vedanta

VEDANTA RESOURCES plc
ANNUAL REPORT 2006

CREATING VALUE

Diversified metals and mining

Our mission is to create a world-class metals and mining group and generate strong financial returns.

Established Track Record for Project Delivery on Time and within Budget...

Delivered/Commissioned

2005 2006

APRIL 2005

Tuticorin copper smelter expansion completed
New capacity:
120,000 tpa; 22.5 MW
Capex: $87m

Tuticorin – $87m on budget
Capacity fully ramped up – H2 2006 production at full capacity of 300,000 tpa

MAY 2005

Chanderiya zinc smelter expansion commissioned
Additional capacity:
170,000 tpa; 154 MW
Capex: $335m

Rampura Agucha mine expansion
Capacity expanded to 3.75 million tpa ore
Capex: $90m

Chanderiya and Rampura Agucha – $425m, 25% under budget

- 22 months from ground breaking to smelter commissioning
- Operating at full capacity: March 2006 monthly production 14,000 tonnes
- Mine operating at fully expanded capacity

FEBRUARY 2006

Chanderiya lead smelter expansion completed
Additional capacity:
50,000 tpa

MARCH 2006

Korba power plant completed
New capacity:
540 MW
Capex: $350m

Korba – $350m, 15% under budget

- All four power plant units commissioned and operating at full capacity

SEPTEMBER 2006

Korba aluminium smelter – progressive commissioning
New capacity:
250,000 tpa
Capex: $550m

- Groundbreaking to initial pot commissioning 24 months
- 288 pots commissioned prior to disruption in May 2006
- Efforts to stabilise progressively and recommissioning of all 288 pots expected by end of September 2006

Copper
Zinc/Lead
Aluminium

$1.4bn of projects out of a committed $2.2bn in Phase I already delivered.

...with Phase II Projects on course

2007 | 2008 | | 2010

MARCH 2007
Orissa alumina project
New capacity:
1.0-1.4 million tpa
Capex: $800m

2008
Chanderiya zinc smelter expansion
Additional capacity:
170,000 tpa; 77 MW
Capex: $300m

2008
Nchanga smelter
Additional capacity:
250,000 tpa copper
Capex: $280m

2009
Konkola Deep Mine expansion
Expansion of capacity to 6 million tpa ore
Capex: $400m

2009-2010
Jharsuguda aluminium project
New capacity:
500,000 tpa;
1,215 MW
Capex: $2.1bn
To be completed in two phases

Development

- Phase II projects leverage existing strengths and core competencies:
  - Replicating current technologies;
  - Enhancing integration; and
  - Leveraging operations and market infrastructure.
- Staggered project implementation;
  - Benefits from project execution expertise and incorporates lessons learnt; and
  - Uses the same internal team and suppliers to deliver similar configurations at other Group locations.
- Development projects reduce overall project and business risks and support rapid growth by:
  - Being located close to resources
  - Benefiting from economies of scale
  - Further improving the Group's low cost position.

Our Performance in 2006

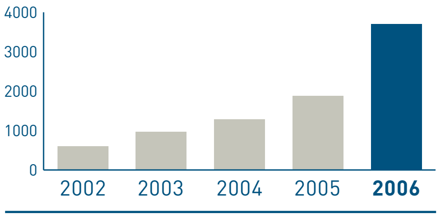
Record Financial Performance

- Group revenue up 96.5% to $3,702 million and Group EBITDA up 142.6% to $1,102 million, driven by better prices and strong volume growth
- Operating profit up 187.7% to $944 million
- Strong balance sheet with net assets of $2.3 billion and gearing of under 1%
- ROCE (excluding project capital work in progress) significantly higher at 37.9% up from 32.0%
- Basic EPS up 108.3% at 130.2 US cents, EPS on the basis of Underlying Profits up 166.3%
- Final dividend proposed at 14.3 US cents per share bringing full year dividend to 20.0 US cents

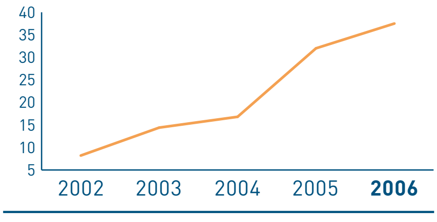
Volume-Led Growth

- Phase I expansion projects in copper and zinc completed
- Korba aluminium smelter production being ramped up progressively
- Second phase of expansion projects totalling $3.1 billion announced during the year
- 50,000 tpa lead plant commissioned making us India's largest primary producer of lead

REVENUES ($million)

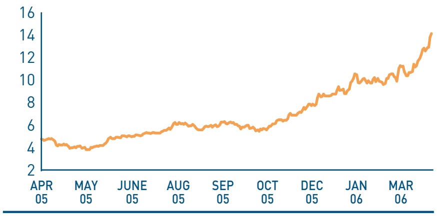


ROCE* (%)

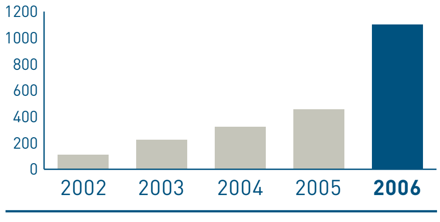


* ROCE excludes capital work in progress

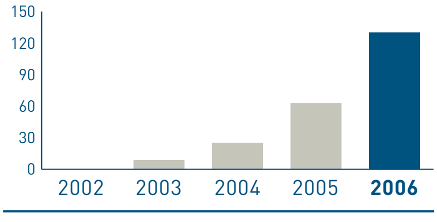
SHARE PRICE PERFORMANCE (£)



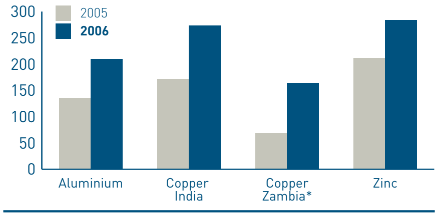
EBITDA ($million)



BASIC EPS (US cents)



PRODUCTION VOLUMES (000's mt)



The financial information for the above graphs for 2002-2004 is under UK GAAP

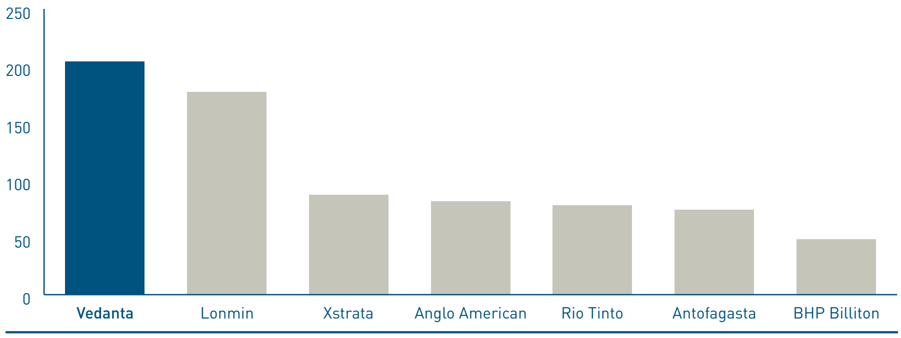
* Copper Zambia 2005 numbers pertains for five months.

Chairman's Statement

Creating new value through vision, delivery and growth

'I believe we have only just started to realise our full potential. We have a clear strategy for growth and the strength of our pipeline makes us unique in the industry.'

VEDANTA TSR COMPARED TO OTHER UK-LISTED MINING COMPANIES (%)
1 April 2005–31 March 2006



Source: DataStream
(Excludes Kazakhmys as it was listed for only part of the year)

Performance in 2006

I am privileged to be writing to you following a year of spectacular growth in your company. Vedanta's market capitalisation now stands at over $7 billion compared with under $2 billion at the time of the IPO in December 2003. Total shareholder returns ('TSR') during the year ended 31 March 2006 were 204% with the Group achieving record EBITDA of over $1.1 billion. Using the TSR measure, Vedanta's 2006 returns were superior to all diversified metals and mining companies listed on the UK main market.

I firmly believe we are unique due to the strength of our project growth pipeline. In our first phase of growth, the expanded Tuticorin copper smelter, the new zinc smelter at Chanderiya and the new aluminium smelter at Korba have been commissioned with capital costs and timeframes ahead of industry norms. The next phase of our growth with investments of over $3 billion is well under way. These aspects make Vedanta a creator of value and 2006 saw significant new value created.

I also believe that Vedanta's competitive advantage is its relentless focus on improving the efficiency of its operations. Volume growth, productivity gains and other continuous improvement measures will enable us to achieve our vision of being amongst the lowest cost producers.

Demand and Markets

Demand for metals continues to be robust. Primary and secondary metal demand is especially supported by increased activity in the industrial and infrastructure sectors in emerging markets and Asia will clearly be a driver of growth for metals in the short to medium term.

India is an attractive destination for metal producers in terms of being a natural resources hub, setting up

Aerial view of Korba II smelter

capacities at attractive capital costs and providing access to rapidly growing domestic and nearby Asian markets. The Indian Government continues to maintain its policy of growth and liberalisation. The recently announced 2007 Union Budget promises a continuation of policies to grow the economy and encourage inward investment, by increasing budgetary allocations for infrastructure spending specifically in roads, ports, telecommunications and urban infrastructure. We expect these measures to ensure continuing and accelerating Indian demand growth for metals and the Group is well positioned to play a leading part in this growth.

Growth

We continue to remain focused on our vision of becoming a million-tonne-per-annum producer of each of our key metals and remain firmly on track to achieve this. For this next phase of our growth, several major projects with a total investment of $3.1 billion were announced last year and are now being implemented.

We see a lot of promise in Zambia and believe that the copper industry will remain a major driver of its economy. The copper belt once produced nearly 750,000 tpa of copper but this has since reduced significantly. We foresee that with its rich copper resource, Zambia can regain its position as a major global producer of copper. Vedanta is making a major contribution to the Zambian economy by developing the Konkola deep ore body, one of the richest in the world with over 215 million tonnes of resource at 3.8% grade, by way of an investment of $400 million. Our investment in Zambia includes a further $280 million for a smelter expansion project which will increase our total smelting capacity to 400,000 tpa at KCM.

In India, we are investing in a new 170,000 tpa zinc smelter project at Chanderiya and also in the development and construction of India's largest aluminium asset with its associated 1,215 MW captive power plant in Jharsuguda, Orissa. Upon completion, these projects will service the rapidly increasing demand for these metals and strengthen our competitive position in the global copper, zinc and aluminium businesses.

