# Introduction to Financial Review

### Overview

Vedanta has once again delivered a strong set of financial results, largely driven by strong operational performance from a diversified portfolio of world-class, low cost, long-life assets set against the backdrop of a challenging economic environment and some Company specific challenges. Our financial performance during the year reflects volume growth across most of our businesses with the exception of iron ore, where the operations were impacted by mining restrictions. We had record mined zinc and lead metal production during the year as well as strong increases in lead and silver volumes in Zinc India. Aluminium smelters operated above rated capacity and Power sales volumes also improved significantly although we were impacted by evacuation constraints. Copper cathode production at KCM and Sterlite India also increased substantially. Acquired by the Group in December 2011, Cairn India achieved excellent results in its first full year of operations, delivering strong production growth and operating costs.

The global economic concerns and uncertainties have driven down the prices of all key commodities. In the commercial power sector, sales prices also weakened, although the impact of this was partly mitigated by the lower costs of power generation.

Despite global inflationary pressures, we have been able to position the majority of our businesses in lowest quartiles of the cost curve. At Zinc India we are placed in the first cost quartile while Zinc International business is in the second cost quartile. Our aluminium operation maintained its strong second cost quartile positioning and the cost positioning even without captive bauxite.

During the year we delivered EBITDA of US$4,888.3 million up by 21.4%. Operating profit was higher at US$2,512.0 million, up by 5% and attributable profit of US$157.4 million.

We continued to maintain a strong balance sheet, with cash and liquid investments totalling US$7,981.7 million. During the financial year, the ramp up in production following the substantial investment in our assets generated significantly higher free cash flow of US$3,534.7 million, significantly exceeding growth capital expenditure of US$2,019.1 million.

## Highlights

- Strong performance in the current challenging environment driven by a diversified portfolio of world-class, low cost, long-life assets
- Revenues up 7.0% to US$15.0 billion, EBITDA up 21.4% to US$4.9 billion
- EBITDA margin 32.6%, EBITDA margin (excluding custom smelting), 44.9%
- Significant contribution from Cairn India's first full year performance
- Robust cost performance across operations despite global inflationary pressure
- Strong free cash flow, up 39.5% at US$3.5 billion. Free cash flow after project capital expenditure US$1.5 billion
- Record production of mined zinc-lead and integrated silver at Zinc India
- Record oil & gas production driven by 32.1% higher output at Rajasthan block
- Karnataka iron ore mining restrictions lifted in April, continued state-wide restriction on mining in Goa
- Significant increase in reserves and resources at Zinc India, Iron Ore and Copper in Africa
- Recommenced exploration drilling in the Rajasthan block and made 26th discovery in the block
- Return on capital employed ('ROCE') improved to 17.5% (FY 2011–12: 11.3%)
- Net debt reduced by 14.4% down to US$8.6 billion, cash and liquid investments of US$8.0 billion
- Net gearing of 31.4%, reduced by 11.0%
- Group consolidation and simplification approval received from the High Court of Bombay at Goa; Madras High Court approval awaited
- Final dividend of 37 US cents per share, up by 6.3%, progressive dividend maintained

Our gross debt as at 31 March 2013 was US$16,592.8 million (31 March 2012: US$16,955.4 million), a reduction of US$362.6 million. Net debt also came down more significantly to US$8,615.6 million (31 March 2012: US$10,064.4 million) and the gearing ratio reduced to 31.4% from 35.3% in the previous year. The Group simplification project announced last year, is in the advanced stage of completion and this will facilitate alignment of debt and cash flow generation thus help accelerate deleveraging.

**Financial Results**

| (In US$ millions, except as stated) | FY 2012–13 | FY 2011–12[1] | % change | FY 2011–12 Proforma |
|---|---|---|---|---|
| Revenue | **14,989.8** | 14,005.3 | 7.0 | 15,615.9 |
| EBITDA | **4,888.3** | 4,026.3 | 21.4 | 5,353.3 |
| EBITDA margin without custom smelting (%) | **44.9%** | 40.6% | – | 46.7% |
| Operating profit | **2,512.0** | 2,387.7 | 5.2 | 3,165.6 |
| Underlying attributable profit | **363.3** | 387.2 | (6.2) | 571.1 |
| Free cash flow | **3,534.7** | 2,533.8 | 39.5 | 3,127.6 |
| Underlying earnings per share (US cents) | **133.1** | 142.0 | (6.3) | 209.4 |
| ROCE (excluding Capital work in progress and exploration assets) | **17.5** | 11.3 | – | 10.7 |
| Gearing | **31.4** | 35.3 | (11.0) | 34.8 |
| Net Debt | **8,615.6** | 10,064.4 | (14.4) | 10,064.4 |
| Net Debt/EBITDA | **1.8** | 2.5 | – | 1.9 |
| EBITDA interest cover (times) | **9.0** | 7.9 | – | 7.6 |
| Dividend (US cents per Share) | **58.0** | 55.0 | 5.5% | 55.0 |

1 Includes Cairn India results with effect from 8 December 2011.

**Key developments**

Iron ore operations remain affected by the mining restrictions in Goa and Karnataka. The Honourable Supreme Court of India has given clearance for resumption of mining operations for A and B category mines in Karnataka through its order dated 18 April 2013. Sesa Goa's Karnataka mine falls under B category, and we are in the process of securing the necessary statutory clearances and expect to resume mining in Q1 FY 2013–14.

