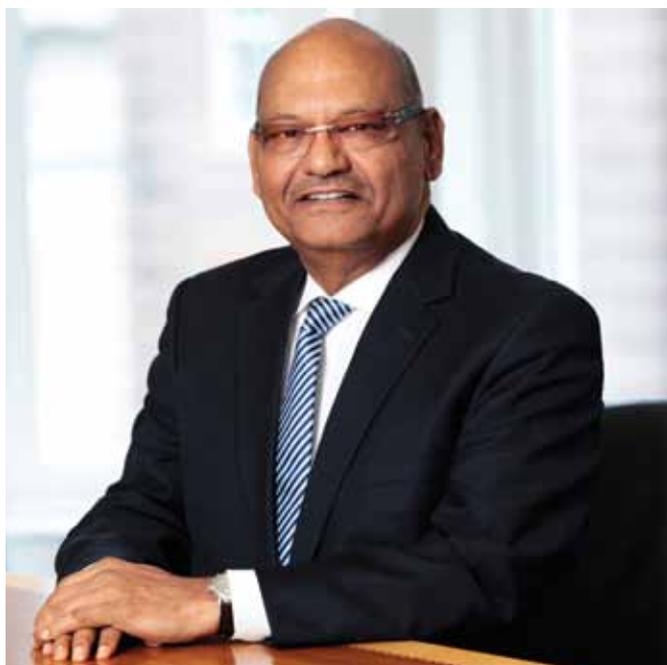


# Corporate Governance Report



**Anil Agarwal**  
Chairman

## Dear Shareholder,

Corporate Governance rightly continues to remain a prevailing area of shareholder focus. At Vedanta, good governance is an integral part of how we do business and we have a well-established corporate governance framework to facilitate effective and prudent management and embed the highest corporate governance standards throughout the organisation while supporting the strategic delivery of our objectives. The Board provides clear strategic direction to and oversight of management who act within the limits of the authority delegated to them by the Board.

I am pleased to report that the Group has made significant progress during the year ended 31 March 2013 and has proactively addressed the challenges we have encountered as outlined below:

### Cairn India

The successful acquisition of a controlling stake in Cairn India has proved to be an excellent platform for growth in a high margin business and contributed to another year of robust EBITDA margins. This acquisition has brought a world-class asset with further growth and exploration potential into the Group. Cairn India was the fastest growing exploration and production company last year, winning the Platts Top 250 Energy Company Awards 2012 and is proving to be an ideal fit with our resources portfolio and geographic footprint.

### Exploration/expansion

We have commenced work on the next stage of expansion for our Indian zinc business, following successful exploration over the years. A US\$1.5 billion project will over six years expand the capacity at our existing mines and open a new, small mine at Bamnia Kalan in the Rajpura Dariba belt to 1.2 million tonnes. West Africa is emerging as a major iron ore hub and the Group's acquisition in Liberia last year has put us in a prime position to be a key player in this area as the country becomes one of the world's leading exporters of iron ore.

Following the Indian government's approval of exploration in development areas, we began work to extend our oil and gas reserves, drilling our first exploration well in the Rajasthan field, in addition to two exploration wells drilled in Sri Lanka.

### Group simplification

In 2012 we initiated a major project to simplify our Group structure and unlock value for shareholders. The merger of Sesa Goa Ltd and Sterlite Industries (India) Ltd to form Sesa Sterlite Ltd aims to create a more efficient capital structure across the Group with better alignment of debt and cash flows, as well as delivering significant operational synergies. The necessary approval from the High Court of Bombay and Goa has been received and we now await the approval of the High Court of Madras.

### Improving operating costs

Despite industry-wide inflationary pressure returning, we have either reduced or maintained unit costs in the majority of our operations. Whilst we are not immune from these pressures, we have a good track record of driving down costs, implementing operational improvements and successfully maintaining our assets with one of the lowest sustaining capex costs.

### Mining restriction

The state-wide temporary mining restrictions in Karnataka and Goa have had a significant impact on mining companies such as Sesa Goa. We are pleased that the Indian Supreme Court has recently lifted the temporary ban on mining of iron ore in Karnataka and we are working towards resuming our mining operations in the region. Mining in Goa remains suspended but we have lodged an appeal against this ban with the Supreme Court and await a date for the final hearing. We continue to actively engage with all necessary stakeholders for a resolution of the matter.

### Board composition

The effectiveness of the Board is instrumental in delivering the long-term success of the Group. Together with the other members of the Nominations Committee, as Chairman of the Board and the Nominations Committee, I regularly review the composition of the Board to ensure that there is an appropriate balance of skills, experience, independence and knowledge of the Group. Last year Geoffrey Green was appointed to the Board as an independent Non-Executive Director. Mr Green has extensive experience in relation to strategic issues and corporate governance practices that will provide unique insights to the Board in the pursuit of its strategic priorities.

As several of the Company's Non-Executive Directors have served on the Board for a number of years, Board succession planning has been at the forefront of the Nominations Committee's considerations and we will take the necessary steps to ensure smooth and orderly Board succession. Mr Naresh Chandra will retire from the Board following the conclusion of the Company's 2013 Annual General Meeting, having served nearly nine years on the Board. Spencer Stuart, one of the world's leading Board recruitment consultants, was engaged to conduct the search for suitable candidates to join as Non-Executive Directors on the Board.