Closely aligned with our expansion plans is our exploration programme focused on delivering adequate resources that meet and sustain our long-term metal production growth. We have put in place a sustainable exploration model by creating scaleable infrastructure and allocating appropriate resources. I believe these measures will yield good results.

These are landmark projects not only for Vedanta but also for the countries in which we operate. In addition to commercial benefits from primary and secondary economic activity, our investments will bring development to several regional communities in India and Zambia on a previously unforeseen scale.

The efficiency with which our growth projects continue to be delivered at low costs of development, set against the backdrop of rapidly expanding growth in industrial activity and infrastructure investment in India and Asia, allows us to benefit independently of the commodity cycle.

One of the most important aspects of growth is the careful management of the Group's finances. We manage our expansion programmes within conservative gearing levels. Our issue

Chairman's Statement continued

'We are on track to becoming the only company providing one million tonnes per annum in each of our three metals as well as achieving cost leadership. We have already announced $3.1 billion of investments this year and Vedanta is very well positioned to realise further opportunities in India.'

of $725 million in convertible bonds in February 2006 demonstrated our ability to obtain efficient financing that complements our expansion programme and optimises overall financing costs of the business.

Whilst mergers and acquisitions are not the central platform of our growth, we will evaluate inorganic opportunities that create compelling shareholder value. Given our demonstrated strength in the turn around of underperforming assets, we will look at opportunities where we can add substantial value.

Sustainable and Responsible Development

Sustainable development is at the very heart of our business strategy. Whilst we are humbled by the vast impact of our industry towards the basics of life, we also recognise the potential impact upon the environment and on occupational hazards and safety for communities and habitats close to our operations.

Our continued focus on safety has shown improvements, with the safety index – LTIFR – improving by 30% during the year. In spite of these efforts, we experienced some fatalities at our operations during the year. Any loss of life is not tolerable and we have instituted guidelines and procedures to prevent the recurrence of such incidents.

Sustainable development for us also encompasses conservation of natural resources like water, especially in arid regions such as Rajasthan. We have taken the utmost care in all our expansion projects in selecting energy efficient and environmentally friendly technologies.

I am also pleased to report significant extensions in all parts of the Group's social, health and safety and environmental activities in Zambia. Our investment in a company-wide community-based HIV immunisation programme and our sponsorship of soccer have been both unprecedented and uplifting. In India, our involvement with micro-enterprise through the self help groups ('SHGs') especially with women at Lanjigarh, Tuticorin and our other locations has been a great success. Over 3,600 women have been trained for micro-enterprise management and are a part of over 180 SHGs. These SHGs play an active role in the development of the communities. We continue to support education for children through Bal Wadis, supplemented with midday meal schemes and health checkups. In our state-of-the-art hospitals and clinics at our various operating locations and through mobile health camps conducted in the surrounding villages, we provide quality health care to over a quarter of a million people.

With a conducive policy framework in place and a robust implementation and governance structure, we remain committed to raising the quality of life

and social well being of all the communities in which we operate.

Board and Management

We have a Board that brings together a broad range of backgrounds and experience. Each Board member brings an individual outlook, which has improved our collective decision-making process. Given the increased scale of the Group's operations, the work of the several Board Committees is an enormous task and I wish to thank the chairmen and members of these committees for their contribution in the year. I also remain grateful for the healthy and constructive direction and support the Board continues to provide to our management team.

In addition, specifically, I am pleased that Mr Kuldip Kaura's service contract with the Company which was due to expire on 30 June 2006 has been extended to 31 March 2008.

People

The successes that I have been able to report in this statement are due to the outstanding commitment and contribution of our employees and I wish to thank them on behalf of the entire Board.

We are proud of the knowledge and intellectual capital that our young professional workforce brings to the organisation. The challenging assignments they are given at an early stage in their careers make them highly motivated, committed and enthusiastic. Our hands-on participative style of management continues to strengthen our organisational culture and values through to grass-root levels.

Talent management remains a key driver of performance across Vedanta. Our access to the substantial pool of high quality professional talent, especially in India, enables us to consistently attract world-class professionals. We have created attractive working environments with highly competitive incentive arrangements, which ensure that we are amongst the most preferred employers in the regions in which we operate. I am particularly pleased to report that we have recently issued long-term incentive options to a large proportion of our employees re-emphasising a collective commitment to the enhancement of shareholder value over the long-term.

Outlook

In the last 24 months, Vedanta has built a strong reputation for creating lasting shareholder value underpinned by delivery and growth. Looking ahead, we must progress the next phase of our growth in a responsible manner commensurate with our position as a leading metals and mining Group while continuing to generate superior returns for our shareholders. In light of my comments on demand and markets, I remain confident that we are well on our way to delivering on this.

Anil Agarwal
Chairman
31 May 2006

Operations at a Glance

Delivering performance

Operations

Sterlite is principally a copper smelting and refining business in India with a copper mine in Australia. The capacity at the Tuticorin smelter was increased in April 2005 from 180,000 tpa to 300,000 tpa. The output is refined into copper cathode and rod at Tuticorin and Silvassa.

KCM is an integrated copper operation based in the heart of the Zambian copper belt. It was acquired in November 2004.

MALCO and BALCO are integrated aluminium producers with captive bauxite mines. MALCO, in Tamil Nadu, is the only aluminium producer in Southern India with capacity of 40,000 tpa. The more substantial operations at BALCO, in Chhattisgarh, are close to major supplies of bauxite and coal. Capacity at BALCO is being expanded to around 350,000 tpa, with progressive commissioning. VAL, in Orissa, will mine bauxite and refine alumina mainly for the new aluminium capacity.

HZL is India's only integrated lead and zinc producer and one of the lowest cost producers in the world. The main operations are in Rajasthan, north west India. In May 2005 the facilities were expanded to take capacity to 400,000 tpa of finished zinc.

Maps not to scale.

Year in Review 2005-06

April 05
Copper smelter in Tuticorin commissioned, taking total capacity from 180,000 tpa to 300,000 tpa. New 90,000 tpa rod plant also commissioned at Tuticorin.

May 05
New 170,000 zinc smelter commissioned in Chanderiya, increasing total capacity to 400,000 tpa, supported by Rampura Agucha mine expansion. This was completed at a record time of 22 months and at a cost of 25% below forecast costs of $425 million.

August 05
New 170,000 tpa brownfield zinc smelter expansion project due in early 2008 was announced. Pre-construction activities are in full swing. The expansion, at a budget of $300 million, will include investment in a further 77 MW of capacity at the existing thermal power plant. The expansion will further improve Vedanta's already globally competitive cost position and increase total capacity to around 570,000 tpa.

August 05
Announcement of Konkola Deep Mining Project ('KDMP'), which will substantially increase output from Konkola Copper Mines ('KCM') and extend the existing mine life. This project will realise the potential of one of the world's most important copper deposits, with 215 million tonnes of resources at 3.8% copper. Copper output at the mine will be increased from 2 million tpa to 6 million tpa.

November 05
New capital project for the expansion of the Nkana smelter in KCM, at a total cost of $125 million was announced. After detailed feasibility study, the concept has been modified to establish a new smelter at Nchanga with a capacity of 250,000 tpa at a cost of $280 million. The existing Nkana smelter will continue to operate at its capacity.

December 05
Announced a US$2.1 billion green-field 500,000 tpa, aluminium smelter project together with an associated 1,215 MW captive thermal power plant in Jharsuguda, Orissa.

	Aluminium	Copper	Copper	Zinc & Lead
Business description	Integrated aluminium producer	Custom smelter – India Mines – Australia	Integrated copper producer – Zambia	Integrated zinc and lead producer
Operating entities and Vedanta's Economic Interest	39% BALCO 80% MALCO	76% Sterlite 76% CMT 76% TCM	51% KCM	49% HZL
Revenues in 2006 ($ million)	$453.0	$1,537.9	$703.4	$875.5
EBITDA in 2006 ($ million)	$135.3	$219.0	$206.3	$532.9
Production in 2006 (in 000's mt)	296 Alumina 211 Aluminium	34 Mined metal 273 Copper cathodes 167 Copper rods	99 Mined metal 164 Copper cathodes	472 Mined metal 284 Refined zinc
Employees	5,843	1,071	9,319	6,019

Board of Directors and Executive Managment

EXECUTIVE DIRECTORS

Anil Agarwal
Executive Chairman (N*)

Navin Agarwal
Deputy Executive Chairman

KK Kaura
Chief Executive (H)

NON-EXECUTIVE DIRECTORS

Naresh Chandra (A)(N)(R*)

Aman Mehta (A*)(R)

Shailendra Kumar Tamotia (H*)(N)

Euan Macdonald (A)(N)(R)

(A) Member of the Audit Committee
(H) Member of the Health, Safety and Environment Committee
(N) Member of the Nominations Committee
(R) Member of the Remuneration Committee
(*) Committee Chairman

Share Ownership

We are quoted on the London Stock Exchange (Bloomberg Ticker: VED LN).

As of 31 March 2006, we had 286,781,195 (2005: 286,776,000) shares issued and outstanding, owned by 1,272 (2005: 723) share owners.

As of 31 May 2006, the Company is aware of the following interests of 3% or more in the issued share capital of the Company.

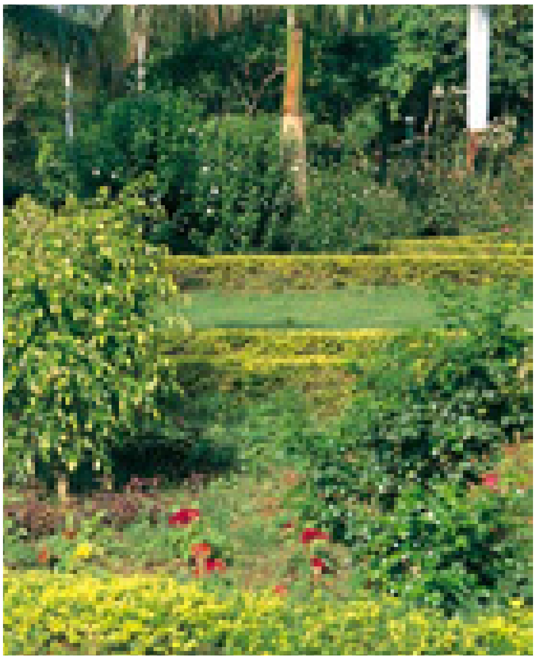
SUBSTANTIAL SHARE OWNERSHIP

	2006 %
Volcan Investments Limited	53.75
Barclays PLC	7.34
Wellington Management Company LLC	5.15

Website

Our website, **www.vedantaresources.com**, provides downloadable versions of our current and historic financial information, annual and interim reports, corporate presentations and press releases.

