$1.7 billion of FCF during FY 2009, of which about US\$900 million was generated in H2 FY 2009 in which EBITDA was just US\$340 million.

Even in the current economic environment, we continue to enjoy strong support from lending institutions due to our operational track record as well as our strong balance sheet. We raised US\$1.25 billion in the form of long-dated bonds during FY 2009 and have recently secured project financing of US\$3.7 billion for our aluminium and energy sector expansion projects, including US\$2 billion which is subject to final documentation.

We recorded revenues and EBITDA during the year of approximately US\$6.6 billion and US\$1.6 billion, respectively. Revenues and EBITDA have been discussed in detail in the Business Review.

During the year we decided to discontinue our high cost aluminium operations. Furthermore, due to the non-renewal of the mining lease at one of the third-party mines in Sesa Goa, we have impaired the entire carrying value of the mining property value in that location. Impairment losses recognised in the income statement of FY 2009 are US\$28.9 million and are shown as part of special items.

Net interest income in FY 2009 was US\$73.9 million compared with US\$170.8 million in FY 2008. Investment income increased to US\$456.2 million in FY 2009 from US\$321.4 million in FY 2008 as a result of better yield on investments and also due to higher cash generated by many of our Indian subsidiaries. Average cash and cash equivalents and liquid investments increased in FY 2009 to US\$5,226.7 million up from US\$ 4,572.0 million in FY 2008.

Finance costs have also increased to US\$250.2 million in FY 2009, up from US\$150.6 million in FY 2008 due to an increase in average debt levels. Average debt was US\$4,370 million in FY 2009, up from US\$3,198 million in FY 2008. During the year, we raised new debt of US\$2,208 million mainly to meet our project finance requirements. We had also secured short-term funding facilities from banks to meet working capital requirements of some of our businesses. Our alumina refinery at Lanjigarh was commissioned during the year and the interest expense incurred after commissioning is reflected in the income statement, having been capitalised prior to that date.

During the year, there was unprecedented volatility in foreign currency exchange rates particularly between the Indian rupee and the US dollar. The Indian rupee depreciated against the US dollar by c.27.5%. Financial liabilities restated at the closing exchange rates in our Indian subsidiaries resulted in an exchange loss of US\$132.0 million in the income statement.

The effective tax rate for FY 2009 was 23.8% compared with 27.4% in FY 2008,

Project capital expenditure

(in US\$ million)	Revised cost	Spent to 31 March 2009	Committed but not yet spent	Status
Lanjigarh I refinery (Alumina)	1,015.3	932.0	83.3	Stream I completed
Jharsuguda I smelter (Aluminium)	2,112.8	2,009.7	103.1	Stream II nearing completion
Konkola mine (Copper)	674.0	491.3	128.3	In progress
Nchanga smelter (Copper)	470.0	431.2	10.7	In progress
Chanderiya smelter (Zinc)	306.5	304.8	1.7	In progress
Wind energy	141.0	141.0	-	In progress
Zinc-lead debottlenecking	148.5	146.7	1.8	Completed
Commercial energy	1,900.0	882.2	533.1	In progress
Dariba smelting project (Zinc)	720.0	244.3	279.2	In progress
Korba III smelter (Aluminium)	1,820.0	297.3	415.6	In progress
Jharsuguda II smelter (Aluminium)	2,920.0	375.1	1,286.5	In progress
Lanjigarh II refinery (Alumina)	1,720.0	88.5	700.5	In progress
Grand total	13,948.1	6,344.1	3,543.8	

We incurred additional capex in our Lanjigarh I refinery (Alumina), with the originally estimated cost of US\$800 million increasing to approximately US\$1,015 million. This was because of adverse exchange rate movements during the year and higher costs incurred on sourcing bauxite from third parties during the trial run period.

Project capital expenditure on the Nchanga smelter has also increased from approximately US\$372 million to US\$470 million largely due to commissioning delays and

consequential higher pre-operative, trial-run expenditure and utilities costs. Based on the expansion projects currently underway, the capital expenditure required to complete these projects over the next three years is approximately US\$7.6 billion.