Today, the Nominations Committee recommended and the Board approved the appointment of Mr Deepak Parekh as a Non-Executive Director on the Company's Board with effect from 1 June 2013. He will stand for election by shareholders at the Company's 2013 Annual General Meeting.

### Diversity and inclusion

Following the publication of Lord Davies' Report on diversity, we set ourselves an aspirational target to achieve a minimum of 25% female representation on the Board by

2015. As we do not have any women on the Board at present, this remains a key priority of the Board for the year ahead. Historically, the gender balance in leadership roles has been a challenge for the natural resources sector and Vedanta is no different. However, we are determined to make serious efforts to move in a positive direction. On the positive side, despite significant geographical and cultural challenges in addressing diversity throughout the Group, we have been successful in improving the overall gender balance. While women currently comprise 8% of the overall Group employee population, they make up 12% of the professional population within the Group. I personally supported a workshop to identify the barriers to women's progression and to encourage the empowerment of women professionals within the organisation. In addition, we aim to recruit 20–25% women through our graduate recruitment schemes across the organisation and review the career progression of women into professional and senior management roles that could provide a ready pipeline of potential talent for future Board appointments.

### Board effectiveness and evaluation

We undertake an annual review of the effectiveness of the Board. This includes a rigorous evaluation of the performance of the Board, its Committees and each of the Directors in order to recognise strengths and identify improvements that can be made to maintain a strong and resilient Board, with the right balance of skills and experience. For the year under review, the annual evaluations were conducted by means of a questionnaire, discussions at Board and Committee meetings and meetings between myself and each of the Directors individually. It is our intention that the 2014 Board and Committee annual performance evaluations will be facilitated by an external expert.

The key priorities identified by the Board in the 2013 annual evaluation exercise for focus during the year include Board composition, the reduction of debt, cost and security of financing, ensuring raw material security, completion of the Group restructuring, acquisition of minority shareholdings in BALCO and HZL, dealing with the regulatory environment and proactive engagement with shareholders and other stakeholders.

Following the annual evaluation exercise, I am satisfied with the overall effectiveness of the Board and Committees and the contribution made by each Director. Furthermore, I am pleased to say that actions identified for consideration in previous reviews were addressed during the year.

Yours sincerely,

**Anil Agarwal**  
Chairman

15 May 2013

# Corporate Governance Report

## continued

### The UK Corporate Governance Code 2010 (the 'Code')

As a company with a premium listing on the London Stock Exchange, Vedanta is subject to and seeks to comply with the Code, which is available on the Financial Reporting Council's website at [www.frc.org.uk](http://www.frc.org.uk). The Company is required to report on how it has applied the main principles of good governance in relation to leadership and effectiveness of the Board, remuneration, accountability and relations with shareholders as set out in the Code. This Corporate Governance Report provides details of our approach to governance, our policies, processes and structures and explains how we have complied with the main principles of the Code. Further details of how the Company has applied the provisions of the Code are also contained in the reports of each Board Committee and the Directors' Remuneration Report.

Disclosures on share capital and related matters as required by the Disclosure and Transparency Rules (DTR 7.2.6) may be found in the Directors' Report.

### Statement of compliance with the Code

It is the Board's view that the Company has, throughout the year ended 31 March 2013, fully complied with all the provisions of the Code, with the exception of the following:

#### Code Provisions A.3.1

Anil Agarwal was appointed as Executive Chairman in 2005. Mr Agarwal was the founder of the businesses of Vedanta Resources and steered the phenomenal growth of the Group since its inception in 1976, including the flotation of Vedanta Resources plc on the London Stock

Exchange and promotion to a FTSE 100 company. This meant that Mr Agarwal did not meet the strict independence criteria as defined in the Code on his appointment in 2005 because he was previously the Chief Executive and, through Volcan Investments Ltd ('Volcan'), members of his family have a controlling interest in the Company. Mr Agarwal is pivotal in helping to achieve the strategic objectives of Vedanta through his skills in seeking out value-creating acquisitions and projects. In addition, the fact that he dedicates himself full time to his role of Executive Chairman enables him to balance his executive duties with providing leadership to the Board. As Chairman, Mr Agarwal encourages debate and challenge and sets high ethical standards. For these reasons the Board is unanimously of the opinion that his continued involvement in an executive capacity is vitally important to the success of the Group.

#### Code Provision B.2.1

Under the Relationship Agreement put in place at the time of Listing, Volcan will be consulted on all appointments to the Board. The Nominations Committee therefore works collaboratively with Volcan when making appointments to the Board and, to this extent, differs from the process set out in Code Provision B.2.1 which stipulates that the Nominations Committee should lead the process for Board appointments.

### The Board of Directors

As at the date of this Report, the Board, chaired by Anil Agarwal, comprises the Executive Chairman, two Executive Directors and four independent Non-Executive Directors. The composition of the Board is reviewed regularly by the Nominations Committee.

### Board membership and attendance

Name	Date of appointment	Number of Board Meetings attended	Percentage attendance <sup>1</sup>
<b>Executive Directors</b>			
Anil Agarwal	16 May 2003	5/6	83% <sup>2</sup>
Navin Agarwal	24 November 2004	6/6	100%
MS Mehta	1 October 2008	5/6	83% <sup>2</sup>
<b>Non-Executive Directors</b>			
Naresh Chandra	18 May 2004	6/6	100%
Aman Mehta	24 November 2004	6/6	100%
Euan Macdonald	23 March 2005	6/6	100%
Geoffrey Green	1 August 2012	4/6	100% <sup>3</sup>

<sup>1</sup> This shows the percentage of meetings which the Director attended during the year while a member of the Board.