Sustainable Development



Our community development initiatives are prioritised based on local needs and broad areas of focus including:

- Social investment in health, education and livelihood
- Bio investment i.e. water harvesting, agriculture and social forestry
- Environment conservation.

We recognise and appreciate the inherent impact that our businesses have on the environment and habitats within which they operate. Our responsibility to stakeholders necessitates that we act towards the communities around our operations as well as the environment from where we draw our resources and raw materials.

We therefore strive to act in a manner that reduces any impacts to desired and acceptable levels thereby creating sustainable value for all our stakeholders. For us, sustainable development is a journey where we progress by 'contributing to the basics of life in harmony with nature'.

We continue to look forward to the sustainable development challenges posing the world and specifically to the non-ferrous metals sector in which we operate. We understand how the growing requirements of the burgeoning world population need to be met with scarce resources, and continually align our business processes on the foundation of a well articulated sustainability strategy to address both short-term and long-term issues.

Our philosophy towards health, safety and environment ('HSE') is set at the top. Recognising that sound corporate governance is the first step to excellence in sustainable development, the Board level HSE Committee provides direction on all HSE and community initiatives and monitors their progress. Under this direction, each operating business has systematically developed its management structure based on a 'Plan-Do–Check-Act' approach.

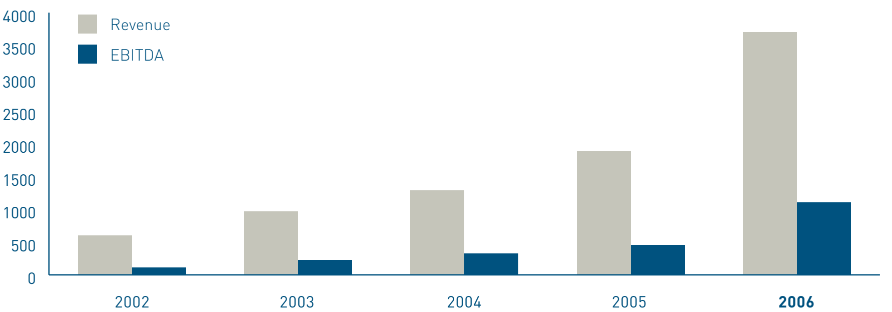
We continued with our focus on environmental initiatives for effective water management, waste minimization and recycling, reducing air emissions and energy conservation, which also helped us to reduce our production costs and brought some additional revenue.

Business Review

Showing exceptional delivery in key areas

Results for the Year ended 31 March 2006

REVENUES AND EBITDA GROWTH ($million)



Business Review

The following review highlights the significant aspects of the Group's business and is prepared solely to provide additional information to shareholders – to assess the Company's strategies and potential for success. It should not be relied on by any other party or for any other purpose.

Long-term Strategy

Vedanta is a diversified non-ferrous metals and mining group with principal operations in India, Australia and Zambia. The Group primarily produces aluminium, copper, zinc and lead. A detailed analysis of each business is set out in the 'Operations' section.

The key strengths of the Group's businesses are:

- world-class resources and integrated operations;
- a strong competitive position in the growing Indian and Asian markets;
- management's track record in and ability to:
  - turn around and optimise underperforming businesses;
  - improve operational efficiencies and drive down the costs of production;
  - implement green-field and brown-field projects on time at capital costs lower than industry standards;
- a well-balanced commodity portfolio;
- a strong pipeline of expansion projects; and
- a highly talented and empowered young management team with entrepreneurial skills.

The Group's goal is to create a world-class metals and mining business and to generate strong financial returns. The Group is pursuing this by:

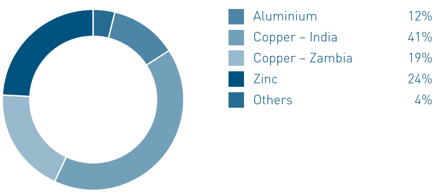
- optimising the performance of existing assets by debottlenecking plants, continuously improving efficiency and lowering costs of production;

Aluminium rolling at BALCO

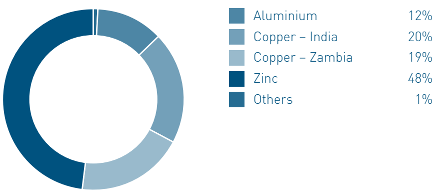
- completing growth pipeline projects within budget and on time;
- consolidating the Group structure and continuing to increase its ownership in the underlying businesses; and
- leveraging established skills by seeking further growth opportunities in India and outside India where we can add value.

The developments and progress made on various aspects of operations in 2005-06 is detailed below.

REVENUE SEGMENTATION ANALYSIS 2006



EBITDA SEGMENTATION ANALYSIS 2006



Group revenue doubled to $3,701.8 million and EBITDA at $1,101.5 million increased by 142.6%, compared with the previous year. Operating profit at $943.8 million was also higher compared to $328.0 million in the previous year. These increases were due to higher volumes from expanded facilities, better prices across all metals and a full year contribution from the operations at KCM. Operating costs were generally in line with our expectations at all Businesses except the Copper Business in Zambia.

EBITDA margin increased to 29.8% from 24.1% in the previous year mainly due to higher prices and product mix.

Underlying Profit has increased to $373.5 million from $140.1 million and EPS, based on Underlying Profit, to 130.2 US cents per share from 48.9 US cents per share.

Capital employed increased by $529.7 million during the year on account of capitalisation of expansion projects and the consequent increase in working capital. Despite this increase, ROCE (before capital work in progress) increased to 37.9% from 32.0% in the previous year mainly due to improved productivity and higher prices.

Operations

Aluminium

The Aluminium Business comprises two companies, BALCO and MALCO. BALCO is a fully integrated producer with its own bauxite mines, a captive power plant and refining, smelting and fabrication facilities at Korba in Eastern India. MALCO is also a fully integrated producer with two bauxite mines, a captive power plant and refining, smelting and fabrication facilities at Mettur in Southern India.

This year was a milestone for our Aluminium Business as the BALCO expansion project comprising the new 250,000 tonne aluminium smelter with associated 540 MW captive power plant came on stream. This project was completed in record time from ground-breaking in May 2003 to the start of commissioning in May 2005. By March 2006, 216 pots and all four units of the power plant were progressively commissioned. The production of 70,000 tonnes from the new smelter and overall good performance of existing facilities resulted in a higher output of 211,000 tonnes, an increase of 55.1% from the previous year.

The existing plants at BALCO and MALCO have performed well and have operated to full capacity during the year, producing 141,000 tonnes, an increase of 4% compared with the previous year. The new Korba plant has achieved production of 14,000 tonnes in March 2006. However, as a result of power plant tripping due to stormy weather in the third week of May 2006, the pot-line was destabilised. Efforts to stabilise the production from disrupted pots are ongoing. These will be stabilised along with the commissioning of all pots progressively by the second quarter of the current financial year according to our present assessment. As a result of this, overall production is estimated to reduce by 25,000 tonnes. As all the four units of the new power plant ramped up ahead of the smelter, we exported surplus power to the local grid during the year and will continue to do so until all of the pots are stabilised.

Despite better capacity utilisation and higher output, the unit costs of BALCO's existing plant rose to $1,497 per tonne during the current year from $1,347 per tonne in the previous year, on account of increased power costs due to a change in coal mix and higher coal prices, coupled with an increase in the input prices of caustic soda, fluoride and carbon, etc; impacting the industry. We will continue to debottleneck and further improve output, which will partially mitigate the trend of rising input costs. Unit costs of MALCO have also been affected by similar factors, increasing to $1,671 per tonne from $1,466 per tonne.

The unit costs of BALCO's new plant were $2,045 per tonne. During the year alumina was sourced from third party vendors at an average cost of $1,160 per tonne of metal produced. Other manufacturing costs were $885 per tonne. These costs are progressively reducing with the increase in volumes, stabilisation of operating parameters and efficient running of the captive power plant and we expect these to stabilise towards the end of the year.

Business Review continued

Left: Zinc-Lead mine at Rampura Agucha, India

Right: Copper smelter at Tuticorin, India

We expect a gradual softening of alumina prices during the year.

We continue to focus on improving the sales mix in terms of a higher tonnage of value added products such as rolled products, which rose by 31% during the year to 46,000 tonnes, thereby improving our contribution. We started exporting during the year to, amongst other countries, South East Asia and the Middle East. We will continue to develop these and other markets as the production from our new smelter ramps up.

Revenues in the Aluminium Business increased by 60.8% to $453.0 million, with EBITDA at $135.3 million, an increase of 79.0% from the previous year. The increase in revenue and profitability was mainly due to better volumes, improved product mix and higher LME prices which were about 14% higher than that in the previous year. These factors have more than offset the higher alumina prices for the new Korba smelter and other input costs, and the reduction in import tariff on aluminium from 10% to 7.5% which became effective in March 2006.

Work on the $800 million alumina project at Lanjigarh, Orissa is progressing well. This includes a 1.0-1.4 million tpa alumina refinery with an associated captive power plant and bauxite mines. For the refinery and power plant, the delivery of major equipment, vessels and materials are on schedule, with constructive activities in full swing. We expect the mechanical completion of the refinery and power plant by the end of the second quarter of the current financial year and, thereafter, we plan to start commissioning activities using bauxite sourced from third parties.

In respect of the mine, there have been public interest submissions to the Honourable Supreme Court of India sub-committee regarding certain environmental aspects in 2004. After due process of investigation and deliberation, on 3 February 2006, the Honourable Supreme Court of India passed an order that the Ministry of Environment & Forests ('MOEF') should consider this matter and submit its report to the Forest Advisory Committee. The next hearing is expected to take place in July 2006 and we are hopeful of an early resolution of the matter.

The green-field 500,000 tpa aluminium smelter and associated 1,215 MW captive power plant in Jharsuguda, Orissa, to be built at an investment estimated at $2.1 billion, was approved by the Board in December 2005. This project will be implemented in two phases of 250,000 tpa each. Construction of the first phase, including five units of the 135 MW each captive power plant, is expected to be completed in the second half of 2009. The second phase comprising the remaining four units of the captive power plant is expected to be completed by the end of 2010. This investment includes the cost of the smelter, associated power facilities and all necessary infrastructures including a railway network, water pipelines and a township for employees. Activities related to the ordering of critical equipment and regulatory clearances has commenced. Design engineering and other pre-construction activities are also in progress.

