Principal Risks and Uncertainties

"We have a multi-layered risk management framework aimed at effectively mitigating various risks which our businesses are exposed to in the course of their operations as well as in their strategic actions."

Vedanta is exposed to a variety of risks which are inherent in an international mining and resources business. The current unstable environment carries with it constantly evolving risks, making it essential for natural resources companies to manage these constantly changing risks, while simultaneously balancing the relative risk/reward equations demanded by its stakeholders

Effective management of risk supports the delivery of our objectives and achievement of sustainable growth. Hence, maintaining a robust risk management system is critical, to allow us to pursue growth opportunities, increase shareholder value and also minimise the financial, operational or reputational impact.

We have a multi-layered risk management framework aimed at effectively mitigating various risks which our businesses are exposed to in the course of their operations as well as in their strategic actions. The Board of Directors has the ultimate responsibility for management of risks and for ensuring the effectiveness of internal control systems. The Audit Committee aids the Board in this process by identification and assessment of any changes in risk exposure, review of risk control measures in place and by approval of remedial actions, where appropriate.

The Audit Committee is in turn supported by the Group Risk Management Committee ('GRMC'), with the assistance of the Management Assurance Services Team. The GRMC, chaired by the Group Chief Executive Officer ('CEO') and comprising of the Group Chief Financial Officer ('CFO') and Director-Management Assurance as its other members, helps the Audit Committee in

Vedanta Risk Matrix

Risk		Gross Impact	Gross Likelihood
1. Delays in expansions and new projects	Strategic	●●●●○	●●●●○
2. Liquidity risks in terms of being able to fund operations and growth	Financial	●●●●○	●●●●○
3. Regulatory, economic, social and political uncertainty	External	●●●●○	●●●●○
4. Discovery risks	Operational	●●●○○	●●●○○
5. Commodity prices	External	●●●●○	●●●○○
6. Currency fluctuations may negatively affect our financial results	Financial	●●●○○	●●●○○
7. Failure to meet production and costs target	Operational	●●●○○	●●●○○
8. Health, safety, environmental risks	Strategic	●●●●○	●●●○○
9. Employee risks	Strategic	●●●○○	●●●○○

evaluating the design and operating effectiveness of our risk mitigation programme and the control systems built in. It meets every quarter to review risks as well as review the progress against the planned actions. Risk officers, whose role is to create heightened awareness on risks at senior management level, and to develop and nurture a risk management culture within the Group, have been nominated at Vedanta as well as at each of the operating companies.

We identify risk at the individual business level for existing operations as well as for ongoing projects through a consistently applied methodology, using the Turnbull matrix. The risks are evaluated to assess their financial as well as non-financial impact, and likelihood of their occurrence. Through our management consultation process the existing risk management tools are evaluated and wherever required additional controls/steps taken. The GMRC reviews the top 20 risks every quarter.

The respective businesses review these risks, change in the nature and extent of the major risks since the last assessment, control measures established for the risk and further action plans. The control measures stated in the risk matrix are periodically reviewed by the business management teams to verify their effectiveness.

External Risks

Commodity prices

Prices of commodities we produce have historically been volatile, and any prolonged downward pressure or volatility in commodity prices could materially affect our Group's earnings and cash flows. The key commodity price sensitivities on EBITDA resulting from a change of 10% in prices are set out below:

	Average market price in FY 2012–13 (US$/tonne)	Effect on EBITDA of 10% change in LME (US$ million)	Effect on Underlying Attributable PAT
Copper	7,853	147.0	77.8
Aluminium	1,974	128.0	83.3
Zinc	1,948	194.8	76.3
Lead	2,113	33.0	11.4
Silver	30.5	32.0	10.5
Oil & gas	110.1	300.7	186.9

The above sensitivities are based on FY 2012–13 volumes, costs and exchange rates and provide the estimated impact on EBITDA of changes in prices assuming that all other variables remain constant.

The diversified portfolio of commodities including sizeable exposure to oil provides some protection from the fluctuation in commodity prices. The Group's normal policy is to sell its products at prevailing market prices and not to enter into price hedging arrangements other than for businesses which are on a tolling basis where back to back hedging is used to mitigate pricing risks. In exceptional circumstances we may enter into strategic commodity hedging but only with prior approval of Executive Committee ('EXCO').