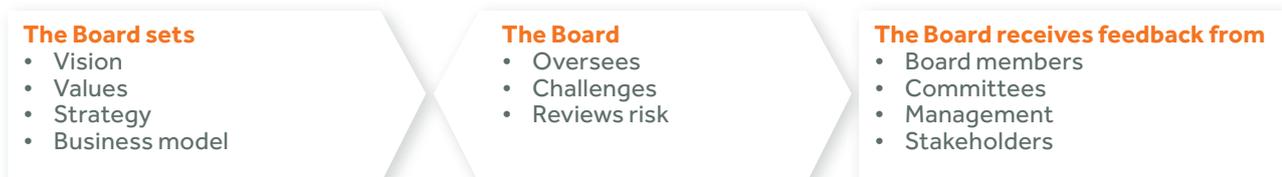
<sup>2</sup> The Director was unable to attend a Board Meeting called at short notice due to prior commitments.

<sup>3</sup> The Director joined the Board part way through the year on 1 August 2012.



### The role of the Board

At the highest level the Board operates by setting strategy and objectives, reviewing progress against these objectives and incorporating feedback into its decision-making processes.



### Role and responsibilities of the Board

The Board of Directors is ultimately accountable to shareholders for promoting the long-term success of the Group through the creation and delivery of sustainable shareholder value. As part of their decision-making processes the Directors have a responsibility to consider the long-term consequences of their decisions, the interests of the Company's employees, the need to foster relationships with other stakeholders, the impact of the Company's operations on the environment and the need to maintain high standards of business. This is achieved by ensuring its governance processes, as described below, are comprehensive and robust. The Board's key responsibilities are for:

- setting the strategic objectives of the Group;
- ensuring that adequate resources are provided to enable the Company to meet the objectives; and
- monitoring the progress made by management against the Group's objectives.

In setting the objectives of the Group, the Board takes into consideration the needs of various stakeholders such as shareholders, employees, suppliers, governments and communities within which the Group operates and determines the nature and extent of the significant risks it is willing to take in the pursuit of those objectives.

The Board is also responsible for ensuring that risk is effectively managed across the Group and that robust systems of internal control and risk management are maintained to protect the business from operational and reputational damage.

The duties of the Board are clearly set out in its terms of reference, including those matters specifically reserved for decision by the Board. Key matters reserved for approval by the Board include:

- approval of the Group's annual and interim reports and financial statements;
- declaration of the interim dividend and the recommendation of the final dividend;

# Corporate Governance Report

## continued

- approval of the business plan and capital expenditure budget of the Group;
- approval of major capital projects in excess of defined thresholds;
- approval of major acquisitions and disposals of assets in excess of defined thresholds; and
- setting of the Group's risk appetite.

The Board's terms of reference also set out those matters which must be reported to the Board, such as details of fatalities and the adoption or material amendment to the

Group policies relating to business conduct, environment and health and safety.

There is a clear division of responsibility between the functioning of the Board and executive responsibility for running the business. The Board has an established policy which sets out the key responsibilities of the Executive Chairman, Deputy Executive Chairman, Senior Independent Director and the Chief Executive Officer.

### The role of the Executive Chairman

The Executive Chairman is responsible for:

- leading the Board, ensuring its effective functioning and setting its agenda;
- upholding the highest standards of integrity and governance practices throughout the Group;
- facilitating constructive relationships between Directors;
- reviewing the induction and training needs of the Directors;
- development of strategy and objectives for approval by the Board;
- seeking new business opportunities; and
- ensuring communication and dialogue with shareholders and effective use of the AGM.

### The role of the Deputy Executive Chairman

The Deputy Executive Chairman supports the Chairman in his leadership of the Board and is responsible for:

- chairing the Executive Committee;
- delivery of the Group's strategy in conjunction with the Chief Executive Officer;
- development of fundraising initiatives;
- global investor relations;
- oversight of the execution of green field projects; and
- oversight of the development of top talent throughout the Group.

### The role of the Chief Executive Officer

The Chief Executive Officer is responsible for:

- recommending to the Board annual budgets and delivery of the same;
- optimising the Group's assets and management and allocation of resources;
- creating and maintaining a sound control environment;
- implementing strategy and Group policies and procedures;
- supporting the Executive Chairman in effective communication with various stakeholders;
- providing leadership to the senior management team and nurturing the talent pool; and
- managing ESG issues in conjunction with the Sustainability Committee.