Copper

The Copper Business consists of three major operations: the Sterlite smelter in India, the CMT copper mine in Australia and the KCM operations in Zambia. Sterlite is the leading copper producer in India. Sterlite's copper operations include a smelter, refinery, phosphoric acid plant, and copper rod plant at Tuticorin in Southern India, a refinery and two copper rod plants at Silvassa in Western India and a copper mine at Tasmania in Australia. KCM is a large integrated copper producer operating three copper mines, a smelter, a refinery and a tailing leach plant in Zambia.

Copper – India/Australia

We completed the expansion of the Tuticorin smelter to 300,000 tpa during the year and quickly ramped up the production. From the third quarter onwards the smelter has been operating at its capacity of 75,000 tonnes per quarter. We produced 273,000 tonnes of cathodes, an increase of 58.7% from the previous year. From these, we produced 167,000 tonnes of copper rods, an increase of 33.6% from the previous year. We continue to focus on increasing the production of copper rods which was 61.2% of the total production. As planned, the maintenance shutdown of the Tuticorin smelter for a period of 21 days in April 2006 has been completed and the smelter is back on line.

Despite higher energy prices, unit conversion costs decreased to 6.1 cents/lb from 7.1 cents/lb in the previous year on account of higher volumes, better recovery of metal and improved realisation of by-products.

We exported 165,000 tonnes of copper cathodes and copper rods, 60.4% of production, against 89,000 tonnes in the previous year. Exports included 79,000 tonnes of copper rods against 56,000 tonnes in the previous year. The Middle East, China, Japan, Philippines and Thailand are our key export markets and we continue to develop a larger customer base for the export of copper rods.

On the back of strong market conditions, TC/RC realisation increased

Anode casting at Tuticorin copper smelter, India

substantially to 23.1 cents/lb, from 8.6 cents/lb in the previous year. The effect of stronger TC/RC globally in the first half of the year was felt mainly in the second half. We see that a softening of TC/RC terms is likely to be reflected in future settlements. We continue to make good progress in our strategy of securing long term contracts with mines.

Revenues at the Copper Business in India/Australia more than doubled to $1,537.9 million, with EBITDA of $219.0 million, an increase of 151.7% as compared to the previous year, primarily on account of significant increase in the LME copper prices by approximately 37% over the previous year. The increase in EBITDA was attributable mainly to better TC/RC's, improved product mix and a reduction in overall unit costs of production.

While import tariffs on copper were reduced from 10% to 7.5% which became effective in March 2006, the effect was negligible due to a corresponding reduction in import duty on copper concentrate to 2% from 5%. Duty assistance on the export of copper is equivalent to import duty on copper concentrate.

CMT produced 30,000 tonnes of copper in concentrate during the year, an increase of 8.7% over the previous year production due to operational efficiencies and improved grade. Australian mines contributed a total of 34,000 tonnes during the year including marginal production from TCM in the first half of the year which accounted for about 11 % of total concentrate requirements of the Indian copper smelter operations. Operations at TCM were closed and the processing plant was disposed of during the year along with associated liabilities.

Copper – Zambia

Copper cathode production in the year was at 164,000 tonnes, out of which 110,000 tonnes was from the Nkana smelter and the balance of 54,000 tonnes was from the tail leach plant. Mined metal production in the year was 99,000 tonnes. On the back of strong commodity prices, revenues at the Copper Business in Zambia were $703.4 million for the year with EBITDA at $206.3 million.

Overall production performance at KCM was not up to our expectations largely due to the low head-grade in the ore which affected concentrate production, lower acid soluble feed for the tailing leach plant and lower equipment availability throughout all operations. Mining operations at the open pit were also affected in last quarter of the financial year due to adverse weather conditions.

Business Review continued

The Group has 23,000 employees, of which 4,000 are professionals in engineering, business management, human resources and finance.

Unit costs of production (including mining) were at 127.9 cents/lb for the year, compared to 106.2 cents/lb for the five-month period in the previous year. Apart from lower output, the main factors contributing to the increase in unit costs were the appreciation of about 30% in the Zambian kwacha, local wage increases, and a higher expenditure on plant maintenance and higher crude and sulphuric acid prices.

We have taken steps to reduce operating costs by increasing capacity utilisation and improving the efficiency of existing plants and the new sulphur based acid plant. Better recovery from the smelter and availability of improved grade from the Konkola mine will further help in reducing costs of production and enhance output. Upgrading of tank houses at the tailing leach plant, better slag management, stabilisation of cranes and furnace, and replacement of the CT hood and mouth at the Nkana smelter will enhance the plant availability and output. Similarly for the Konkola and Nchanga mines, we are making efforts to improve the plant availability, debottlenecking their capacities and improve the operating parameters to enhance mined metal output.

During the year, we have commissioned the sulphuric acid plant and achieved the rated output. This will increase our captive capacity of acid by 180,000 tpa which will help in reducing our dependence on acid procurement from external parties at higher prices and thus reduce our overall costs for tailing leach plant production.

The KDMP expansion project will increase the copper ore output from the Konkola mine by 4 million tpa to 6 million tpa at an estimated cost of $400 million. This project includes the sinking of a new shaft, widening an existing downcast shaft, installing a new headgear, establishing a new pumping station to expand copper ore mining operations and 6 million tpa concentrator. All approvals from the Zambian government for KDMP have been received. The project is due for completion in late 2009 and activities for ordering of major infrastructure contracts have commenced.

After a detailed feasibility analysis, the concept of the augmentation and smelting capacity has been modified to establish a new smelter at the Nchanga mine premises with a capacity of 250,000 tpa. This shift in location will give us an advantage in terms of locational synergies and savings in transportation costs of the acid to the tail leach plant and for concentrate from KDMP. After this, the overall smelting capacity at KCM will increase to 400,000 tpa, which will enable us to treat concentrate from other mines over and above that from our captive mines. The overall project cost of this smelter, including the associated facilities, is now estimated at $280 million and is expected to be completed by mid 2008. The technology contract has been signed with Outokumpu and further tenders for detailed engineering have been released and the process of short-listing the vendors has started.

Zinc

The Zinc Business is operated by HZL, the third largest integrated producer in the world. HZL's zinc operations include three lead-zinc mining complexes, one lead-zinc smelter and two zinc smelters in the state of Rajasthan in North West India and one zinc smelter in the state of Andhra Pradesh in South East India. HZL has a smelting capacity of about 400,000 tpa of zinc metal and 85,000 tpa of lead metal.

The new hydro smelter at Chanderiya and the associated 154 MW coal-based captive power plant were commissioned in the year and ramped up on time and below budget. The new smelter produced 71,000 tonnes of zinc in the year, operating close to its rated capacity in March 2006. The total zinc metal output during the year was 284,000 tonnes, an increase of 34.0% compared with the previous year. We produced 472,000 tonnes of mined metal content, an increase of 33.0% from the previous year, primarily due to increased output from Rampura Agucha Mines post-expansion. The Zinc business posted excellent all round results on account of higher volumes from mines and smelters, controlling of costs and high LME prices.

Unit cost of production was at $691 per tonne, which is marginally lower than the previous year's level of $695 per tonne. During the year, cost reduction as a result of various positive improvement measures in terms of volumes, productivity, and savings in procurement costs, were offset by higher LME linked royalties impacting costs adversely by $35 per tonne. With the progressive stabilisation of volumes from the new plant, costs of production improved appreciably towards the last quarter.

We sold 323,000 tonnes of zinc metal in the year, 11.8% more than the previous year, with the additional output coming from tolling activities. We maintained a leading position in the domestic Indian market, which accounted for about 96% of sales, and we exported small quantities to develop the potential in the nearby markets. With double-digit growth in the domestic market, we will continue to sell most of our output domestically. In addition to refined zinc metal, we also sold 195,000 dry metric

An ariel view of the Rampura Agucha Zinc-Lead mine

tonnes, of surplus zinc concentrate in the year, having zinc metal content of about 100,000 tonnes.

Revenues at the Zinc Business rose to $875.5 million from $486.4 million, an increase of 80.0%, with EBITDA for the year at $532.9 million, up from $218.5 million, an increase of 143.9% compared with the previous year. The increase in revenues is due to metal volumes and increased LME zinc prices which were 46% higher than the previous year. The increase in EBITDA was mainly attributable to better volumes and realisation and partly to a reduction in unit costs of production. The import tariffs on zinc were reduced from 10% to 7.5% which became effective in March 2006 and tariff on lead remains the same at 5%.

A new ausmelt lead smelter was commissioned in early February 2006 and is expected to achieve its rated capacity by mid-2006. This has increased capacity from 35,000 tpa to 85,000 tpa of lead metal at the Chanderiya lead zinc smelter.

We announced a second 170,000 tpa smelter to be built at Chanderiya, identical to the hydro smelter recently commissioned also at Chanderiya. Activities related to ordering and regulatory clearances have commenced. 60% of ordering and 80% of engineering is now complete and pre-construction activities are in full swing. The smelter and the captive power plant are expected to be commissioned by early 2008.

Others

The Group's other activities include an aluminium conductor business, which is a division of Sterlite consisting of two power transmission aluminium conductor plants.

During the year we sold 57,000 tonnes of conductors an increase of 14% from the previous year. Revenues were $132.0 million, an increase of 30.2% from the previous year, mainly due to an increase in aluminium prices. EBITDA increased to $8.0 million mainly due to increased profitability in the conductor business attributable to increases in aluminium prices and lower costs.

Group Structure

We continue in our endeavours to acquire the outstanding minority stakes in BALCO and KCM. Upon completion of these two transactions, we will have further consolidated our ownership in the Aluminium and Copper Businesses.

People

We have invested in developing our organisation, processes and people to support and sustain a growing business of global size and stature. The Group has a SBU-based flat organisation structure to promote empowerment, wider ownership and a higher degrees of commitment and accountability. Our hands-on participative management style and the involvement of top management continue to strengthen our operational architecture and value system down to grass-roots level. A robust performance management system that aligns organisational and individual goals sustains the development of employees and the organisation.

Business Review continued

'... the fruits of success must be shared with the employees.'

The Group has 23,000 employees, of whom 4,000 are professionals in engineering, business management, human resources and finance. It is a core belief for the Group to attract, develop and retain high quality talent to produce top quality results. The Group considers all management positions to be leadership positions where people are expected to make a meaningful contribution in their respective work areas as well as the organisation as a whole. There is a well-defined process for the career development of employees whereby challenging assignments with commensurate responsibilities are given to deserving employees, even at a young age.