Our debt maturity now averages 3.5 years. In the next two years, US\$1,472.4 million of debt falls due for repayment. Our cash and liquid investments, free cash generation and tied up funds are sufficient to meet our capital and debt commitments.

Group results

Group operating results for FY 2009 are set out below.

(In US\$ million, except as stated)	FY 2009	FY 2008	% change
Revenue	6,578.9	8,203.7	(19.8)
EBITDA	1,612.2	3,010.4	(46.4)
EBITDA margin (%)	24.6	36.7	-
Operating special items	(31.9)	11.1	-
Depreciation and amortisation	(473.3)	(429.1)	10.3
Operating profit	1,107.0	2,592.4	(57.3)
Net interest income	73.9	170.8	(56.7)
Profit before taxation	1,180.9	2,763.2	(57.3)
Income tax expense	(280.5)	(757.7)	(63.0)
Tax rate (%)	23.8	27.4	-
Minority interest	681.1	1,126.5	(39.5)
Minority interest rate (%)	75.6	56.2	-
Attributable to equity shareholders in parent	219.3	879.0	(75.1)
Basic earning per share (US cents per share)	76.4	305.4	(75.0)
Underlying earning per share (US cents per share)	119.7	303.9	(60.6)

primarily due to efficiencies in tax management in many of our businesses. We made effective use of various tax benefits available in India and such benefits have resulted in lower effective tax rates in some of our major operating subsidiaries including HZL, Sterlite and Sesa. At KCM, a new tax regime was introduced from April 2008. Tax rates applicable to mining companies were increased from 25% to 30% and a new windfall tax was also introduced. Based on our discussions with the government authorities in Zambia, we provided for windfall tax at the rate of 25% above the minimum threshold limit. The amount of windfall tax recognised in FY 2009 was US\$29 million. We have been engaged in discussions with the Zambian Government on this matter and recently the Zambian Government has announced withdrawal of windfall tax with effect from April 2009.

The current tax rate at KCM has increased to 32.1% in FY 2009, up from 22.6% in FY 2008 as a result of a change in the profit mix. Higher contribution of profits from units having a higher incidence of current tax together with tax losses in KCM led to the increase in the overall current tax rate.

Basic EPS in FY 2009 was 76.4 US cents per share as against 305.4 US cents per share in FY 2008 due to lower attributable profits, a result of lower operating profits and a change in profit mix amongst subsidiaries. Underlying EPS, which excludes special items and exchange losses on borrowings in FY 2009 was 119.7 US cents per share compared with 303.9 US cents per share in FY 2008. Special items include impairment losses of mining reserves at one of our mines.

Share buyback and acquisition of subsidiary shares

The steep correction in the global equity market valuations has provided us with an opportunity to buy back shares in the Company and in our individual subsidiaries at attractive valuations. Consequently, during the year we have invested US\$80.3 million buying back 9.6 million equity shares or 3.3% of outstanding shares.

We also increased our equity stake in some of our subsidiaries in India under the recently announced scheme of Securities and Exchange Board of India ("SEBI"). In Sterlite Industries (India) Limited, we have increased

our equity stake from 59.9% at 31 March 2008 to 61.3% at 31 March 2009. In Sesa Goa Limited, we have increased our equity stake from 51.2% at 31 March 2008 to 52.7% at 31 March 2009. We are in the process of buying back the entire 20% minority stake in The Madras Aluminium Company Limited through a delisting process under SEBI guidelines. The response from the minority shareholders is encouraging and to date our stake has increased to 93.2%, up from 80%.

We also successfully acquired ZCI's 28.4% stake in KCM in April 2008 for US\$217.2 million, taking our total shareholding in KCM to 79.4%.

We will continue to evaluate the options of buying back shares in Vedanta. We will also continue to increase our underlying shareholdings in our subsidiaries both under schemes notified by SEBI and through other avenues available to us under the applicable laws.