### The role of the Senior Independent Director

The Senior Independent Director plays a key role in achieving a balance between the Company's Executive and Non-Executive Directors. He is responsible for:

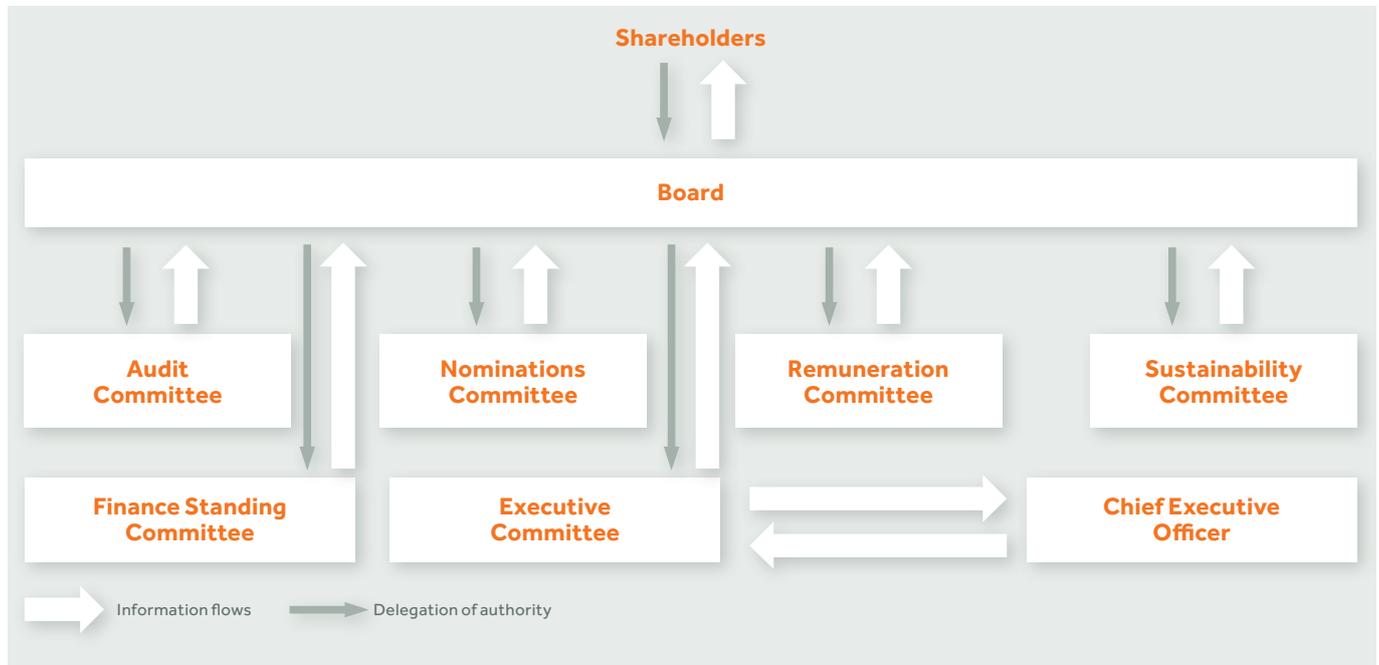
- providing a channel of communication between the Executive Chairman and the Non-Executive Directors;
- ensuring that the views of Non-Executive Directors are given due consideration;
- acting as a contact for shareholders who wish to raise concerns which the normal channels of communication through the Executive Chairman and Chief Executive Officer have failed to resolve;
- acting as a sounding board for the Chairman; and
- meeting with the Non-Executive Directors at least once a year to appraise the Executive Chairman's performance and on such other occasions as are deemed appropriate.

### The role of the Non-Executive Directors

The Non-Executive Directors are responsible for providing effective challenge to the Board and management's performance against objectives. The Company's Non-Executive Directors have a wealth of knowledge and experience between them in a diverse range of sectors, enabling them to bring independent judgement on issues of strategy, performance and resources which are vital to the success of the Group.

## Corporate governance framework

The relationship between the shareholders, the Board, Board Committees and management committees and the reporting structure, as shown below, forms the backbone of the Group's Corporate Governance framework.



### The role of the Board Committees

The Board delegates certain responsibilities to Board Committees, which operate within their defined terms of reference. The main Board Committees are the Audit, Nominations, Remuneration and Sustainability Committees.

All of the committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisers at their meetings and to seek information from any employee of the Company in order to perform their duties. Under the terms of reference of each of the Committees only the members of each committee have the right to attend Committee meetings. However, other Directors, management and advisers may attend meetings at the invitation of the Committee Chairman. The Group Company Secretary acts as the secretary to the Board, Audit, Nominations and Remuneration Committees while the Chief Sustainability Officer acts as the secretary to the Sustainability Committee. The full terms of reference of the Committees are available on the Company's website [www.vedantaresources.com](http://www.vedantaresources.com) or by request to the Company Secretary.

### The Executive Committee

The Executive Committee acts as a conduit between management and the Board and during the year ended 31 March 2013 comprised of the Executive Directors and 12 members of senior management whose biographies are given on pages 74 to 75. With effect from 1 April 2013, Mr Pramod Suri and Mr Gunjan Gupta ceased to be members of the Executive Committee.

The Executive Committee meets monthly and is responsible for implementing strategic plans formulated by the Board, allocating resources in line with delegated authorities and monitoring the operational and financial

performance of the Group. The Executive Committee therefore has a key role in putting the Board's plans and policies into action. The Chief Executive Officer, Mr MS Mehta, keeps the Board informed of the Executive Committee's activities through his standing reports to the Board.

### The Finance Standing Committee

The Finance Standing Committee is an ad hoc sub-Committee to which authority is delegated by the Board for approval of certain matters such as routine bank and financing issues. It comprises of three members including at least two Directors and a member of senior management. The Company Secretary provides an update on the Finance Standing Committee meetings to the Board at the subsequent Board meeting and the minutes of all Finance Standing Committee meetings are reviewed by the Board.