As the Group charts an aggressive and determined course of action to grow rapidly and achieve ambitious targets, each employee's contribution will be a key ingredient for the success of the Group. In this sense, the key to unlocking the phenomenal potential that lies ahead of Vedanta rests with each one of our employees. Group management has a strong belief that the fruits of success must be shared with the employees. Towards this objective we have a unique programme called the Long Term Incentive Plan designed to create wealth for our employees. Under this plan, a large proportion of our employees are covered and they stand to benefit from the superior performance of the Company reflected in higher shareholder return in comparison with its peers.

Exploration

The clear focus of exploration within the Group is to deliver resources which enable Vedanta to meet and sustain its long-term metal production growth objectives. The core commodities for exploration are copper, zinc and bauxite. During the year, exploration focused on identifying and delineating near-mine resources which have the potential to add significant value to our existing mining operations, whilst also building a portfolio of green-field opportunities particularly in zinc. The most significant success was increasing the resources at depth below the Rampura Agucha zinc deposit in Rajasthan, India. The Group continues to increase the allocation of resources and funds in the field of exploration.

Sustainable Development

We remain committed to managing our Businesses in a socially responsible manner. The management of environment, employees, health and safety and community issues, in respect of our operations is central to the success of our Businesses. Our commitment to quality, health, education and livelihood opportunities for the communities where we operate has been consistent and progressive.

Awards and Recognition

Our pursuit of excellence in all areas of our business has been widely recognised. We won the 2005 Recognition of Commitment award from the Institute of Internal Auditors, USA. This award values three attributes, excellence, quality and outreach and recognises our demonstrated strengths and continued focus on assurance practices and process improvements, making us the only manufacturing company out of four companies in India to have ever received this award.

In the areas of HSE, there have been a number of landmarks during the year, including the following:

- Tuticorin copper smelter received the British Safety Council award for 2005.
- Rampura Agucha mine received the National Energy Conservation Award for 2005 in the mining sector from the Ministry of Power, Government. of India, the first ever given under this category.
- The Confederation of Indian Industries ('CII') has awarded the Sterlite copper operations the National Award for Excellence in energy management.
- MALCO received the first place for excellent water efficiency at a national level and third place for leadership and excellence in HSE in Southern India, awarded by CII for 2005.

Future Outlook

The current growth in the global copper, aluminium and zinc markets is consistent with that in 2005-06 and markets are expected to be healthy in the future. Growth in all these metals will primarily be driven by Asia and emerging markets such as China and India. Real Indian GDP has grown at an average rate of 6% per annum over the last ten years and is now growing at almost 8%. The Indian Government has continued its focus on investment, job creation, rural development, infrastructure growth, employment, health and education with requisite stress on comprehensive economic reforms. Industrial growth in India has risen by around 10% per annum and similar growth levels are expected to continue. Investments in the power generation and transmission, housing, real estate, automobile and transport sectors are expected to drive future growth for copper, aluminium and zinc into double-digits, thus increasing the per capita consumption of these metals.

In 2006-07, we expect to have higher production from our expanded capacities. Volume growth and productivity, and process improvements through the use of modern tools such as six-sigma are expected to continue to improve our cost of production.

Our new projects are also progressing well and we expect will be delivered on schedule, thereby adding to volumes progressively until 2009-10, consistent with growing demand. Once these projects are completed our capacities in copper, aluminium and zinc will be closer to our vision of 1 million tpa in each of these metals. This increase in volumes will ensure growth and relative insulation from changes in commodity cycle.

Financial Review

Focused on managing growth

Background

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') which the Group adopted with effect from 1 April 2005. The key accounting policies adopted by the Group are set out on pages 73 to 78. The changes to net assets as at 1 April 2004 and the changes to the income statement and net assets from UK GAAP to IFRS for the year ended 31 March 2005 are included in the Financial Statements. The impact of the change from UK GAAP to IFRS on profits was negligible. While operating profit for 2004-05 reduced by 1%, net assets as at 31 March 2005 increased by 1%. Further discussion on the adoption of IFRS can be found on page 72.

Measuring Performance

The financial performance of the Group is measured using five key financial performance indicators: EBITDA (before exceptional items), EPS (before exceptional items), Free Cash Flow, ROCE (net of tax and excluding project work-in-progress) and Net Debt. A brief description of these key performance indicators is shown on the next page.

These and a number of other measures adopted to manage and track business performance are 'non-GAAP' figures which supplement the IFRS based headline numbers. Some of the other measures include: EBITDA Margin used to track overall quality of the business, Underlying Profit and Total Shareholder Return ('TSR') used for comparing the performance of Vedanta's shareholder returns with that of comparator companies.

Key Financial Highlights

- $725 million, 4.6% guaranteed 20 year convertible bonds issued. The issue, the largest of its kind in the UK during the year, extended the maturity profile of Group debt and broadened the Company's investor base.
- Net Debt reduced to under $12 million and gearing to less than 1% even after incremental project capex of $605.5 million
- Record Free Cash Flow of $634.8 million due to higher operational earnings sustained by the efficient management of working capital.

A summary of the Group's income statement is set out below:

Summary of Income Statement	31 March 2006 $ million	31 March 2005 $ million*	% change
EBITDA	**1,101.5**	454.0	142.6
EBITDA margin (%)	29.8	24.1	
Operating special items	–	(22.3)	
Depreciation and amortisation	(157.7)	(103.7)	
Operating profit	**943.8**	328.0	187.7
Share of loss of associate	(1.4)	(5.6)	
Surplus from acquisition	–	56.5	
Profit before interest and tax	**942.4**	378.9	148.7
Net interest (charge)/income	(7.7)	7.4	
Profit before tax	**934.7**	386.3	142.0
Income tax expense	(280.4)	(87.0)	
Tax rate (%)	30.0	22.5	
Minority Interest	(280.8)	(120.4)	
Minority Interest rate (%)	42.9	40.2	
Attributable to equity shareholders in parent	**373.5**	178.9	108.8
Basic earnings per share (US cents per share)	**130.2**	62.5	108.3
Underlying earnings per share (US cents per share)	**130.2**	48.9	166.3

* The results of 31 March 2005 include five months of KCM's post-acquisition earnings.

Summary of Financial Performance

Strong contributions from all of our metals resulted in an increase in profit before tax from $352.1 million (before special items) to $934.7 million, growth of 165.5%. Similarly, Underlying Earnings per Share grew to 130.2 US cents up from 48.9 US cents, an increase of 166.3%.

Net Debt at 31 March 2006 was $11.9 million, down from $74.3 million at 31 March 2005 as a result of record Free Cash Flow of $634.8 million and expansion capex of $605.5 million. Free Cash Flow in 2005 was $204.4 million and the increase of over $430.4 million was due to good operating results and management of working capital balances partially offset by tax.

Our phase I capital investments of $2.2 billion are largely complete and at a level below the budgeted amounts. Production has been ramped up at Tuticorin (copper) and Chanderiya (zinc) and the ramp-up of capacity at Korba (aluminium) continues. The refinery project at Orissa is also progressing. $211.2 million remains committed but as yet unspent on these projects.

Phase II of our expansion programme is now under way with $3.1 billion of projects announced during the year. A significant proportion of funding for this programme will be from operational cash flows. A detailed discussion on the financial performance of the Group is set out below.

Key Financial Performance Indicators

- **EBITDA** – This measure is calculated by adjusting operating profit for special items plus depreciation and amortisation. Our objective is to take advantage of our low cost base and achieve the best possible margins across the Businesses.
- **Underlying EPS** – This is stated before special items and their attributable tax and minority interest impacts. By producing a stream of profits and EPS we will be able to pay a progressive dividend to our shareholders. EPS growth also demonstrates the management of our capital structure.
- **Free Cash Flow** – This represents net cash flows before financing activities and investing activities in expansion projects and dividends paid out by Vedanta. This measure ensures that the profit generated by our assets is reflected by cash flow in order to fund the future growth and development of the Group.
- **ROCE** – This is calculated on the basis of operating profit before special items and net of tax as a ratio to capital invested in operations as at the balance sheet date and excludes investment in project capital work in progress. The objective is to earn consistently a return (net of tax) above the weighted average cost of capital to ensure that capital is invested efficiently and this indicator measures the efficiency of our productive capital.
- **Net Debt** – This represents long term borrowings, the debt component of convertible bonds, short term borrowings and bank overdrafts net of cash, cash equivalents and liquid investments.

Key Financial Performance Indicators

KPIs*	2005-06	2004-05	2003-04**	2002-03
EBITDA ($ million)	1,101.5	454.0	322.7	224.3
Underlying EPS (US cents per share)	130.2	48.9	26.6	11.9
Free Cash Flow ($ million)	634.8	204.4	335.4	145.6
ROCE (excluding project capital work in progress)(%)	37.9	32.0	24.1	14.6
Net Debt/(Cash) ($ million)	11.9	74.3	(422.3)	331.1

* Figures for 2004-06 are under IFRS and figures for 2002-04 are under UK GAAP.
** As extracted from the 2004-05 UK GAAP annual report.

Revenue

Vedanta's full year revenue grew by 96.5% to $3,701.8 million (2005: $1,884.2 million) on account of additional metal produced by all Businesses, higher metals prices and the inclusion of KCM's full year revenues. In addition to overall sales volume growth, the proportion of sales made up of value-added products in the Aluminium and Copper Businesses increased as these products commanded a higher premium.

Revenue by product	31 March 2006 ($million)	31 March 2005 ($million)	% change
Aluminium	453.0	281.7	60.8
Copper	2,241.3	1,014.7	120.9
Zinc	875.5	486.4	80.0
Others	132.0	101.4	30.2
Total	3,701.8	1,884.2	96.5

All metals continue to earn a premium over LME prices in both Indian and international markets and benefit from Indian import tariffs.

The Group is organised into product segments and its production is marketed both domestically and internationally. A large portion of copper production is principally sold to countries in Asia whereas aluminium and zinc are sold principally into the Indian market. Revenues from sales to customers in India was $1,762.3 million (47.6%), while sales to the rest of Asia were $1,448.1 million (39.1%) and to Europe were $353.5 million (9.5%).

EBITDA and Operating Profit

Higher volumes and better prices have led to EBITDA growth of 142.6% to $1,101.5 million (2005: $454.0 million). While costs have been contained in our Indian Copper and Zinc Businesses, unit costs in the Aluminium Business have increased in line with other major global aluminium producers. Unit costs at our Zambian copper operations increased due to low production levels and certain other external factors described more fully in the Business Review. Tariff reductions from 10% to 7.5% with effect from 28 February 2006 and applicable to all our metals other than lead, had only a marginal impact on the results for the financial year.