Iron ore mining in the State of Goa has been suspended with effect from 11 September 2012. An appeal against this has been made to the Honourable Supreme Court and we are awaiting dates for initial hearings. In the meantime, the State Government and major miners including Sesa Goa, have filed their responses to the Central Empowered Committee report. Separately, we have filed an application to the Court seeking a stay on the mining restriction and restrictions on ore transportation.

The Ministry of Environment and Forests ('MOEF') rejected the approval obtained by the Orissa Mining Corporation ('OMC') for the final stage forest clearance needed for the commencement of the Niyamgiri mining project. This is one of the bauxite supply sources close to our alumina refinery. Following the petition filed by OMC challenging the MOEF decision, the Honourable Supreme Court, through its order dated 18 April 2013, has directed the State Government of Orissa to place any unresolved issues and claims of the local communities under the Forest Rights Act before the Gram Sabha, the council representing the local community. The Gram Sabha will consider these claims and communicate its decision to the MOEF through the State Government of Orissa within three months. The MOEF will then take a final decision on the granting of stage II forest clearance for the Niyamgiri mining project within two months.

VAL had undertaken the expansion project for the alumina refinery with an understanding that since there was no change in the manufacturing process and expansion was within the same premises, no fresh environmental clearance was required. This view was challenged by MOEF and the Company has been directed to apply afresh for environmental clearance for the expansion project. VAL has complied with this and the application is in process. The MOEF has now sought certain clarifications from the Government of Orissa and based on the results, it will set the date for the public hearing for the proposed expansion project. In the meantime, VAL has put the alumina refinery expansion activity on hold. Due to the shortage of bauxite, VAL temporarily suspended its refinery operations at Lanjigarh from 5 December 2012. Orissa government has appointed a ministerial level committee to examine the issue of mineral based raw material supplies, including bauxite for alumina plants. The committee is expected to submit its report shortly. For more details refer to Note no. 2 (b) Critical accounting judgement and estimation uncertainty of the Consolidated Financial Statements for the year ended 31 March 2013.

"Vedanta has once again delivered a strong set of financial results, largely driven by strong operational performance from a diversified portfolio of world-class, low cost, long-life assets."

# Financial Review

### New and acquired operations

Assets are reported as new and acquired operations until there is a full year period for comparison. Our diversification into the oil & gas sector through the acquisition of Cairn India on 8 December 2011, contributed US$638.5 million to the total operating profit of US$2,512.0 million for the year. EBITDA for Cairn India was US$1,726.7 million higher with higher depreciation and amortisation charges of US$1,088.2 million.

### Iron Ore business

The mining restriction in Goa and Karnataka impacted our Iron Ore business significantly during the year and contributed a negative variance of US$495.2 million to operating profits before special items compared with FY 2011–12.

### Prices

The prices of many commodities declined during the financial year as global economic growth slowed and concerns surrounding the economic outlook increased. Average aluminium prices declined by 15% whereas zinc, lead and copper prices were also lower by 7% each. Our Power business is situated in India, where the demand continues to exceed supply with the precarious financial health of power distribution companies frequently creating downward pressure on power prices due to their inability to finance the power demand. These lower prices across all commodities (except oil & gas, and iron ore) had a negative impact of US$637.9 million which was partially offset by higher premiums to LME prices of aluminium of US$119.0 million. The impact of lower prices was US$254.8 million in Aluminium business, US$212.4 million in both the Zinc businesses and approximately US$161 million in Copper Zambia and Australia. In aggregate, the operating profit for the year was negatively impacted by US$518.9 million as a result of lower prices despite the higher premiums realised for aluminium.

### Exchange rates

During the year we experienced exchange rate volatility of the Indian rupee against the US dollar. This improved operating profit margins for our businesses located in India as the depreciation of the Indian rupee reduced the costs in dollar terms. Combined with higher sales revenues in rupee terms, this improved operating profits by US$87.8 million.