Details of the membership, terms of reference and attendance at meetings of the Audit, Nominations, Remuneration and Sustainability Committees are given in their respective reports on pages 87 to 105.

### Directors' conflicts of interest

The Board has an established procedure for the disclosure of interests and other related matters in line with published guidance and the Companies Act 2006. Each Director must promptly disclose actual or potential conflicts and any changes to the Board which are noted at each Board meeting. The Board considers and authorises potential or actual conflicts as appropriate. Directors with a conflict do not participate in the discussion or vote on the matter in question. These procedures have proved to be effective during the year under review. Related party transactions, which include those in respect of any Director, are disclosed in Note 38 on page 170.

# Corporate Governance Report

## continued

During the year under review, the Board reviewed the potential conflict of interest for Mr Geoffrey Green from his role at Ashurst LLP. The fees paid to Ashurst LLP during the year amounted to US\$0.7 million and as the value of the expenditure incurred was determined to be immaterial and Mr Green was not directly involved in advising the Group, the Board authorised the potential conflict of interest in accordance with the Company's Articles of Association.

### Board independence

In accordance with the Code, the Board is committed to ensuring that at least half the Board, excluding the Chairman, comprise of independent Non-Executive Directors. It undertakes an evaluation of each Director's independence on appointment, annually prior to recommending their re-election by shareholders and when any Director's circumstances change and warrant a re-evaluation.

During the year, the Board considered the independence of Mr Geoffrey Green who was appointed to the Board in August 2012. Mr Green was a partner at Ashurst LLP, a leading international law firm that is engaged by the Group to provide legal advice on various matters. As Mr Green was the head of Ashurst's Asian practice in Hong Kong and had no involvement in advising the Group over the last four years, the Board concluded that he was independent of character and judgement on appointment and remains so. Furthermore, he brings to the Board a vital perspective of the UK legal and regulatory environment and corporate governance that serve to strengthen the Board.

Three of the Company's Non-Executive Directors, Messrs Naresh Chandra, Aman Mehta and Euan Macdonald, have served on the Board for over six years and they were therefore subject to a particularly rigorous review of their independence. Mr Naresh Chandra and Mr Aman Mehta also serve as Non-Executive Directors on the Board of Cairn India Limited. The Board considered the potential conflicts and that each of the Non-Executive Directors in question actively contributed to Board deliberations and provided robust challenge to management during the year. Furthermore, Mr Aman Mehta and Mr Naresh Chandra absent themselves in the event of any conflict arising from their directorships at Cairn India Limited. Accordingly, the Board concluded that the tenure of Mr Chandra, Mr Mehta and Mr Macdonald does not materially affect their ability to exercise independent judgement or act in the best interests of the Group.

Finally, the Board once again reviewed whether any conflicts of interest arose from Mr Aman Mehta and Mr Euan Macdonald having previously held senior management positions within subsidiary companies of HSBC Holdings plc, which acted as the joint global bookrunner and co-ordinator for the Company's Listing in 2003. As they retired from their respective roles over a decade ago and had no involvement with Vedanta prior to their appointment, the Board remains of the view that they are independent and have no conflicts of interest.

Following careful consideration, the Board has determined that all of the current Non-Executive Directors are independent and free from any relationship or circumstance that could affect or appear to affect their independent judgement.

### Relationship Agreement

At the time of the Company's Listing in 2003, it entered into a relationship agreement with Volcan, its majority shareholder, to regulate the ongoing relationship between them. A new relationship agreement was entered into in December 2011 (the 'Relationship Agreement') the terms of which are the same as that entered into on Listing but updated for legal and regulatory requirements where appropriate. The principal purpose of the Relationship Agreement is to ensure that the Group is able to carry on business independently of Volcan, the Agarwal family and their associates. Under the terms of the Relationship Agreement, the Board and Nominations Committee will at all times consist of a majority of Directors who are independent of Volcan and the Agarwal family. Whilst the Remuneration and Audit Committees shall at all times comprise solely of Non-Executive Directors, Volcan is entitled to nominate for appointment as Director such number of persons as is one less than the number of Directors who are independent of Volcan, the Agarwal family and their associates. The Board considers these to be adequate safeguards in that Directors who are independent of Volcan make up at least half of the Board in accordance with Provision B.1.2 of the Code and Vedanta's ability to operate independently of Volcan is protected by the Relationship Agreement.

The Audit Committee is responsible for reviewing matters arising in relation to the Relationship Agreement and related party transactions on behalf of the Board. There were no such matters considered during the year.

### Directors' commitment

Each Director must be able to devote sufficient time to the role to discharge their responsibilities effectively. On average the Directors are expected to spend at least 20 days per year on the Company's business, with greater time commitment during periods of heightened strategic and commercial activity. The expected time commitment of the Company's Non-Executive Directors is set out in their letters of appointment. Directors are required to disclose their other time commitments and seek the agreement of the Executive Chairman prior to accepting any additional appointments in order to ensure that they have sufficient time to fulfil their role as a Director. The Non-Executive Directors' letters of appointment are available on request to the Company Secretary.