The EBITDA margin increased to 29.8% from 24.1% as a result of better prices including improved TC/RCs, a product mix skewed towards the higher margin Zinc Business and the management of costs in the Indian Copper Business and the Zinc Business.

EBITDA by product	31 March 2006 ($million)	31 March 2005 ($million)	% change
Aluminium	135.3	75.6	79.0
Copper	425.3	163.0	160.9
Zinc	532.9	218.5	143.9
Others	8.0	(3.1)	–
Total	1,101.5	454.0	142.6

The increase in average metal prices achieved plus volume gains, (excluding KCM which was included in the 2004-05 results for five months) together contributed $521.7 million of the $647.5 million increase.

Sales of surplus zinc concentrate having zinc metal content of about 100,000 tonnes generated EBITDA of $130.1 million during the year.

On the cost side, significant increases in mining royalties in the Zinc Business and the copper mines in Australia were more than offset by cost savings, despite industry-wide inflationary pressures. However, the Aluminium Business in India experienced a cross-industry surge in energy and other input costs, as well as the impact of a start-up phase at the new Korba smelter. The Zambian Copper Business was adversely affected by the appreciation of the Zambian kwacha against the US dollar and higher labour costs.

Group operating profit increased to $943.8 million up from $328.0 million, an increase of 187.7%. Depreciation charges increased to $157.7 million from $103.7 million reflecting a full year depreciation charge on KCM assets of $43.3 million (2005: $24.2 million for five months) and projects commissioned during the year. The operating profit of the previous year included an impairment charge of $17.8 million for certain non-core assets and restructuring costs of $4.1 million. Operating profit on a comparable basis rose by $593.5 million or 169.4%.

Net Finance Costs

Net finance costs were $7.7 million compared to net finance income of $7.4 million in the previous year. Commissioning of new capacity borrowing costs which had previously been capitalised are now charged to the

Financial Review continued

income statement. In addition to general interest rate rises, the unwinding of the discount on environmental and other provisions related to the acquisition of KCM in the previous year has contributed to the change in finance costs compared with last year.

Taxation

The effective tax rate for the year is 30.0% which is higher than that of the previous year at 26.4% after adjusting for the surplus on the KCM acquisition and 22.5% on an unadjusted basis. The main reason for the higher tax rate is the change in profit mix, a higher tax charge for the copper operations in India where the business moved to a normal tax regime having achieved certain threshold levels of profitability and due to changes in tax laws in some subsidiaries. Of the overall tax charge, current tax has remained relatively constant at just under 20%.

Minority Interests

The Group's ownership in subsidiaries has increased to 57.1% from 50.4% in the previous year on a comparable basis (after adjusting for the treatment of the KCM surplus on acquisition in 2005). The full year impact in 2005-06 of increased ownership in Sterlite, together with higher profits from companies in which there are lower minority shareholdings, have affected the overall minority interest level.

Attributable Profit

Attributable profit for the year was $373.5 million against $178.9 million in the previous year, an increase of 108.8%. This has been the result of strong performances across all our Businesses. The increase in underlying earnings over the previous year was $233.4 million, an increase of 166.6% over the previous year. Underlying earnings exclude the effects of special items and their tax and minority impact and we believe it is an important tool to measure the recurring performance of the Group.

Net Finance Costs	Year ended 31 March 2006 ($million)	Year ended 31 March 2005 ($million)
Interest payable	(124.1)	(60.8)
Unwinding of discount and interest on defined benefit pension arrangements	(11.3)	(1.9)
Interest and other investment income	75.7	45.0
Capitalisation of borrowing costs net of foreign exchange differences and interest income	52.0	25.1
Net interest in income statement	**(7.7)**	7.4

Reconciliation to Underlying Profit	31 March 2006 ($million)	31 March 2005 ($million)	% change
Profit for the year attributable to the equity holders of the parent	373.5	178.9	108.8
Special items	–	22.3	
Surplus on acquisition of KCM	–	(56.5)	
Taxation effect	–	(1.6)	
Minority interest impact	–	(3.0)	
Underlying profit for the year	**373.5**	140.1	166.6
EPS on profit for the year (US cents per share)	**130.2**	62.5	108.3
EPS on Underlying Profit (US cents per share)	**130.2**	48.9	166.3

Earnings per Share and Dividends

EPS for the year increased to US cents 130.2 per share, a growth of 108.3% compared with the previous year. EPS on underlying profit rose by 166.3% over the previous year.

Dilutive elements include adjustments for the convertible bond of 3.1 million shares and 3.6 million shares to be issued under the LTIP. On this basis, the fully diluted EPS increased by 108.5% compared with the previous year from 61.5 US cents to 128.2 US cents.

In line with the Company's progressive dividend policy, the Board proposes a final dividend of 14.3 US cents per share for the year 31 March 2006 giving a total dividend for the full year of US cents 20.0 per share. The total dividend is higher by 17.3% than the previous year's dividend of 17.05 US cents per share.

Cash Flow

The Group delivered strong Free Cash Flow of $634.8 million an increase of $430.4 million reflecting improved operating cash and working capital management. Cash inflows have been utilised in funding the Group's expansion projects.

Working capital levels were affected by increased inventories at the Korba smelter and at the expanded copper business at Tuticorin. In addition, higher metal prices and strong fourth quarter sales have led to higher levels of trade receivables.

The cash tax rate has been consistent to last year's levels.

The Group has invested $80.6 million in Sustaining Capital Expenditure, during the year, for operational efficiencies and to meet HSE commitments. In addition, full year cash flows have been included for KCM.

Gross debt was $2,103.6 million as at 31 March 2006, including $600.4 million in respect of convertible bonds issued during the year. The equity component of the convertible bond of $123.3 million is recorded as part of equity in the balance sheet. Cash and cash equivalents together with liquid investments were $2,091.7 million as at 31 March 2006. We continue to remain focused on maintaining a strong balance sheet.

Projects

Total capital expenditure during the year on expansion projects announced at the time of the IPO was $546.3 million.

During the year, we have announced four large expansion projects with an estimated capital cost of $3,080 million. Funds spent on new projects announced during the year totalled to $48.8 million to March 2006. Commitments on these new projects at 31 March 2006 are $961.3 million.

We believe such a strong growth pipeline is unparalleled in our industry.

Cash flow	31 March 2006 ($million)	31 March 2005 ($million)
EBITDA	1,101.5	454.0
Special items	–	(21.9)
Working capital movements	(169.7)	(181.7)
Changes in long-term creditors and non-cash items	(17.1)	52.8
Sustaining capital expenditure	(80.6)	(67.1)
Sale of tangible fixed assets	0.7	14.1
Net interest paid	(20.5)	17.2
Dividend received	7.0	2.8
Tax paid	(186.5)	(65.8)
Free Cash Flow	**634.8**	204.4
Expansion Capital Expenditure	(605.5)	(734.6)
Acquisitions	–	(30.6)
Dividends paid to equity shareholders	(49.4)	(15.8)
Dividends paid to minority shareholders	(8.9)	(7.7)
Foreign exchange	(7.7)	(9.9)
Equity component of convertible loan notes	123.3	–
Deconsolidation of SEWT – cash and preference shares	(58.7)	–
Other movements*	34.5	97.6
Movement in net (debt)/cash	**62.4**	(496.6)

* Project creditors of $2.0 million (2005: $80.5 million) reclassified from working capital movements into other movements shown below Free Cash Flow.

Expansion projects – announced in previous years	Original estimated cost ($million)	Spent to 31 March 06 ($million)	Committed but not yet spent ($million)	Status
Orissa (Alumina)	800.0	417.1	188.1	In progress
Korba Smelter (Aluminium)	550.0	471.5	14.6	In progress
Korba Power Plant (Aluminium)	350.0	289.7	5.6	Completed
Tuticorin (Copper)	87.0	87.0	–	Completed
Chanderiya (Zinc-Lead)	335.0	264.7	2.9	Completed
Rampura Agucha (Zinc-Lead)	90.0	45.2	–	Completed
Total	**2,212.0**	**1,575.2**	**211.2**	

Expansion projects – announced during the year	Estimated cost ($million)	Spent to 31 March 06 ($million)	Committed but not yet spent ($million)
Jharsuguda (Aluminium)	2,100.0	32.1	763.3
Konkola mine (Copper)	400.0	4.3	62.0
Nchanga smelter (Copper)	280.0	3.1	46.7
Chanderiya (Zinc)	300.0	9.3	89.3
Total	**3,080.0**	**48.8**	**961.3**

Acquisitions

We have exercised our right to buy the 49% stake held by Government of India in BALCO. The value of this stake is to be determined by an independent valuer. The independent valuer's report has been submitted to the Government and on 30 March 2006 Sterlite delivered a cheque to the Government for $246.3 million together with a request for a transfer of shares. This amount is subject to final determination by an arbitrator in respect of the interest included in the consideration. As at the date of this report, the Government had not encashed the cheque. In respect of this, no change in Sterlite's interest in BALCO is reflected in these Financial Statements.

We have also sent a notice expressing our interest to acquire ZCI's stake of 28.4% in KCM. The process of appointing an independent valuer is under way.

Balance Sheet

Shareholders' equity as at 31 March 2006 stood at $1,417.1 million, up from $1,110.5 million as at 31 March 2005. Minority interests increased to $921.7 million (2005: $636.2 million) and Net Debt decreased to $11.9 million as at 31 March 2006 as compared to $74.3 million at 31 March 2005. Cash and cash equivalents as at 31 March 2006 was $2,091.7 million which included $719.7 million (net of issue cost) raised on the convertible bond issue.

As a result of capital expenditure during the year, capital employed increased by $529.7 million to $2,350.7 million. The net book value of the Group's property, plant and equipment increased from $2,288.6 million at the end of previous year to $2,763.0 million as at 31 March 2006. Goodwill which arose as a result of the acquisition of Sterlite is carried in the balance sheet at $12.1 million. Goodwill has not been impaired during the year.

Working capital increased in absolute terms for the reasons mentioned earlier.

ROCE on an adjusted capital employed basis (capital employed reduced by project capital work-in-progress) rose to 37.9% from 32.0% due principally to higher prices and we expect an increased impact on account of projects delivered during this year 2006-07. ROCE is affected by the timing of expansion projects being delivered during the year as the full benefit of additional capacities is not captured.