Principal Risks and Uncertainties
continued

External Risks continued

Regulatory, economic, social and political uncertainty

Our mining, smelting, oil and gas exploration and production operations are located in India, Zambia, Namibia, South Africa, Ireland, Australia, Sri Lanka, Liberia and our holding and investment companies are located in jurisdictions including the United Kingdom, Jersey, Mauritius, Netherlands, Cyprus, Australia and Scotland.

The political, legal, fiscal and other regulatory regimes in the countries we operate in may result in higher operating costs or restrictions such as the imposition or increase in royalties or taxation rates, export duty, impact on mining rights/ban and change in legislation pertaining to repatriation of money. Changes to government policies such as changes in royalty rates, reduction in import tariffs in India, reduction in assistance given by the GoI for exports and the reduction or curtailment of income tax benefits available to some of our operations in India, Namibia and Zambia are some of the examples of risks under this category. We may also be affected by the political acts of governments in these countries over which we have no control. Any change in government policies and legislation, including resource nationalisation, availability of foreign exchange, may also affect our business and profitability, including any retrospective changes in government policy and legislation.

A majority of our Group revenues and profits are derived from commodities sold to customers in India. Any downturn in the overall health of the Indian economy or any political or regional instability may impact margins, including any impact arising as a result import tariffs prevailing in India.

Operation and expansion of various assets within the Group remain subject to legal proceedings, most notably the expansion of the Lanjigarh refinery in VAL, the Tuticorin smelter in Sterlite, the mines of Sesa Goa in the State of Goa and the 1,200MW power project at BALCO.

Although we are hopeful that the necessary approvals will be obtained and the projects will commence within the foreseeable future, emergence of any such issues in future are not only difficult to predict, but are also beyond our control.

The Company monitors regulatory and political developments on continuous basis.

Financial Risks

Currency fluctuations may negatively affect our financial results

Our assets, earnings and cash flows are influenced by a variety of currencies due to the diversity of the countries in which we operate. Fluctuations in the exchange rates of those currencies may have a significant impact on our financial results.

Although the majority of the Group's revenue is tied to commodity prices that are typically priced by reference to the US dollar, a significant part of its expenses are incurred and paid in local currency such as the Indian rupee and, to a lesser extent, the Australian dollar, the South African rand, the Zambian kwacha and the euro. Our Group borrowings are significantly denominated in US dollars while a large percentage of cash and liquid investments are held in other currencies, mainly in the Indian rupee. Any material fluctuations of these currencies against the US dollar could result in lower profitability or in higher cash outflows towards debt obligations.

During the financial year 2012–13 there was volatility in the Indian currency against the US dollars and the Indian rupee depreciated by 6.3%, which increased our mark-to-market losses on dollar loans. Our attributable profit is also impacted significantly where our companies which have higher attributable shares.

The Group seeks to mitigate the impact of short-term movements in currency on its businesses by hedging its short-term exposures progressively based on their maturity. However, large or prolonged movements in exchange rates may have a material effect on the Group's businesses, operating results, financial condition and/or prospects.

Liquidity risks in terms of being able to fund operations and growth

Our Group is in the culmination stage of a major capital expenditure programme to increase production capacity and enhance cash flow from operations. The Group needs to fund its ongoing growth capex and any near term operational/exploration capex programmes as well as meet debt maturity requirement. While the Group's balance sheet and business model are adequate to meet its funding requirements and supports its ability to raise adequate financing but a sustained adverse economic downturn and/or suspension of its operation in any business, effecting revenue and free cash flow generation, may cause some stress on the Company's financing and covenant compliance.

The Group generates sufficient cash flows from its current operations which together with the available cash and cash equivalents and liquid financial asset investments provide liquidity both in the short term as well as in the long term. However any constraints around upstreaming of funds from the subsidiaries to the Group may affect the liquidity position of the Group.

The Group has a strong balance sheet that gives sufficient headroom to raise further debt should the need arise. The Group's current ratings from Standard & Poor's, Moody's & Fitch Ratings are BB, Ba1 and BB+ respectively (2012: BB, Ba1 and BB+ respectively). These ratings support the necessary financial leverage and access to various funding sources of debt or hybrid debt instruments at competitive terms. The Group generally maintains a healthy net debt-equity ratio and retains flexibility in the financing structure to alter the ratio when the need arises.