### Operation of the Board

The Board meets on a regular basis and met formally on six occasions during the year. As well as formal meetings, written resolutions are passed with the approval of the whole Board on routine matters as required in order to facilitate efficient decision making. In addition, ad hoc discussions take place between the Directors on a variety of topics throughout the year. During the year, the Chairman and the Non-Executive Directors met without the Executive Directors present.

The Executive Chairman, assisted by the Company Secretary, is responsible for ensuring that the Board receives accurate, timely and clear information on all relevant matters in order to make informed decisions and discharge its duties. Directors are provided with regular detailed briefings on the Group's businesses, the markets within which it operates and the overall economic environment and updates on fiscal policy changes.

The Board also routinely receives before each Board meeting detailed information on business and financial performance, ongoing projects, fundraising initiatives, activities of the Board Committees and investor relations, with presentations and verbal updates given by the Executive Directors and senior management at Board meetings as appropriate. The independent Non-Executive Directors are expected to provide objective and constructive challenge to management.

### Board activities during the year

The Board's agenda during the year included the matters in the agreed annual work plan in addition to ad hoc developments arising from the external environment. The main items of business considered by the Board during the year included:

- participating in strategic discussions and reviewing the Group's strategic direction;
- reviewing the progress of the Group's restructuring plans;
- monitoring the operational performance of the Group against the Business Plan through production updates from the CEO and Heads of the operating subsidiaries;
- monitoring the financial performance of the Group and the financing of debt, currency hedging and covenant compliance;
- reviewing the composition of the Board and approving the appointment of new Non-Executive Directors;
- reviewing and approving the Board's terms of reference and the matters reserved for Board approval;
- reviewing and approving the Company's Preliminary Announcement of its financial results, the Annual Report and Accounts, Half Year Report and Annual General Meeting arrangements;
- approving the acquisition of the Government of India's minority shareholding in Hindustan Zinc Limited and Bharat Aluminium Company Limited;
- receiving sustainability training and monitoring issues and the progress made on embedding sustainability within the Group;
- reviewing project proposals and approving Group capital expenditure in excess of applicable thresholds;
- reviewing the Group Risk Matrix and Policy and receiving a report from the Audit Committee on the effectiveness of internal controls and risk management systems;
- receiving reports from each of the Board Committees;
- approving the Group Business Plan for the year ahead;
- reviewing the results of annual performance evaluation of the Board and its Committees;
- declaring the interim dividend and recommending the final dividend;
- receiving regular updates on corporate governance and other regulatory developments;
- receiving updates from Investor Relations in respect of investor sentiment, share price performance and investor feedback;
- monitoring the Group's Health and Safety record and initiatives;
- approving the Group's refinancing plans; and
- conducting the Annual General Meeting.

### Directors' induction, training and development

The Board is committed to the ongoing professional development of all of the Directors. On appointment to the Board, each Director undergoes a comprehensive induction programme which is tailored to their individual needs but is intended to provide an introduction to the Group's operations and the challenges and risks faced. During the year, Geoffrey Green attended the Group induction programme consisting of meetings with and presentations from senior management, meetings with the Non-Executive Directors and the external auditor and a visit to the Group's Hindustan Zinc Limited operations at SK and Dariba mines. He also received induction materials including the Company's Articles of Association, Board terms of reference, Share Dealing Code, Cairn India Prospectus, Code of Business Conduct and Ethics, Vedanta Values and an update on the implementation of the Anti-Bribery policy across the Group. In addition, the Company has supported his enrolment in the INSEAD International Directors' Programme to develop his knowledge and understanding of the role.

The Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman on governance matters. The Directors also have access to the Company's professional advisers whom they can consult where necessary for the discharge of their duties. During the year, the Directors received legal and regulatory updates on corporate governance developments. A site visit to the Group's operations at SK and Dariba mines was also arranged for all of the Non-Executive Directors in February 2013 to provide a better understanding of operations that will aid their discussions with management on an ongoing basis.

### Board evaluation

The Board undertakes an annual review of its own effectiveness, and that of its Committees and individual Directors in order to assess its performance and improve its effectiveness. Following the feedback received from the 2012 Board evaluation, a site visit to some of the Group's operations was arranged and training on sustainability issues was provided to the Board to enable them to better hold Management's performance in this area to account. The composition of the Board was another key area identified, and as disclosed in this report, new Non-Executive Directors have been appointed to the Company's Board to ensure that there remains an appropriate balance of skills and experience on the Board.

The 2013 annual evaluation process was led by the Executive Chairman and supported by the Company Secretary. The review consisted of detailed questionnaires tailored to the Board and each Committee, with a subsequent discussion of the results and agreement of relevant actions. Following the evaluation, it was concluded that the Board and its Committees operated effectively. The key areas for greater focus in the year ahead which were identified by the Board include Board composition, the reduction of debt, cost and security of financing, ensuring raw material security, completion of the Group restructuring, acquisition of minority shareholdings in BALCO and HZL, dealing with the regulatory environment and proactive engagement with shareholders and other stakeholders.

# Corporate Governance Report

## continued

The Non-Executive Directors, led by the Senior Independent Director, reviewed the performance of the Chairman and provided him with feedback as part of the evaluation process. They concluded that the Executive Chairman continued to lead the Board well and played an important role in the development of the Group's strategy.

The Chairman reviewed the performance of the Non-Executive Directors and Executive Directors in their capacity as members of the Board and concluded that each Director contributes effectively and demonstrated full commitment to their role.