Capital Employed/ROCE	31 March 2006 ($million)	31 March 2005 ($million)
Equity shareholders' funds	1,417.1	1,110.5
Minority interests	921.7	636.2
Net Debt	11.9	74.3
Capital Employed	2,350.7	1,821.0
ROCE (net of tax) (%)	**28.1%**	13.9%

Adjusted Capital Employed/ROCE	31 March 2006 ($million)	31 March 2005 ($million)
Capital Employed	2,350.7	1,821.0
Less: Project capital work in progress	(608.6)	(1,028.9)
Adjusted Capital Employed	1,742.1	792.1
Adjusted ROCE (net of tax) (%)	**37.9%**	32.0%

Financial Review continued

New debt of $725 million was raised during the year through the issue of convertible bonds at a coupon rate of 4.6%. The bonds can be converted into one ordinary share each represented by a depository receipt ('DR'). The bond holders earliest redemption option is after seven years. The holders of the DRs will not be entitled to exercise voting rights. The convertible bond has been accounted for in accordance with IFRS whereby the compound instrument has been split into equity and debt portions. The equity component has been valued at $123.3 million and the balance is treated as debt.

External debt held by subsidiaries was $905.6 million on 31 March 2006 as compared to $929.7 million on 31 March 2005. Cash flows generated from operations have been utilised to repay part of the subsidiary debt, particularly in Sterlite and BALCO.

Until 28 March 2006, Sterlite operated the Sterlite Employee Welfare Trust ('SEWT'), a long-term investment plan, the activities of which included granting share options in Sterlite to its senior management. The SEWT was previously consolidated into the Group accounts by virtue of its status as an ESOP Trust controlled by the Group.

On 28 March 2006, the Trustees decided to amend the SEWT's objectives to exclude share option plans for Sterlite employees and to include social and charitable activities.

Vedanta reviewed the treatment of the SEWT under IFRS and concluded that, due to the change in its objectives, it ceased to represent an ESOP Trust. Moreover, the SEWT is no longer controlled by the Group and therefore does not qualify for consolidation in Vedanta's Group accounts.

Deconsolidation of the SEWT resulted in a reduction in the Group's effective shareholding in Sterlite by 2.49% to 75.93%. At 28 March 2006, being the date of deconsolidation, the net assets of the Group were reduced by $58.7 million. Equity shareholders' funds reduced by $88.2 million.

The Company continues to be awarded ratings from Moody's and Standard & Poor's. These ratings provide us with financial flexibility and access to various sources of funding at competitive rates. The Company's ratings and India sovereign rating are as follows:

Credit rating	Vedanta	India Sovereign
Standard & Poor's	BB	BB+
Moody's	Baa3	Baa3

Off Balance Sheet Arrangements and Transactions, Contingent Liabilities and Commitments

We have no off-balance sheet entities. In the normal course of business, we enter into certain commitments for capital and other expenditure and certain performance guarantees. The aggregate amount of indemnities and other guarantees was $242.7 million at 31 March 2006. Details of contingent liabilities and commitments are set out in note 34 to the financial statements.

Contractual Obligations

At 31 March 2006, Vedanta had contractual cash obligations arising in the ordinary course of business as set out below.

Risk Management

Vedanta has well defined risk policies that are embedded within the organisation. Risks are identified through a formal risk management programme sponsored by the Chief Executive and rigorously reviewed by internal audit through regular consultation with business managers. Each significant risk has an 'owner' within the Group at a senior level, and the impact to the Group if a risk materialises and its likelihood of crystallisation is regularly updated. A risk register and matrix is maintained and regularly updated by internal audit in consultation with business managers.

Business decisions take account of a wide variety of risks embracing environmental, health and safety, political, market and financial risk. Key business decisions are discussed at the monthly meetings of the Executive Committee, and senior managers are expected to address risk management issues when presenting initiatives to the Executive Committee.

Financial risk management is embraced through the following aspects:

Internal Control

A strong internal control culture is pervasive throughout the Group. Regular internal audit visits to the operations and holding companies are undertaken to ensure the Group's high standards of internal control are maintained. The strength of a business's internal control environment is factored into senior managers' performance appraisals. Further details on the Group's internal control environment are provided in the Corporate Governance Report.

Payments due by period	<1 year ($ million)	1-2 years ($ million)	2-5 years ($ million)	>5 years ($ million)	Total ($ million)
Bank loans and other borrowings	239.8	257.9	982.1	753.4	2,233.2
Deferred consideration for KCM acquisition	5.2	5.2	5.2	–	15.6
Capital commitments	1,233.4	–	–	–	1,233.4
Total	**1,478.4**	**263.1**	**987.3**	**753.4**	**3,482.2**

Board Reserved Powers
The Board has revised its reserved powers from those adopted at the time of Listing to reflect more accurately the nature and structure of the Group, and to include requirements arising from the revised Combined Code. The reserved powers set out the Board's sanction over treasury and capital expenditure with defined limits of authority and procedure, and contribute to risk management by ensuring adherence to Group policies in these areas. The overall internal control environment and risk management programme is reviewed by the Audit Committee on behalf of the Board.

Financial Risk and Sensitivities
Within the areas of financial risk the Board approved policies embrace liquidity, currency, interest rate, counterparty and commodity risk. In principle, the Group will not engage in speculative treasury activity but will seek to manage risk and optimise interest and commodity pricing.

Liquidity
The Group seeks to ensure sufficient liquidity and bank facilities to fund the investment programme. The anticipated cash flows and undrawn committed facilities of $443.7 million, together with cash and liquid investments of $2,091.7 million as at 31 March 2006, are expected to be sufficient to meet the ongoing capital investment programme and liquidity requirement of the Group in the near future.

At 31 March 2006, Vedanta had access to funding facilities of $2,520 million of which $444 million was undrawn as set out below:

Funding facilities	Total facility ($ million)	Drawn ($ million)	Undrawn ($ million)
Below 1 year	683.5	239.8	443.7
1-2 years	257.9	257.9	–
2-5 years and above	1,578.5	1,578.5	–
Total	**2,519.9**	**2,076.2**	**443.7**

Foreign Currency
Vedanta is exposed to currency movements with the majority of its costs and assets located in India and denominated in Indian rupees. Receipts in India are denominated in Indian rupees but revenues are linked to US dollar commodity prices derived from the LME. The Indian operating subsidiary companies maintain their accounts with an Indian rupee functional currency.

KCM's cost base is a mix of Zambian kwacha and US dollars with the functional currency being the US dollar. KCM earns US dollar denominated revenue.

The US dollar is also used as the Group's reporting currency and to determine the dividend. Consequently, the Group is subject to currency risks affecting the underlying cost base in the operating subsidiary companies, and also the translations of unit cash costs, profit and the balance sheet (including non-US dollar denominated borrowings) into the consolidated accounts, where the functional currency is not the US dollar.

Currency	Closing US dollar exchange rate during the year ended 31 March 2006	Average US dollar exchange rate during the year ended 31 March 2006	Impact of 10% currency movement on EBITDA $ million
Indian rupee	44.610	44.283	113.8
Australian dollar	1.399	1.316	7.3
Zambian kwacha	3,406	4,130	18.3

The above sensitivities are based on 2005-06 volumes, costs and prices and give the estimated impact on EBITDA of changes in exchange rates assuming that all other variables remain constant.

Set out in the table above are the key foreign currency sensitivities on EBITDA resulting from a 10% movement in exchange rates.

The borrowings of the Group are predominantly denominated in US dollars whilst cash and liquid investments are also held in other currencies.

Foreign currency exposures are managed through a Group-wide hedging policy. The policy is reviewed periodically to ensure that the risk from fluctuating currency exchange rates is appropriately managed. Foreign currency exposures associated with raw material purchases into India are fully hedged. In the case of capital expenditure, principal repayments and interest payments on borrowings, cash flows up to two years from the relevant date are fully hedged and the balance unhedged.

Interest Risk
At 31 March 2006, the Group's net debt of $11.9 million was made up to debt of $2.09 billion and cash and liquid investments of $2.10 billion.

The Group is exposed to interest rate risk on short-term, long-term floating rate instruments and also due to the refinancing of fixed rate debt. Our policy is to maintain a balance of fixed and floating interest rate borrowings. As at 31 March 2006, 50.4% of the total debt was at a fixed rate and the balance was at a floating rate. Where appropriate, interest rate swaps are taken to minimise the impact of rising floating rates. Cash and liquid investments are invested in short-term deposits and mutual funds to achieve the triple goal of maintaining liquidity, carrying insignificant risk and achieving satisfactory returns.

Analysis of weighted average interest rates for debt and cash and current asset investments as at 31 March 2006 is given in the table below.

	Interest paid		Interest income
Currency	Floating %	Fixed %	Average yield %
Indian rupee	6.7	6.3	6.2
US dollar	6.3	6.1	3.8

Some of the investments above generate a tax free return.

Counterparty Risk
Cash and liquid investments are held primarily in mutual funds and banks with high credit ratings. The group generally adheres to a policy of capital protection although some investments have been structured to improve yield but with generally no risk to principal. The investments generally carry a floating interest rate and are of different maturities to provide a balance between liquidity and enhanced yield.

Commodity Risk
The Group is exposed to the movement of base metal selling prices. In principle, selling prices are not hedged but sold at prevailing market prices as derived from the LME. The exceptions to this policy relate to:
- closing off exposures arising from the purchase of copper concentrate; and
- at times of favourable commodity prices to secure the cash flows of higher cost operations and those with capital expansion programmes, such as the Zambian operations.

The operations in India do not hedge their domestic commodity positions as this is not permitted under local regulations. At 31 March 2006, the Group's hedged position of copper amounted to 37,650 tonnes for 2006-07.

Set out below are the key commodity price sensitivities on EBITDA resulting from a $100 per mt movement in prices

Commodity price sensitivity	Average market price in year ended 31 March 2006 ($/mt)	Effect on EBITDA of $100/mt change in LME ($ million)
Copper	4,099	18.4
Aluminium	2,028	22.8
Zinc	1,614	41.4

The above sensitivities are based on 2005-06 volumes, costs and exchange rates and provides the estimated impact on EBITDA of changes in prices assuming that all other variables remain constant.

Sustainable Development Report

Contributing to the basics of life in harmony with nature

'...we highlight Vedanta on account of a recent site visit from which our analyst reported 'a higher level of engagement by skilled and semi-skilled employees than anywhere else in the industry'.'