In respect of our options to acquire the minority stake held by Government of India in BALCO, mediation proceedings as directed by the Delhi High Court did not reach a conclusion and consequently an arbitration process is currently underway. In the case of HZL, we have not yet exercised our call option which became exercisable in April 2007. We are awaiting a response from the Indian Government to our interest in purchasing the entire residual stake of the Government of India in HZL.

We entered into an agreement in May 2008 with Asarco LLC, the third largest copper producer in the United States of America, to purchase substantially all of its operating assets for a total consideration of US\$2.6 billion. Global economic conditions had since deteriorated and with the uncertain outlook for commodity prices, we renegotiated our agreement with ASARCO for a revised consideration of US\$1.7 billion.

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Risks and Uncertainties

The identification and management of risks is integral to Vedanta's strategy and to achieve its long-term goals.

Risks and risk management practices

Our businesses and operations are subject to a variety of risks and uncertainties which are no different from any other company in general and our competitors in particular. Such risks are the result of not only the business environment within which we operate but also of other factors over which we have little or no control. These risks may be categorised between operational, financial, environmental, health and safety, political, market-related and strategic risks. We have well documented and practised risk management policies that act as an effective tool in minimising various risks to which our businesses are exposed to during the course of their day-to-day operations as well as in their strategic actions.

Risks are identified through a formal risk management programme with the active involvement of business managers and senior management personnel at both the subsidiary level as well as at the corporate level. Each significant risk has an 'owner' within the Group at a senior level, and the impact to the Group if a risk materialises and its likelihood of crystallisation is regularly reviewed. A risk register and matrix is maintained, which is regularly updated in consultation with business managers. The risk management process is coordinated by our management assurance function and is regularly reviewed by our Audit Committee. Key business decisions are discussed at the monthly meetings of the Executive Committee and senior managers address risk management issues when presenting initiatives to the Executive Committee. The overall internal control environment and risk management programme is reviewed by our Audit Committee on behalf of the Board.

Internal controls

A strong internal control culture is pervasive throughout the Group. Regular management assurance visits to our operations and holding companies

are undertaken to ensure the Group's high standards of internal control are maintained. The strength of a business's internal control environment forms a component of senior managers' performance appraisals. Further details on the Group's internal control environment are provided in the annual Corporate Governance Report.

Treasury management

Our core philosophy in treasury management revolves around three main pillars, namely: (a) capital protection; (b) liquidity maintenance; and (c) yield maximisation. Treasury policies are approved by the Board and adherence to these policies is strictly monitored at our Executive Committee meetings. Day-to-day treasury operations of our Group subsidiaries are managed by the respective subsidiary finance teams within the framework of the overall Group treasury policies. Long-term fund raising including strategic treasury initiatives are handled by a central team while short-term funding for routine working capital requirements is delegated to subsidiary companies. Each of our subsidiaries has a strong internal control system including segregation of front office and back office functions with a separate reporting structure. We have a strong system of internal control which enables effective monitoring of adherence to Group policies. The internal control measures are effectively supplemented by regular management assurance audits.

We do not purchase or issue derivative financial instruments for trading or speculative purposes and neither do we enter into complex derivative transactions to manage our treasury and commodity risks. Derivative transactions in both treasury and commodities are normally in the form of forward contracts and interest rate swaps and currency swaps, which are subject to strict guidelines and policies. Interest rate swaps are taken to achieve a balance between fixed rate and

floating rate obligations (as described below under 'Interest rate risks') and currency swaps are taken primarily to convert the Group's exposure to non-US dollar currencies into US dollars.

Commodity risks

Our principal commodities are aluminium, copper, zinc, lead and iron ore. This diversified basket offers a partial hedging mechanism against volatility in the prices of individual commodities.

Of the Group's principal commodities, aluminium, copper, zinc and lead are priced with reference to LME prices. LME prices are influenced by global demand and supply for these metals which in turn is influenced by global economic scenarios, regional growth, infrastructure spending by governments and also by speculative activities.