The announced group simplification which is in the advanced stage of completion, will align the debt with the cash flow generating companies and support the deleveraging of balance sheet.

Strategy Risks

Delays in expansions and new projects

The Group has a number of significant expansion plans for its existing operations and planned green field projects, which involve significant capital expenditure. The timing, implementation and cost of these expansion projects are subject to a number of risks, including the failure to obtain necessary licenses, permits, consents and approvals, funding for the projects. Any failure to obtain the requisite regulatory approvals may delay or prevent the Group from commencing commercial operations at certain of these projects.

For instance, the Group does not currently have all of the required environmental approvals for the proposed expansion at the alumina refinery at Lanjigarh and related mining operations in Niyamgiri Hills in the State of Orissa. Recently, the Supreme Court of India has ruled that bauxite mining in Niyamgiri could start subject to the approval of the Gram Sabhas in the region. In order to meet our short-term bauxite requirements, we are in communication with the Orissa Government regarding the allocation of new mining leases. Sourcing of bauxite from mines in neighbouring states is also being pursued.

Any delay in completing planned expansions, revocation of existing clearances, failure to obtain or renew regulatory approvals, non-compliance with applicable regulations or conditions stipulated in the approvals obtained, suspension of current projects or cost overruns or operational difficulties once the projects are commissioned may have a material adverse effect on the Group's businesses, operating results, financial condition and/or prospects. Any delay in completing planned expansion could have a material adverse effect on Vedanta's credit rating, which may increase its borrowing costs.

Principal Risks and Uncertainties
continued

Strategy Risks continued

Health, safety, environmental risks

Our mining and smelting, power generation and oil & gas exploration and production operations are subject to extensive health, safety and environmental ('HSE') regulations and legislations. As regulatory standards and expectations are constantly developing, we may be exposed to increased litigation, compliance costs and unforeseen environmental rehabilitation expenses.

Potential health, environmental and community events that may have a material adverse impact on our operations include rock fall incidents in underground mining operations, well blow-outs, explosions or gas leaks, uncontrolled tailings breaches, escape of polluting substances, uncontrolled releases of hydrocarbons, human rights breaches and community protests or civil unrest. The Company has appropriate policy and standards in place to mitigate and minimise such occurrences backed by senior operating management's focus on managing the causes of such incidents, reviews and taking the necessary corrective steps.

Longer-term occupational health issues may arise due to unanticipated harmful workplace exposures or prolonged harmful exposures to employees or site contractors. These effects may create potential occupational hazards and its consequences thereon. The Company has an appropriate policy in place for such matters supported by structured processes, controls and technology. Our operations ensure the issue of operational health and consequential potential risk/obligations are carefully handled. Depending on the nature of the exposure and surrounding risk, our operations have different levels of processes, controls and monitoring mechanisms.

The Company has recently implemented a fresh set of policies and standards to align its sustainability framework with international best practices.

The Company and its subsidiaries management structure and processes support the sustainability agenda. A Board appointed Sustainability Committee periodically reviews sustainability performance.

Employee risks

The Group's efforts to continue its growth and efficient operations will place significant demands on its management resources. The Group's ability to sustain and grow its existing businesses and integrate new businesses will depend on its ability to ensure the requisite pool of management resources and on its ability to attract, train and retain personnel with the skills that enable it to keep pace with growing demands and evolving industry needs.

The Group is, in particular, dependent to a large degree on the continued service and performance of the executive management team of Vedanta and other key team members in the Group's business units. These key personnel possess technical and business capabilities that are difficult to replace. Any significant loss or diminution in the collective pool of Vedanta's executive management or other key team members could have a material adverse effect on its businesses, operating results and future prospects.

The Company has appropriate human resources policies and HR practices in place to mitigate and minimise such occurrences backed by senior management focus and commitment for taking corrective steps wherever required.

Through a combination of management tools such as appropriate compensation policies and practices, differentiating performance through transparent process, rewarding and recognising the extraordinary performance, adequate career opportunities within the Group, job rotation and long-term reward and retention schemes ('ESOP'). Through its policies, the Company ensures it can attract and retain the right talent while aligning the individual and the business goals of the Company.