### Consolidated revenue

| (In US$ millions, except as stated) | 2012–13 | 2011–12 | % change |
|---|---|---|---|
| Zinc | 3,060.5 | 3,206.8 | (4.6%) |
| – India | 2,263.3 | 2,316.1 | (2.3%) |
| – International | 797.2 | 890.7 | (10.5%) |
| Oil & Gas[1] | 3,223.4 | 882.5 | – |
| Iron Ore | 442.5 | 1,690.9 | (73.8%) |
| Copper | 5,733.9 | 5,915.0 | (3.1%) |
| – India/Australia | 3,991.1 | 4,205.2 | (5.1%) |
| – Zambia | 1,742.8 | 1,709.8 | 1.9% |
| Aluminium | 1,920.8 | 1,873.5 | 2.5% |
| Power | 576.1 | 458.3 | 25.7% |
| Eliminations | 32.6 | (21.7) | – |
| Revenue | 14,989.8 | 14,005.3 | 7.0% |

1 FY 2011–12 includes Cairn India results with effect from 8 December 2011.

### Consolidated EBITDA

| (In US$ millions, except as stated) | FY 2012–13 | FY 2011–12 | % change | EBITDA Margin % FY 2012–13 | FY 2011–12 |
|---|---|---|---|---|---|
| Zinc | 1,459.8 | 1,610.8 | (9.4)% | 47.7% | 50.2% |
| – India | 1,165.3 | 1,244.8 | (6.4)% | 51.5% | 53.7% |
| – International | 294.5 | 366.0 | (19.5)% | 36.9% | 41.1% |
| Oil & Gas[1] | 2,439.7 | 713.0 | – | 75.7% | 80.8% |
| Iron Ore | 84.2 | 721.4 | (88.3)% | 19.0% | 42.7% |
| Copper | 476.4 | 685.9 | (30.5)% | 8.3% | 11.6% |
| – India/Australia | 219.1 | 298.0 | (26.5)% | 5.5% | 7.1% |
| – Zambia | 257.3 | 387.9 | (33.7)% | 14.8% | 22.7% |
| Aluminium | 214.0 | 182.5 | 17.3% | 11.1% | 9.7% |
| Power | 215.0 | 122.0 | 76.2% | 37.3% | 26.6% |
| Others | (0.8) | (9.3) | – | – | – |
| Total | 4,888.3 | 4,026.3 | 21.4% | 32.6% | 28.7% |

1 FY 2011–12 includes Cairn India results with effect from 8 December 2011.

### Consolidated operating profit

| (In US$ millions, except as stated) | 2012–13 | 2011–12 | % change |
|---|---|---|---|
| Zinc | 1,165.4 | 1,255.8 | (7.2)% |
| – India | 1,054.8 | 1,126.6 | (6.4)% |
| – International | 110.6 | 129.2 | (14.4)% |
| Oil & Gas[1] | 1,004.8 | 366.3 | – |
| Iron Ore | (4.0) | 481.3 | – |
| Copper | 209.5 | 384.9 | (45.6)% |
| – India/Australia | 157.6 | 164.0 | (3.9)% |
| – Zambia | 51.9 | 220.9 | (76.5)% |
| Aluminium | 21.1 | (40.3) | 152.4% |
| Power | 120.9 | 40.3 | 200.0% |
| Others | (5.7) | (100.6) | – |
| Total Group operating profit | 2,512.0 | 2,387.7 | 5.2% |

1 FY 2011–12 includes Cairn India results with effect from 8 December 2011.

## Volumes

During the year, we had record mined zinc and lead metal production as well as strong increases in lead and silver volumes in Zinc India. Aluminium smelters operated above rated capacity and power sales volume improved significantly although we were impacted by power transmission constraints. These were mainly due to regional power distribution capacity constraints and legalised supply and demand imbalances. Copper cathode production at KCM and Sterlite India also increased. These increases in production volume contributed a positive variance of US$154.1 million to operating profits.

## Costs

The global cost-inflationary environment prevailing in the sector was largely mitigated by our significant presence in India and Zambia, higher production volumes and operational efficiencies. There was a reduction in aluminium costs of US$89.4 million and a reduction in power generation costs of US$79.3 million which was partially offset by an increase in copper costs. These cost reductions increased operating profits by US$65.8 million.

## Special items

Special items to the value of US$41.9 million for FY 2012–13 included US$9.4 million mainly due to voluntary redundancy charges, US$4.7 million restructuring related costs, US$9.4 million project cost write off and US$18.4 million towards the compensation ordered by the Supreme Court in regards to the Tuticorin Smelter issues. In FY 2011–12 special items amounted to US$230.2 million mainly related to provision for ASARCO and costs related to the Cairn India acquisition.

## Depreciation

The depreciation charge excluding Cairn India and our Iron Ore business in FY 2012–13 was US$743.8 million compared to US$697.3 million in FY 2011–12. Depreciation charges were higher at Copper Zambia due to the capitalisation of the Konkola Deep Mining Project ('KDMP') and other projects. These higher depreciation charges for FY 2012–13 reduced operating profit by US$46.4 million.