In the case of iron ore, prices are not linked to any metal exchange but are generally influenced by all the factors enumerated above which is reflected in the benchmark prices agreed between major iron ore suppliers and steel makers. We sell iron ore under annual price contracts as well as at spot prices determined at the time of supplies. Price fluctuations can affect our business assumptions and hence our investment decisions, operational and financial performance.

While the Group aims to achieve average LME prices for a month or for a year, average realised prices may not necessarily reflect the LME price movements because of a variety of reasons including uneven sales during the year. Any fluctuation in the prices of the metals that we produce and sell will have an immediate and direct impact upon the profitability of our businesses.

As a general policy, we aim to sell our products at prevailing market prices. Hedging activity in commodities is undertaken on a strategic basis to a limited degree and is subject to both strict limits laid down by our Board and strictly defined internal controls and monitoring mechanisms. Decisions relating to hedging of commodities are taken at the corporate level and with clearly laid down guidelines for their implementation by the subsidiaries.

Our custom smelting operations of copper at Tuticorin enjoy a natural hedge except to the extent of a possible mismatch in quotational periods between the purchase of copper concentrate and the sale of finished copper. The Group's policy on custom smelting is to generate its margins

mainly from TC-RCs, premiums and sale of by-products. Hence quotational period mismatches are actively managed to ensure that the gains or losses are minimised. TC-RCs are a major source of income for the copper smelting operations in India and therefore are susceptible to fluctuations which are influenced by factors such as demand and supply conditions prevailing in the market for mine output. The copper smelting business actively reviews its procurement strategy to strike an appropriate balance between copper concentrate procured at spot TC-RCs and those which are sourced at long-term contractual TC-RCs. Approximately 60% of the copper concentrate consumed in FY 2009 came from long-term contracts and the balance from the spot market.

Our Australian mines in Tasmania supply c.9% of the concentrate requirement of the custom smelter at Tuticorin. This situation adversely impacts the profitability of the copper smelting business particularly at times when TC-RCs exhibit a declining trend. We insulate ourselves by constantly focusing on reducing unit cash costs at our smelting and refining operations.

KCM is largely an integrated copper producer and hence our Group strategy to protect it from copper price fluctuations is to focus on controlling its costs.

Set out below are the key commodity price sensitivities on EBITDA resulting from a change of US\$ 100 per tonne in LME prices.

	Average market as price in FY 2009 (US\$/tonne)	Effect on EBITDA of US\$100/tonne change in LME (US\$ million)
Copper	5,885	13.9
Aluminium	2,234	39.7
Zinc	1,563	57.9
Lead	1,660	8.9

The above sensitivities are based on FY 2009 volumes, costs and exchange rates and provide the estimated impact on EBITDA of changes in prices assuming that all other variables remain constant.

Political, legal, economic and regulatory risks

Our mining and smelting operations are located in India, Zambia and Australia and our holding and investment companies are located in jurisdictions including the United Kingdom, Mauritius and Cyprus.

The political, legal, fiscal and other regulatory regimes in these countries

may result in restrictions such as the imposition or increase in royalties, mining rights, taxation rates, legislation pertaining to repatriation of money and so on. Changes to government policies such as changes in royalty rates, reduction in import tariffs in India, reduction in assistance given by Government of India for exports and reduction or curtailment of income tax benefits available to some of our operations in India and Zambia are some of the examples of risks under this category.

The majority of our Group revenues and profits are derived from commodities sold to customers in India. The performance and growth of our businesses are dependent on the health of the overall Indian economy. Any downturn in the rate of economic growth in India, whether due to political instability or regional conflicts or economic slowdown may have a material adverse effect on demand for the metals produced and sold by us.

We may also be affected by the omissions and commissions of political acts of governments in these countries over which we have no control. We strive to maintain harmonious relationships with the governments in these countries and actively monitor developments in political, regulatory, fiscal and other areas which may have a bearing on our businesses.