In accordance with the requirement of the Code, it is intended that the 2014 evaluation of the Board, its Committees and individual Directors will be facilitated by an external facilitator.

### Re-election of Directors

In accordance with the Code, which requires that the directors of FTSE350 companies should be subject to annual election by shareholders, all of the Company's Directors will stand for re-election at the Company's 2013 AGM with the exception of Mr Naresh Chandra who will retire from the Board at the conclusion of the 2013 AGM following nine years of service on the Board.

### Accountability

#### Financial and business reporting

The Group has a comprehensive financial reporting system, which is reviewed and modified in line with Accounting Standards to ensure that all published financial information is accurate. Vedanta's financial reporting procedures are based on five main elements:

- Financial information supplied by subsidiary companies and consolidated at central level:
  - Management accounts are prepared on a monthly basis and reviewed by the Executive Committee.
  - Management accounts are reviewed by the Board at least quarterly.
  - Performance is monitored against key performance indicators throughout the financial year and forecasts are updated as appropriate.
  - Annual operational budgets are prepared by each operating subsidiary and consolidated into a Group Budget which is reviewed and approved by the Board.
- The Internal Audit function provides assurance in respect of processes, physical verification and MIS accuracy for each operating company.
- External auditor assurance:
  - Full year and interim audits are carried out on the published financial statements.
- Review by the Audit Committee of:
  - Year-end reporting plans.
  - Legal, tax and accounting issues.
  - Financial statements and disclosures in accordance with financial reporting standards.
  - Going concern statements with supporting cash flow, liquidity and funding forecasts.
- Review by the Audit Committee and the Board of the preliminary and half-year announcements, the Annual Report and Accounts and any other announcements including financial information.

The responsibilities, processes and information flows for ensuring that significant risks are recognised and reported up to the Board are shown below:

#### The Board

- Sets 'risk appetite'.
- Reviews significant reported risks.



#### The Audit Committee

- Reviews the effectiveness of internal control/risk systems and reports to the Board.
- Reviews the risk matrix, significant risks, status of risks and mitigating factors.
- Considers and approves remedial actions where appropriate.
- Reviews action plans put in place to mitigate risks.
- Reviews significant findings reported by MAS.
- Reviews internal audit plans.
- Assesses the effectiveness of the internal audit function.
- Reviews whistleblower reports presented by MAS.



#### Management Assurance Services ('MAS') – Internal Audit function

- Plans and carries out internal audits through arrangements with leading international accounting and audit firms.
- Recommends improvements to the Group's internal control system.
- Reviews compliance with Group policies and procedures.
- Facilitates the update of the risk matrix.
- Reports to the Audit Committee.
- Reviews findings with senior management.
- Investigates whistleblower cases.

The Head of MAS attends all the Vedanta Executive Committee and Audit Committee meetings. The MAS team plays a key role in SOX compliance at Sterlite and its subsidiaries.

#### Risk management and internal control

The Board is responsible for setting the Group's risk appetite and determining the nature and extent of the risks it is willing to take to achieve its strategic objectives. The Directors also have ultimate responsibility for ensuring that the Group maintains a robust system of internal control to provide them with reasonable assurance that all information within the business and for external publication is adequate. Authority for detailed monitoring of the internal control and risk management framework is delegated to the Audit Committee which reports to the Board regularly within the remit of its role.

The Group's risk management framework plays a key role in the identification, analysis, mitigation and continual monitoring of the various risks that could impact the delivery of the strategic objectives set by the Board.

The Risk Management Committee comprising of the Chief Executive Officer, the Chief Financial Officer and Director, Management Assurance and Information Technology periodically reviews the changes in the nature and extent of major risks. The Company's Chief Risk Officer and the risk officers at operating subsidiaries are responsible for creating heightened awareness of the risk management framework both at Group level and at operating subsidiary level. They play an important role in ensuring that the organisation sustains its risk management initiatives and that the Group's risk management framework matures and grows with the organisation.

A consistently applied methodology is used to identify risks to operations and projects at the operating subsidiary level. This includes financial, operational and compliance control and risk management, to ensure that shareholders' interests and the Company's assets are safeguarded. The process also covers significant risks that may arise from environmental, social and governance matters. At the operational level specialists are brought in where appropriate to review working practices and recommendations are implemented with the purpose of creating safe working environments.

MAS has arrangements with leading international accounting and audit firms excluding the Group's external auditor for carrying out internal audits within the Group.

This element has been an important component of the overall process by which the Board obtains the assurance it requires to ensure that risks are properly identified, evaluated and managed. The scope of work, authority and resources of MAS are regularly reviewed by the Audit Committee. The responsibilities of MAS include recommending improvements in the control environment and reviewing compliance with the Group's philosophy, policies and procedures. The planning of internal audit is approached from a risk perspective. In preparing the internal audit plan, reference is made to the Group's risk matrix, inputs are sought from senior management, project managers and Audit Committee members and reference is made to past audit experience, financial analysis and the current economic and business environment.