## Consolidated operating profit variance

| (In US$ million) | | |
|---|---|---|
| Operating profit FY 2011–12 | | 2,387.7 |
| New acquired assets (Cairn India)[1] | | |
| EBITDA | 1,726.7 | |
| Depreciation and amortisation of Cairn | (1088.2) | 638.5 |
| Iron Ore business | | |
| EBITDA | (637.2) | |
| Depreciation and amortisation | 142.0 | (495.2) |
| Sale price | | (518.9) |
| LME | (637.9) | |
| Premium | 119.0 | |
| Currency and Foreign Exchange fluctuation | | 87.8 |
| Volume | | 154.1 |
| Cash cost of production | | 65.7 |
| Others | | (16.2) |
| Special Items | | 188.3 |
| Depreciation[2] | | (46.4) |
| Amortisation[2] | | 66.6 |
| Operating profit FY 2012–13 | | **2,512.0** |

1 FY 2011–12 includes Cairn India results with effect from 8 December 2011.
2 Excluding Cairn and Iron Ore business.

The following exchange rates against the US dollar have been applied:

| | Average FY 12–13 | Average FY 11–12 | As at 31.3.13 | As at 31.3.12 |
|---|---|---|---|---|
| Indian rupee | 54.45 | 47.95 | 54.39 | 51.16 |
| Australian dollar | 0.97 | 0.96 | 0.96 | 0.96 |
| South African rand | 8.51 | 7.46 | 9.25 | 7.69 |
| Kwacha | 5,230 | 5,043 | 5,329 | 5,361 |

## Amortisation

The mining reserves related to our acquisitions are being amortised based on a unit of production basis over the total estimated remaining reserves and resources.

The amortisation charge (excluding Cairn India and our Iron Ore business) in FY 2012–13 was US$71.5 million as compared to US$138.0 million in FY 2011–12. Amortisation charges at Zinc International decreased by US$56.4 million and by US$9.0 million at BALCO increasing operating profit by US$66.6 million in the financial year.

"During the year, we had record mined zinc and lead metal production as well as strong increases in lead and silver volumes in Zinc India."

# Financial Review continued

## Revenue

Consolidated revenues in FY 2012–13 grew to US$14,989.8 million, up 7.0% as compared with the previous year. Cairn India contributed US$3,223.4 million to our revenues in its first full year of operations. Despite our major businesses delivering higher volume growth, with the exception of iron ore, weak commodity prices lowered revenues. Revenue was also impacted by the suspension of iron ore mining in Goa from September 2012 and the continued mining restriction in Karnataka.

## EBITDA margin

EBITDA increased by 21.4% to US$4,888.3 million including a full year of operating results from Cairn India which contributed US$1,726.7 million. This clearly demonstrates the resilience of our diversified business portfolio which helped insulate our EBITDA performance from lower commodity prices and the disruption of iron ore operations during the year. Despite this, we were able to deliver a consistent improvement in EBITDA margin.

EBITDA margin was 32.6% in FY 2012–13 compared with 28.7% in FY 2011–12. Excluding our custom smelting operations, EBITDA margin in FY 2012–13 was 44.9% (FY 2011–12: 40.6%). Customs business EBITDA in FY 2012–13 was US$214.4 million, 4% of the total EBITDA generated in FY 2012–13.

Performance in our individual business segments is summarised below:

- In our Zinc businesses, margin was largely maintained despite a fall in zinc, lead and silver prices. This was a result of higher mined metal and silver production and robust cost management.
- EBITDA margin in our copper businesses reduced due to lower London Metal Exchange ('LME') prices and lower by-product sales credit for sulphuric acid partially offset by higher volumes of copper production.
- Our Aluminium business delivered an increase in EBITDA margin up to 11.1%, despite a significant decrease in aluminium prices due to an improvement in metal premiums and a reduction in the cost of production.
- Our Power business EBITDA margin increased as a combined effect of a fall in both sales prices and the cost of power generation.

## Income statement

| (In US$ millions, except as stated) | FY 2012–13 | FY 2011–12 | % change |
|---|---|---|---|
| Revenue | **14,989.8** | 14,005.3 | 7.0 |
| EBITDA | **4,888.3** | 4,026.3 | 21.4 |
| EBITDA margin (%) | **32.6%** | 28.7% | – |
| EBITDA margin without custom smelting (%) | **44.9%** | 40.6% | – |
| Special items | **(41.9)** | (230.2) | (81.8) |
| Depreciation | **(1,388.2)** | (927.3) | 49.7 |
| Amortisation | **(946.2)** | (481.1) | 96.7 |
| Operating profit | **2,512.0** | 2,387.7 | 5.2 |
| Net interest expense | **(520.9)** | (420.3) | 23.9 |
| Other gains and (losses) | **(285.2)** | (314.2) | (9.1) |
| Income from associate | **–** | 92.2 | – |
| Profit before taxation | **1,705.9** | 1,745.4 | (2.3) |
| Income tax expense | **(40.1)** | (516.7) | (92.2) |
| Effective tax rate (%) | **2.4%** | 29.6% | – |
| Profit for the year | **1,665.8** | 1,228.7 | 35.6 |
| Minority interest | **1,508.4** | 1,168.9 | 29.0 |
| Minority interest (%) | **90.6%** | 95.1% | – |
| Attributable profit | **157.4** | 59.8 | 163.2 |
| Basic earnings per share (US cents per share) | **57.7** | 21.9 | 163.5 |
| Underlying earnings per share (US cents per share) | **133.1** | 142.0 | (6.3) |