Reserves and resources

The ore reserves stated in this report are estimates and represent the quantities of copper, zinc, iron ore, lead and bauxite that we believe could be mined, processed, recovered and sold at prices sufficient to cover the estimated future total costs of production, remaining investment and anticipated additional capital expenditures. Our future profitability and operating margins depend upon our ability to access mineral reserves that have geological characteristics enabling mining at competitive costs. Replacement reserves may not be available when required or, if available, may not be of a quality capable of being mined at costs comparable to the existing or exhausting mines.

Moreover, these estimates are subject to numerous uncertainties inherent in estimating quantities of reserves and could vary in the future as a result of actual exploration and production results, depletion, new information on geology and fluctuations in production, operating and other costs and economic parameters such as metal prices, smelter treatment charges and exchange rates, many of which are beyond our

control. We engage the services of independent experts normally once every three years to ascertain and verify the quantum of reserves and resources including ore grade and other geological characteristics.

Delivery of expansion projects on time and within budget

We have a strong pipeline of green field and brown field expansions projects and we have committed funds for these projects. These projects have achieved various stages of completion. Our plans to generate sufficient cash flows from these projects to repay our long-term debt and our ability to raise further debt are dependent upon the successful completion of these projects on time and under budgeted cost and a faster production ramp-up.

Our current and future projects may be significantly delayed by failures to receive regulatory approvals or renewal of approvals in a timely manner, failure to obtain sufficient funding, technical difficulties, human resources constraints, technological or other resource constraints or for other unforeseen reasons, events or circumstances.

As a result, these projects may incur significant cost overruns and may not be completed on time, or at all. We have the necessary resources in all the areas such as technology, financial and human resources and have successfully completed the majority of our Phase I projects on time and below their budgeted costs, demonstrating our ability to manage the successful completion of large green field and brown field projects.

Assets use continuity and insurance

Productive assets in use in mining and smelting operations and the associated power plants may face breakdowns in the normal course of operations or due to abnormal events such as fire, explosion, environmental hazards or other natural calamities. Our insurance policies may not cover all forms of risks due to certain exclusions and limitations. It may also not be commercially feasible to cover all such risks.

Consequently, our insurance coverage may not cover all the claims including for environmental or industrial accidents or pollution. We regularly carry out extensive work on the adequacy of our insurance coverage by engaging consultants and specialists and decide on the optimal levels of insurance coverage typical of our industry in India, Zambia and Australia.

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Safety, health and environment risks

We are engaged in mining activities which are inherently hazardous and any accident or explosion may cause personal injury or death, property damage or environmental damage at or to its mines, smelters, refineries or related facilities and also to communities that live near the mines and plants.

Such incidents may not only result in expensive litigation, damage claims and penalties but also cause loss of reputation. We also operate in Zambia which has a high incidence of HIV/AIDS – a threat to economic development. We accord very high priority to safety, health and environment matters.

Operational risks

Our operations are subject to conditions and events beyond our control that could, among other matters, increase our mining, transportation or production costs, disrupt or halt operations at our mines and production facilities for varying lengths of time or even permanently. These conditions and events include disruptions in mining and production due to equipment failures, unexpected maintenance problems and other interruptions, non-availability of raw materials of appropriate quantity and quality for our energy requirements, disruptions to or increased cost of transport services or strikes and industrial actions or disputes. While many of these risks are beyond our control, we have adequate and competent experience in these areas and have consistently demonstrated our ability to actively manage these problems proactively.

It is our policy to realise market prices for our commodities and therefore the profitability of our operations is dependent upon our ability to produce metals at a low cost which in turn is a factor of our commercial efficiencies and higher volumes. Prices of many of our input materials are influenced by a variety of factors including demand and supply as well as inflation.

Increase in the cost of such input materials would adversely impact our competitiveness. We have consistently demonstrated our ability to manage our costs and some of our operations have costs situated in the lowest quartile of the cost curve. We have a strong commercial function and we identify the best opportunities for cost reduction

and quickly implement them. We are highly focused on costs and volumes and all operational efficiencies and cost efficiencies are discussed regularly at the business review meetings as well as at the Group Executive Committee meetings. As metal prices have started reducing in recent months, we have been able to quickly adapt ourselves to the changing market conditions and reduce our costs significantly.