Each of the Group's principal subsidiaries has in place procedures to ensure that sufficient internal controls are maintained. These procedures include a monthly meeting of the relevant management committee and quarterly meeting of the audit committee of that subsidiary. Any adverse findings are reported to the Audit Committee. The Audit Committee Chairman may request MAS and/or the external auditor to focus their audit work and report to him on specific areas of risk identified by the risk management and internal control framework. At a Group level, the findings by MAS are presented monthly to the Executive Committee and to the Audit Committee on a half-yearly basis. During the year, the Audit Committee requested the external auditor to specifically review the provisions for the

Group's ongoing litigation as well as for potential impairments arising from the closure of the Group's operations at Lanjigargh and obtaining alternative sources of raw materials.

The internal control framework set out above complies with the recommendations of the Turnbull Guidance published by the FRC (Internal Control: Revised Guidance for Directors). Due to the limitations inherent in any system of internal control, this system is designed to meet the Group's particular needs and the risks to which it is exposed, rather than eliminate risk altogether. Consequently it can only provide reasonable and not absolute assurance against material misstatement or loss.

In line with best practice, the Board has reviewed the internal control system in place during the year and up to the date of the approval of this report. The Board's review includes the Audit Committee's report on the risk matrix, significant risks and actions put in place to mitigate these risks. This review ensures that the internal control system remains effective. Where weaknesses are identified as a result of the review, new procedures are put in place to strengthen controls and these are in turn reviewed at regular intervals. Every risk has an owner who is responsible for ensuring that controls are put in place to mitigate the risk. During the course of its review of the system of internal control, the Board has not identified nor been advised of any weaknesses or control failure that is significant.

The Directors' statement of responsibilities for preparing the accounts may be found on page 111 and the auditor's statement about their reporting responsibilities may be found on page 112. A statement on the Board's position regarding the Group as a going concern is contained in the Directors' Report on page 109.

### Engagement with shareholders

The Company values communication with its shareholders and actively engages with them to listen to their views. The Company undertakes an ongoing schedule of meetings with institutional investors, which is managed by the Investor Relations team. The main channels of communication with the investment community are through the Executive Chairman, Deputy Executive Chairman, Chief Executive Officer, Chief Financial Officer and Senior Vice President, Investor Relations. The Senior Independent Director and other Non-Executive Directors are also available to meet with major investors to discuss any areas of concern that could not be resolved through the usual channels of investor communications. The Board is kept abreast of shareholder sentiment through periodic detailed investor relations reports to the Board. During the year, the Company conducted meetings with its major shareholders, investor roadshows and took investors and bondholders on a site visit to all its major operations in India over the course of one week to enable them to get a better understanding of the Group's operations.

# Corporate Governance Report

## continued

### Annual General Meeting ('AGM')

The Board welcomes the opportunity to communicate with the Company's shareholders at the AGM. The 2013 AGM will be held on 1 August 2013. Further details are given in the Notice of Meeting accompanying this Annual Report, including the business to be considered at the meeting. The Notice is sent out at least 20 business days before the AGM. Voting at the AGM on all resolutions is by poll on a one share, one vote basis and the results of votes cast for, against and abstentions are available on the Group's website following the meeting.

The Board believes that voting by poll allows the views of all shareholders to be taken into account regardless of whether or not they can attend the meeting and shareholders are actively encouraged to register their votes electronically in advance of the meeting.

All of the Directors, including the Chairmen of the Audit, Remuneration, Nominations and Sustainability Committees, attend the AGM in order to answer questions from shareholders.

### Channels of communication

<b>Full year and half-year results announcements</b>	<ul style="list-style-type: none"> <li>&gt; Released to the market.</li> <li>&gt; Chairman, Deputy Chairman, CEO and Chief Financial Officer deliver presentations to institutional shareholders, analysts and the media.</li> </ul>
<b>Production update/interim management statements</b>	<ul style="list-style-type: none"> <li>&gt; Released quarterly to the market followed by a conference call.</li> </ul>
<b>Annual Report and Accounts</b>	<ul style="list-style-type: none"> <li>&gt; Available to all shareholders electronically, including interactively on the Company's website or in hard copy format on request.</li> </ul>
<b>Press releases</b>	<ul style="list-style-type: none"> <li>&gt; Press releases are made to the market and media on key developments throughout the year.</li> </ul>
<b>Meetings with institutional investors, analysts and brokers</b>	<ul style="list-style-type: none"> <li>&gt; Part of the investor relations programme initiated either by the Company or analysts and investors and managed at Group level through Ashwin Bajaj (Senior Vice President, Investor Relations). Site visits to the Group's major operations are organised for analysts and brokers to enable them to better understand the Group's operations.</li> </ul>
<b>Website</b>	<ul style="list-style-type: none"> <li>&gt; A wide range of information on the Company and its operations is available, including the Annual Report and Accounts, half-yearly results, Sustainability Report, market announcements, press releases, share price and links to subsidiary company websites.</li> </ul>
<b>Annual General Meeting</b>	<ul style="list-style-type: none"> <li>&gt; Attended by all of the Directors and members of senior management.</li> <li>&gt; As well as the formal business, shareholders can ask questions and talk to the Directors after the meeting.</li> </ul>
<b>Responses to shareholder and stakeholder communications</b>	<ul style="list-style-type: none"> <li>&gt; There is ongoing dialogue with shareholders and other interested parties via email, letters and meetings arranged through the Investor Relations team. On sustainability issues, the Chief Sustainability Officer meets with stakeholder groups physically or via teleconference as required.</li> </ul>

The Board has adopted a communications policy to ensure that other price-sensitive information is announced to the market in a timely and considered manner.