EBITDA margin trend of our businesses is as per follows :

| Business | FY 2012–13 | FY 2011–12 | FY 2010–11 |
|---|---|---|---|
| **Zinc** | **47.7%** | 50.2% | 55.6% |
| **– India** | **51.5%** | 53.7% | 56.5% |
| **– International** | **36.9%** | 41.1% | 46.3% |
| **Oil & Gas** | **75.7%** | 80.8% | – |
| **Iron Ore** | **19.0%** | 42.7% | 59.3% |
| **Copper – India/Australia** | **5.5%** | 7.1% | 7.0% |
| **Copper – Zambia** | **14.8%** | 22.7% | 24.1% |
| **Aluminium** | **11.1%** | 9.7% | 19.8% |
| **Power** | **37.3%** | 26.6% | 35.4% |
| Group EBITDA Total | **32.6%** | 28.7% | 31.2% |

- Oil & gas EBITDA margin was marginally lower than the previous year due to higher revenue sharing resulting from the profit petroleum charge; the Government of India's ('GoI') share of profits from the country's oilfields. Cairn India shares profits from oil with the Government after recovering its share of costs as per the terms of a production sharing contract. Profit petroleum charges are paid on a quarterly basis to the GoI.

## Depreciation and amortisation

The additional depreciation charge of US$460.9 million in FY 2012–13 included US$420.2 million from Cairn India for the full year charge as compared to four months in FY 2011–12. The balance of the increase in depreciation was due to the capitalisation of growth projects at KCM, Zinc India and Sterlite Energy. The Cairn India acquisition amortisation charge for the full year was US$834.5 million in FY 2012–13 as compared to US$166.5 million in FY 2011–12. This was partially offset by lower amortisation costs of US$136 million at our Iron Ore business following lower production and at Zinc International where amortisation costs were down by US$56.4 million.

### Net interest

Net interest expense was US$520.9 million in FY 2012–13 compared with US$420.3 million in FY 2011–12. The increase was primarily due to additional finance costs for the full year on the debt incurred in FY 2011–12 for the Cairn India acquisition, partially offset by higher income received on cash and liquid investments. Investment income in FY 2012–13 was US$673.1 million, compared with US$525.4 million in FY 2011–12, mainly due to higher cash and liquid investments and improved yield on investments.

Gross finance costs increased to US$1,422.3 million in FY 2012–13 up from US$1,170.5 million in FY 2011–12. The interest capitalised in FY 2012–13 was US$228.3 million (FY 2011–12: US224.8 million). As a result the finance cost charged to the income statement was US$1,194.0 million in FY 2012–13, up from US$945.7 million in FY 2011–12.

The average debt in FY 2012–13 was US$16,791.9 million, compared with an average of US$13,750.4 million in FY 2011–12. The average debt maturity at 31 March 2013 was 3.3 years as compared to 3.5 years in previous year. Refinancing arrangements being planned to be completed in the current year will extend the average maturity profile of the debt 4.4 years. Our debt constitutes 43% fixed interest rate and 57% on a floating interest rate basis reflecting a balanced debt portfolio.

### Other gains and losses

Other gains and losses include the impact of mark-to-market ('MTM') on foreign currency borrowings, primarily at our Indian businesses and also from the periodical valuation of embedded derivatives relating to the foreign currency convertible bonds at Sterlite and Sesa Goa.

The other losses in FY 2012–13 were US$285.2 million, as compared with a loss of US$314.2 million in FY 2011–12. During FY 2012–13, MTM losses on foreign currency borrowings were US$309.9 million (FY 2011–12: US$411.3 million). These mark-to-market losses were caused by volatility in the Indian rupee/US dollar exchange rate, which depreciated by 6.3% in the year, moving from 1 US$ = Rs51.16 to 1 US$= Rs54.39. The Indian rupee depreciation impacted the uncovered loans denominated in US dollars. The gain on MTM of embedded derivatives of US$24.7 million (FY 2011–12 US$97.1 million) was related to the foreign currency convertible bond at Sterlite and Sesa Goa.

### Profit before taxation

Profit before taxation at US$1,705.9 million was in line with the profit before taxation achieved in the previous year. Although operating profit was higher than last year by US$124.3 million and foreign exchange losses were lower by US$29.0 million, these were partially offset by higher net interest expenses of US$100.6 million and US$92.2 million profit from Cairn India whilst it was an associate of Sesa Goa for the period July to November 2011 in FY 2011–12.