Financial risks and sensitivities

Within the areas of financial risk, our Board has approved policies which embrace liquidity, currency, interest rate, counterparty and commodity risks.

Liquidity Risks

We require funds both for short-term operational needs as well as for long-term investment programmes, mainly in growth projects. The recent global financial crisis has significantly restricted the supply of credit. Banks and financial institutions have tightened lending norms. If this situation continues, our ability to raise funds and at attractive rates may be significantly impacted.

We aim to minimise this risk by generating sufficient cash flows from our current operations which in addition to available cash and cash equivalents, and liquid financial asset investments, and sufficient committed funding facilities, will provide liquidity both in the short term as well as in the long term. At 31 March 2009, we had cash and liquid investments of US\$4.9 billion as well as US\$1.9 billion of committed funding facilities from our lenders. Long-term borrowings are supplemented by short- to medium-term project finance wherever required.

Our balance sheet is strong and gives us sufficient headroom for raising further debt should the need arise. We generally maintain a healthy debt-equity ratio as well as retain the flexibility in our financing structure to alter this ratio when the need arises. Our contractual cash obligations excluding the convertible bond (on an undiscounted basis) by remaining maturity of our financial liabilities arising in the ordinary course of business at 31 March 2009 are set out below.

Remaining maturities (in US\$ million)	< 1 year	1–2 years	2–5 years	> 5 years	Total
Bank and other borrowings	1,284.8	173.9	1,626.2	1,412.2	4,497.1
Capital commitments	2,413.7	1,260.3	–	–	3,674.0
Total	3,698.5	1,434.2	1,626.2	1,412.2	8,171.1

At 31 March 2009, we had access to funding facilities of US\$7,024.3 million of which US\$1,909.5 million was yet to be drawn as set out below.

Funding facilities (in US\$ million)	Total facility	Drawn	Yet to be drawn
Less than 1 year	3,204.4	1,298.5	1,905.9
1–2 years	173.9	173.9	–
2–5 years and above	3,645.9	3,642.5	3.4
Total	7,024.2	5,114.9	1,909.3

The financial statements have been prepared in accordance with the going concern basis of accounting. The use of this basis of accounting takes into consideration the Group's current and forecast financing position.

Currency Risks

Our presentation currency is the US dollar. A majority of our assets are located in India where the Indian rupee is the functional currency for our subsidiaries. Operating costs are influenced by the currencies of those countries where our Group's mines and plants are located. A majority of our mines and plants are located in India and hence the Indian rupee is the currency in which most of our

costs are incurred and whose fluctuation may have a significant impact on our financial results. Currency exposures also exist in the nature of capital expenditure and services denominated in currencies other than the Indian rupee. KCM's functional currency is the US dollar with its cost base having a mix of the Zambian kwacha and the US dollar.

Our Group borrowings are predominantly denominated in US dollars while a large portion of cash and liquid investments are held in other currencies, mainly in the Indian rupee. Some financial assets and liabilities are not held in the functional currency of the respective subsidiary.

We also hold some intra-Group balances in currencies which are not the functional currency of the respective subsidiary and hence the Group is exposed to movements in the functional currency of those entities and the currencies in which these balances are held.

Consequently, currency fluctuations may have a large impact on our Group financial results. We are subject to currency risks affecting the underlying cost base in the operating subsidiary companies and also the translation of unit cash costs, income statement and the balance sheet (including non-US dollar denominated borrowings) in the consolidated financial statements, where the functional currency is not the US dollar.

Foreign currency exposures are managed through a Group-wide

hedging policy. The policy is reviewed periodically to ensure that the risk from fluctuating currency exchange rates is appropriately managed. Natural hedges available in the business are identified at each entity level and hedges are placed only for the net exposure.

Short-term net exposures are hedged progressively based on their maturity. A more conservative approach has been adopted for project expenditures to avoid budget overruns. Longer-term exposures are not hedged. Stop-loss and take-profit triggers are implemented to protect us from adverse market movements, while at the same time enabling us to take advantage of favourable market opportunities. Key foreign currency sensitivities on EBITDA resulting from a 10.0% movement in exchange rates are set out in the table below.