### Taxation

Profit after tax increased by 35.6% to US$1,665.8 million due to lower tax charge. The effective tax rate reduced to 2.4%, significantly lower than the 29.6% rate in FY 2011–12 largely due to nil tax rates at Cairn India on the back of a tax holiday in the Rajasthan oil fields, reorganisation of Cairn India subsidiaries and reversal of deferred tax liabilities on amortisation costs. Also, tax planning measures in our operating subsidiaries have resulted in lower tax rates primarily as a result of tax holidays on power plants and area based incentives.

### Attributable profit

Attributable profit for the year was at US$157.4 million; higher than US$59.8 million in the previous year due to changes in profit mix. Improved attributable profit from Cairn India's first full year of operation, lower losses in VAL improved the attributable profit of the Company. However, this was impacted by lower profits from our Iron Ore business, Copper Zambia and higher interest at Group level.

### Earnings per share

Basic earnings per share ('EPS') for FY 2012–13 was 57.7 US cents per share as against 21.9 US cents per share in FY 2011–12, reflecting the increase in attributable profit. Fully diluted EPS was 56.7 US cents per share (FY 2011–12: 21.6 US cents per share). Underlying EPS was 133.1 US cents per share as against 142.0 US cents per share in the previous year.

Refer to Note 13 of the Consolidated Financial Statements for the year ended 31 March 2013.

"Consolidated revenues in FY 2012–13 grew to US$14,989.8 million, up 7.0% as compared with the previous year. Cairn India contributed US$ 3,223.4 million to our revenue in its first full year of operations."

# Financial Review continued

Shareholders' equity was US$4,398.4 million at 31 March 2013 compared to US$4,650.6 million at 31 March 2012 reflecting the increase in attributable profit due to equity holders during the period, offset by currency losses following the depreciation of the Indian rupee against the US dollar.

Minority interests increased to US$14,463.0 million at 31 March 2013 from US$13,768.9 million as at 31 March 2012, due to an increased share of profit partially offset by foreign currency losses.

### Tangible fixed assets

During the year, we added US$2,409.3 million to property, plant and equipment comprising of US$2,019.1 million on our expansion and improvement projects and US$390.2 million spent on sustaining capital expenditure. Expansion project expenses were US$701.2 million in our Power business mainly at TSPL, US$382.9 million in our Aluminium business, US$423.6 million at Cairn India, US$235.5 million at Zinc India and the balance in other projects at KCM, VGCB, Sterlite Copper, etc.

### Net debt

At 31 March 2013, net debt was US$8,615.6 million (31 March 2012: US$10,064.4 million), a reduction of US$1,448.8 million resulting from strong cash flow. Cash and liquid investments were US$7,981.7 million as at 31 March 2013. Gross debt as on 31 March 2013 was US$16,592.8 million as compared to US$16,955.4 million as at 31 March 2012. As a commitment to deleverage the balance sheet, the Company utilised strong free cash flow generation from substantially-invested assets to reduce the gross debt by US$362.6 million, after investing US$2,019.1 million in growth projects.

External debt at our operating subsidiaries was US$7,530.9 million (31 March 2012: US$7,692.9 million) and debt at Vedanta Resources plc was US$9,061.9 million (31 March 2012 US$9,262.5 million). Of the US$16,592.8 million total debt, US$2,434.5 million consists of convertible bonds. Near term debt maturities at face value of US$4,472.0 million due in FY 2013–14 comprises of US$2,794.0 million due at holding company level and the balance of US$1,678.0 million in subsidiary companies. US$809.8 million has been repaid in the current year and the balance is in the process of being refinanced.

### Balance sheet

| (In US$ millions, except as stated) | **31 March 2013** | 31 March 2012 |
|---|---|---|
| Goodwill | **16.6** | 16.6 |
| Tangible assets | **33,120.6** | 34,141.8 |
| Other non-current assets | **962.9** | 757.5 |
| Cash and liquid investments | **7,981.7** | 6,885.3 |
| Other current assets | **3,868.4** | 3,676.9 |
| Debt | **(16,592.8)** | (16,955.4) |
| Other current and non-current liabilities | **(10,496.0)** | (10,103.2) |
| Net assets | **18,861.4** | 18,419.5 |
| Shareholders' equity | **4,398.4** | 4,650.6 |
| Minority interests | **14,463.0** | 13,768.9 |
| Total equity | **18,861.4** | 18,419.5 |

For the debt due at subsidiaries in FY 2013–14, US$700 million will be paid through internal cash flow generation and the balance mainly from working capital related loans which will be refinanced.

Our cash and liquid investments portfolio continues to be conservatively invested in debt mutual funds and in cash and fixed deposits with the banks. Additionally, the investments portfolio at our Indian entities is independently reviewed by CRISIL Limited and our investment portfolio has been rated as 'Very Good'.

We continue to have a strong balance sheet with capital employed of US$18,861.4 million. Net debt comprised debt of US$16,592.8 million offset by US$7,981.7 million of cash and liquid investments. Anticipated future cash flows and undrawn fund based committed facilities of US$2,144.2 million, together with cash and liquid investments of US$7,982 million as at 31 March 2013, will assist in meeting our short-term and long-term fund requirement. The Company continued to maintain its ratings from Standard & Poor's, Moody's & Fitch: ratings are BB, Ba1 and BB+ respectively. We have been recently put on credit watch by some of the credit rating agencies, however due to our prudent financial policy, disciplined capital allocation and absolute resolve to deleverage the balance sheet, we are confident we will retain the ratings in the near future and improve the ratings going forward.

"Our cash and liquid investments portfolio continues to be conservatively invested in debt mutual funds and in cash and fixed deposits with the banks."

The Company generally maintains a healthy net debt/equity ratio and retains flexibility to raise funds as and when required. Our balance sheet remained strong with net gearing of 31.4% as compared to 35.3% in FY 2011–12.

Of our total gross debt of US$17.1 (face value) billion, debt at our subsidiaries is US$7.6 billion, with the balance in the holding company. The future maturity profile of debt (in US$ billion) at our subsidiary companies and at the holding company Vedanta Resources plc is as shown opposite.

### Cash flows

Operating free cash flow before growth capital expenditure in FY 2012–13 was US$3,534.7 million as compared to US$2,533.8 million in FY 2011–12, up by US$1,000.9 million. EBITDA conversion to free cash flow was 72.3% as compared to EBITDA conversion to free cash flow of 62.9% in FY 2011–12. Expansion capital expenditure during the year was US$2,019.1 million as compared to US$2,398.2 million, lower by US$379.1 million, and cash flow generation after expansion capex was US$1,515.6 million, significantly higher than the previous year. The Company's capital expenditure programme has begun to taper off, reflecting the Company's disciplined approach to capital allocation. The sale of fixed assets/investments represents the sale of Hudbay Shares during the year for US$158.1 million.

We purchased the remaining 49% stake of Western Cluster Limited ('WCL') in Liberia for US$33.5 million.

"The Company's capital expenditure programme has begun to taper off, reflecting the Company's disciplined approach to capital allocation."

| (In US$ billion) | Total | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | Beyond FY 2019 |
|---|---|---|---|---|---|---|---|---|
| Debt at Vedanta plc | 4.7 | 0.5 | 0.1 | 0.5 | 1.0 | 0.4 | 1.3 | 0.9 |
| Convertibles at Put Date | 2.1 | 0.8 | 1.3 | | | | | |
| Debt to be transferred to Sesa Sterlite | 2.7 | 1.4 | 1.3 | | | | | |
| Debt at Subsidiaries | 7.6 | 1.8 | 1.3 | 0.8 | 0.6 | 1.3 | 0.5 | 1.4 |
| **Total debt** | **17.1** | **4.5** | **4.0** | **1.3** | **1.6** | **1.7** | **1.8** | **2.3** |

### Cash flows

The movement in net (debt)/cash in FY 2012–13 is set out below:

| (In US$ millions, except as stated) | FY 2012–13 | FY 2011–12 |
|---|---|---|
| EBITDA | **4,888.3** | 4,026.3 |
| Operating exceptional items | **(41.9)** | (230.2) |
| Working capital movements | **212.9** | 375.1 |
| Changes in long-term creditors and non-cash items | **54.6** | 35.8 |
| Sustaining capital expenditure | **(390.2)** | (386.2) |
| Sale of tangible fixed assets | **63.4** | 23.6 |
| Net interest | **(355.1)** | (394.8) |
| Tax paid | **(897.4)** | (915.8) |
| Free cash flow | **3,534.7** | 2,533.8 |
| Expansion capital expenditure[1] | **(2,019.1)** | (2,398.2) |
| Sale/(purchase) of fixed assets investments | **158.1** | (3.9) |
| Acquisition of minorities | **–** | (60.3) |
| Acquisitions, net of cash & liquid investments acquired | **–** | (7,115.7) |
| Purchase of mining assets | **(33.5)** | (131.8) |
| Dividends paid to equity shareholders | **(153.5)** | (144.0) |
| Dividends paid to minority shareholders | **(257.4)** | (219.7) |
| Other movement[2] | **219.8** | (554.3) |
| Movement in net (debt)/cash | **1,449.2** | (8,094.1) |