(in US\$ million)	Closing US dollar exchange rate as at 31 March 2009	Average US dollar exchange rate in FY 2009	Impact of a 10% movement in currency on EBITDA
Currency			
Indian rupee	50.95	45.91	265.6
Australian dollar	35.02	36.14	8.2
Zambian kwacha	5,622	4,196	54.0

The above sensitivities are based on FY 2009 volumes, costs and prices and give the estimated impact on EBITDA of changes in exchange rates assuming that all other variables remain constant.

Interest Risks

At 31 March 2009, our net debt of approximately US\$201 million comprised cash and liquid investments of US\$4.9 billion offset by debt of US\$5.1 billion.

We are exposed to the interest rate risk on short- and long-term floating rate instruments and also on the refinancing of fixed rate debt. Our policy is to maintain a balance of fixed and floating interest rate borrowings. The proportion of fixed and floating rate debt is determined by current market interest rates. As at 31 March 2009, 49.3% of our total debt was at a fixed rate and the balance was at a floating rate.

Our floating rate debt is largely linked to the US dollar LIBOR. We also aim to minimise the average interest rates on our borrowings by opting for a higher proportion of long-term debt mainly to fund our growth projects. We have entered into cross currency interest rate swaps in order to convert fixed rate US dollar borrowings to floating rate US dollar borrowings. Cash and liquid investments are invested in short-term deposits and debt mutual funds to achieve the triple goal of maintaining liquidity,

carrying insignificant risk and achieving satisfactory returns. A majority of our investments of surplus cash is of short duration and is influenced by movements in interest rates.

Considering our net debt position at 31 March 2009 and our investments in bank deposits and debt mutual funds, any decrease in interest rates would result in a net gain and any increase in interest rates would result in a net loss. Based on our gross debt as at 31 March 2009, with all other variables remaining constant, a one percentage point increase in the US dollar LIBOR would impact our profit before tax by US\$25.9 million.

An analysis of the weighted average interest rates for debt and cash and current asset investments as at 31 March 2009 is given in the table below.

Currency	Interest Paid fixed %	Investment income average yield %
Indian rupee	10.6%	11.1%
US dollar	7.7%	2.4%

Some of the investments above generate a tax free return.

Counterparty Risks

We are exposed to counterparty credit risks on our investments and receivables. We have clearly defined policies to mitigate counterparty risks. Cash and liquid investments are held primarily in mutual funds and banks with good credit ratings. Emphasis is given to the security of investments. Limits are defined for exposure to individual counterparties in the case of mutual fund houses and banks. Most of the surplus cash is invested in banks and mutual funds in India where there is a well developed financial market. We also review the underlying investment portfolio of mutual fund houses to ensure that indirect exposures or latent exposures are minimised.

A large majority of receivables due from third parties are secured either through advance receipt of money or by use of trade financial instruments such as letters of credit. Moreover, given the diverse nature of our businesses, trade receivables are spread over a number of customers with no significant concentration of credit risk. Our history of the collection of trade receivables shows a negligible provision for bad and doubtful debts. Therefore we do not expect any material risk on account of non-performance by any of the counterparties.

Employees

People are one of our key assets and we derive our ability to maintain our competitive position from them. Therefore, people in general and key personnel in particular leaving the organisation is a risk. Additionally, our inability to recruit and retain good talent would adversely affect us.

Our vision is to build a fast, flexible and flat organisation with world class capabilities and a high performance culture across all of our businesses. We believe in nurturing leaders from within and providing opportunities for growth across all levels and geographies. We have robust processes and systems in place for leadership development, training and growth to deliver value to the organisation and society.

We provide superior rewards for outstanding performance and have a long-term incentive plan which covers a large number of employees in the Group. A large proportion of our workforces are members of a trade union. We actively communicate and enter into dialogue with our workforce and believe in maintaining a positive atmosphere by being proactive with respect to resolution of labour issues.

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