1 On an accrual basis.

2 Includes foreign exchange movements.

# Financial Review continued

## Project Capex

| Capex in progress | Capacity | Completion time | Capex (US$ million) | FY 2013 |
|---|---|---|---|---|
| **Copper sector** | | | | |
| 160MW CPP at Tuticorin | 160MW | 1st unit commissioned, 2nd unit in Q1 FY 2014 | 161 | 25 |
| KCM KDMP Project | 7.5mtpa | | 973 | 58 |
| **Aluminium sector** | | | | |
| BALCO – Korba III Smelter | 325ktpa | 1st metal tapping by Q2 FY 2014 | 772 | 113 |
| BALCO – Korba 1200 MW CPP | 1,200MW | Awaiting Approval | 1,100 | 83 |
| BALCO – Coal Block | 211mt | Mining from Q2 FY 2013–14 | 150 | 2 |
| **Power sector** | | | | |
| Sterlite Energy | 2,400MW | Completed | 1,769 | 79 |
| Talwandi 1980 MW IPP | 1,980MW | 1st unit synchronisation in Q2 FY 2014 | 2,150 | 622 |
| **Zinc sector** | | | | |
| Zinc India (mines expansion) | | | 1,500 | 150 |
| HZL – Zinc & lead Dariba project | | Completed | 811 | 12 |
| **Iron Ore** | | | | |
| Pig iron expansion | | Completed | 153 | 14 |
| **Infrastructure** | | | | |
| Vizag general coal berth | | Commissioned | 118 | 59 |
| **Total capex in progress** | | | **9,657** | **1,217** |

| Capex flexibility | Capacity | Completion time | Capex (US$ million) | FY 2013 |
|---|---|---|---|---|
| **Copper Sector** | | | | |
| SIIL Smelter | 400ktpa | EC awaited | 367 | 13 |
| **Aluminium Sector** | | | | |
| VAL – Lanjigarh Debottlenecking | 1.0mtpa | On hold | 150 | 2 |
| VAL – Lanjigarh Refinery (Phase II) | 3.0mtpa | On hold | 1,570 | (15) |
| VAL – Jharsuguda (Smelter II) | 1.25mtpa | | 2,920 | 198 |
| **Iron Ore** | | | | |
| Sesa Iron Ore mine expansion | 36mt | On hold | 500 | 26 |
| **Total capex with flexibility progress** | | | **5,507** | **224** |

| Improvement capex | Capacity | Completion time | Capex (US$ million) | FY 2013 |
|---|---|---|---|---|
| KCM | | | 273 | 33 |
| Zinc India | | | 168 | 73 |
| **Total improvement capex** | | | **441** | **107** |

| Enabling capex | Capacity | Completion time | Capex (US$ million) | FY 2013 |
|---|---|---|---|---|
| Zinc International – Gamsberg | | | 24 | 8 |
| Western Cluster Liberia | | | 97 | 39 |
| **Total improvement capex** | | | **121** | **47** |
| **Total capex (excluding Cairn)** | | | **15,726** | **1,595** |

| Improvement Capex | Capacity | Completion time | Capex (US$ million) | FY 2013 |
|---|---|---|---|---|
| Cairn India | | | 3,673 | 424 |
| **Total capex (including Cairn)** | | | **19,399** | **2,019** |

| Spent to 31 March 13 | Unspent on 31 March 13 |
|---|---|
| 151 | 10 |
| 889 | 84 |
| 709 | 63 |
| 887 | 213 |
| 14 | 136 |
| 1,731 | 38 |
| 1,595 | 555 |
| 176 | 1,324 |
| 811 | – |
| 153 | – |
| 118 | – |
| **7,233** | **2,423** |

| Spent to 31 March 13 | Unspent on 31 March 13 |
|---|---|
| 123 | 244 |
| 76 | 74 |
| 810 | 760 |
| 2,479 | 441 |
| 155 | 345 |
| **3,643** | **1,865** |

| Spent to 31 March 13 | Unspent on 31 March 13 |
|---|---|
| 273 | – |
| 168 | – |
| **442** | **–** |

| Spent to 31 March 13 | Unspent on 31 March 13 |
|---|---|
| 8 | 16 |
| 67 | 30 |
| **75** | **46** |
| **11,392** | **4,334** |

| Spent to 31 March 13 | Unspent on 31 March 13 |
|---|---|
| 585 | 3,089 |
| **11,977** | **7,422** |

## Increase in shareholding

During the FY 2012–13, Sesa Goa acquired the remaining 49% of the equity of WCL, through its 100% subsidiary, for a total consideration of US$33.5 million. WCL, which is a company registered under the laws of Liberia, is an iron ore project comprising of three deposits in Bomi Hills, Bea Mountain and Mano River with estimated deposits of over 1 billion tonnes of iron ore.

The Government of India holds the minority stake in two of our Group companies – HZL (29.5%) and BALCO (49%). In line with our commitment to enhance the returns to our shareholders, we have communicated our intent to purchase its stake in both the companies to the GoI and are awaiting its response to our offer. We believe the purchase of the remaining shares would further improve the returns to our stake holders.

## Overall outlook

As the world economy returns to growth, a number of factors will continue to drive demand for commodities including positive signs from China, inflation falling in India and rising income and increased prosperity in developing countries with associated industrialisation and urbanisation. With its proximity to emerging markets and strong low cost assets, Vedanta is well placed to take advantage of these opportunities. Our disciplined approach to capital allocation will ensure that we focus our investment in projects that will yield attractive returns and Cairn India and the Iron Ore project in Liberia, in particular have significant potential for future growth that meet these criteria. We shortly hope to receive the final approvals on the Group simplification initiatives, unlocking value for our shareholders