A leading market analyst

Our Commitment to Sustainable Development

We at Vedanta are engaged in the mining and smelting of the top three most used non-ferrous metals – aluminium, zinc and copper. Each of these metals has an important role in modern life, be it through their use in power generation and transmission, galvanisation of steel, telecommunication, automobiles, fertilisers or food supplements. Thus, our business directly and indirectly touches the lives of millions of people across the world. Whilst we are humbled by the vast impact of our business on the basics of life, we also recognise that, due to the nature of our business operations, there could be adverse impacts on the environment and the occupational health and safety of the communities and habitats around our operations.

In recognition of our responsibilities towards our stakeholders, including our employees, customers, suppliers, communities and the environment from which we draw our raw materials, we continually strive to reduce any adverse impact, thereby creating sustainable value for all our stakeholders. Accordingly, for Vedanta, sustainable development is a journey wherein we progress by "contributing to the basics of life in harmony with nature".

We continue to look forward to the sustainable development challenges facing the world and specifically the non-ferrous metals sector in which we operate. We understand how the growing requirements of the burgeoning world population need to be met from scarce resources, and hence are steadily aligning our business processes on the foundations of a well-planned sustainability strategy to address both short-term and long-term issues.

We continue to believe that our approach to sustainable development will not only give confidence to our stakeholders about our performance but will translate into attractive returns for our shareholders and also create sustainable value for our operations.

Our Approach to Sustainable Development

We have established a four-step approach to our sustainable development commitments. These steps are:

1. Establish sound governance and drive sustainable development initiatives from Vedanta Board level to operational levels ('Tone at the Top' approach);
2. Plan for and achieve phased performance improvements by developing and completing initiatives that are congruent with our short-term and long-term business needs without restricting the allocation of resources;
3. Establish processes based on national regulations and globally accepted standards, guidelines and systems for continuous improvement; and
4. Involve our stakeholders, especially employees, in the sustainable development programmes undertaken at our operations.

As a first step, we have embraced health, safety and environment ('HSE') and community development as a core business commitment seeking to achieve excellence in all areas of Vedanta's operations. This commitment extends to all levels of Vedanta, including employees and contractors, in order to achieve excellence in our activities. During 2005-06, we have proactively sought to move beyond regulatory compliance and continued the trend of improvement started in the previous years across all of our operations.

Our approach towards sustainable development is summarised in the flow chart opposite.

The subsequent sections in this report provide detailed information about our sustainable development programmes and performance.

Sustainability Policies

- ✓ Manage diverse portfolio of mining and metals businesses and maintain a sustainable growth in harmony with HSE and community needs.
- ✓ Commitment to sustainability policy formulated by Board and implementation of such policies is undertaken at Business levels.
- ✓ Conserve natural resources and raw materials, optimise on water and energy uses and maximise savings, and waste utilisation including recycling and reuse of wastes.
- ✓ Take up and participate in initiatives contributing to community developments.
- ✓ Encourage our associates like contractors and suppliers to adopt and practice our policies and principles in their activities - across the value chain encourage sustainable growth in harmony with nature.

Sustainability Strategy

- ✓ Vedanta Board, through its governance structure, directs and supervise whilst individual operations develop plans for initiating activities towards fulfilling commitments made in Sustainability Policies.
- ✓ The businesses to allocate appropriate resources, whether trained manpower, technology or funds.
- ✓ Implement various environment management systems (e.g., ISO 14001), occupational health and safety management system (e.g., OHSAS 18001) and community participation for mutual well-being towards sustainable growth.
- ✓ Continue with and initiate new programmes and processes for identification of HSE impacts of individual operations and reduce any adverse impacts on environment, employees and contractors and local communities, and strive towards continual improvements.
- ✓ Continue with and initiate new programmes for benefiting the local communities where we operate.

Identifying key performance indicators and setting objectives and targets

- ✓ Develop business plan on HSE and community development programmes as relevant to policy level commitments and sustainability strategies.
- ✓ Set objectives and targets against indicators on HSE and Community Initiatives at Group and Business levels: Safety (Lost Time Injury Frequency Rate), Occupational Health, Water Conservation, Wastewater Recycle & Reuse, Air Emission Reductions for relevant parameters, Waste Management & Utilization (solids & other hazardous), Reduction in Energy Consumption, Community Development (e.g., education, rural livelihood, female empowerment, etc.) and Awards & Recognitions.

Performance review and way forward

- ✓ Analyse annual performance on each indicator for which objectives and targets were set.
- ✓ Report performance and identify reasons that led to improvements or otherwise.
- ✓ Specify Group's commitment for continual future improvements and aim towards achieving status of a recognized global leader on sustainable development in base metal mining and metal industry.

Sustainable Development Report continued

Health, Safety and Environment Policy

At Vedanta Resources plc, we believe in sustainable development and are committed to effective management of health, safety, environment and community development as an integral part of our business. Accordingly, we will strive to:

- develop, implement and maintain health, safety and environment ('HSE') management systems aligned with our commitments and beliefs, and consistent with world-class standards;
- comply with applicable HSE regulations in all our activities, thereby providing a safe and healthy work environment;
- seek continual improvements through setting and reviewing targets, assessing and reporting HSE performance, using appropriate best available practices and providing all employees with HSE training;
- implement regular health surveillance and risk-based monitoring of employees;
- conserve natural resources, raw materials, water and energy by process improvements, recycling and reducing waste including waste utilisation;
- work with communities to contribute to their development;
- encourage contractors and suppliers to adopt principles and practices adopted by us; and
- communicate with all our stakeholders on the progress and performance of HSE management.

1 June 2005

Social Policy

At Vedanta Resources plc, we believe in sustainable development and are committed to raise the quality of life and social well-being of communities where we operate.

Towards this, we will be guided by following:

- Our community development initiatives will be prioritised based on local needs. Broad areas of focus will be:
  - Social Investment – health, education and livelihood
  - Bio Investment – water harvesting, agriculture and social forestry
  - Environment conservation.
- All operating locations will incorporate corporate social responsibility ('CSR') activities as an integral part of their business plan and have an appropriate organisation to implement the same.
- We will be open to working with like minded associates, government bodies and other volunteer organisations in pursuit of our mission.
- We will measure and report progress as per social accounting systems and encourage third party reviews for effective delivery and measurable impact.
- We will regularly communicate with all our stakeholders on the progress and performance on social management.

24 October 2005

'...develop, implement, and maintain health, safety and environment management systems aligned with our commitments and beliefs and consistent with world-class standards...'
Vedanta HSE Policy, June 2005

The Governance Structure for Sustainable Development
We are committed to continually ensuring that the HSE and social commitments of our business are managed appropriately and in harmony with local requirements. As sound corporate governance is the first step to excellence in sustainable development, a Board-level committee was formed in June 2004. This HSE Committee is chaired by Dr SK Tamotia, a non-executive Director, and includes the CEO of the Vedanta Group and other senior management from operating teams as members. The HSE Committee provides direction on all HSE and community initiatives and monitors progress. It has met three times during the year.

Separate HSE committees have been formed at each Business during the year to assess and address the HSE-related risks specific to their operations. These committees ensure implementation of Group policies at unit levels and communicate performance to the HSE Committee. The committees are headed by Mr MS Mehta (CEO – HZL), Mr T Venkatesan (CEO – Sterlite), Mr CV Krishnan (CEO – KCM), Mr CP Baid (Executive Director – BALCO) and Mr S Rathi (Executive Director – MALCO). Separate teams have also been formed for addressing community development issues at each business.

The Group CEO and the CSR Manager spearhead community development initiatives. In addition, the respective business heads are responsible for taking the community initiatives forward through their unit's CSR Cell.

Management Structure
Each business has systematically developed its management structure based on a 'Plan-Do–Check-Act' approach. In order to plan, implement and review progress on all initiatives. The following four primary enabling elements are provided within the management structures.

Leadership
Senior management and operational heads lead all HSE and community initiatives, setting objectives and targets, continually reviewing and monitoring performance, and allocating resources wherever necessary.

Management Systems
Formal management systems (OHSAS 18001 on occupational health and safety and ISO 14001 on the environment) have been adopted at the majority of the unit operations. These systems have assisted in improving our competitiveness and effectiveness through systematic improvements in our processes and operations, and by setting and achieving specific improvements in relevant activities. These systems have been integrated with the existing quality management system based on ISO 9001:2000. With the help of these systems, we have been able to establish robust processes for continuous improvement.

All significant Indian operations in Vedanta have been certified under the management systems mentioned above (also please refer to Table 1). In addition the Vedanta operations at Debari and Vizag have been certified to SA 8000, which provides wider coverage on health and safety issues for both contract personnel and our own employees.

Vedanta has a system for periodically auditing its HSE system performance. It also undergoes mandatory periodic reviews by the relevant regulatory authorities.

Employees
We have invested in developing our organisation, processes and people to support and sustain a growing business of global size and stature. The Group has a policy framework for recruitment, training and development, compensation, conduct and business ethics that guide our Human Resource Management processes. Through these processes we aim to promote empowerment, higher degrees of commitment and accountability and being an equal opportunity employer. Further details on our employee development, is given in the Business Review section.

Training
Training on HSE issues and community development initiatives has been provided to employees and contractor personnel. HSE training has helped to reduce HSE incidents across the Group's operations and enhanced the community's perception of the Group. Community initiatives such as Sterlite's Women Empowerment Project at Tuticorin have also significantly enhanced the HSE-related awareness amongst local communities.

Sustainable Development Report continued

'...We will strive to seek continual improvements through setting and reviewing targets, assessing and reporting HSE performance, using appropriate best available practices and providing all employees with HSE training...'

Vedanta HSE Policy, June 2005

Risk management

Risk assessments were carried out during the year, particularly on hazardous operations, and significant risks were minimised by the application of engineering measures and the adoption of new/improved technology and safe working practices, wherever practicable.

HSE and Community Development Business Plans were created at unit level at the beginning of the year. Monthly progress against those plans was discussed and reported at the individual business and Group levels. Regular reviews against those plans at unit levels were also completed. A management information system has been developed for reporting performance from all unit operations up to the level of the HSE Committee. Designated HSE managers for each business/unit worked with management on the implementation of HSE initiatives, with their respective roles being summarised below.

Operational Managers

It is the responsibility of operational managers throughout the Group to ensure implementation of the HSE and Social Policies and systems, and to monitor operational performance against these Policies.

HSE Specialists

All individual units have qualified and experienced HSE specialists to advise on implementing HSE improvement commitments, policies and management systems. During 2005-06, they undertook compliance management, impact assessment, measurement and monitoring, and continuous improvement programmes.

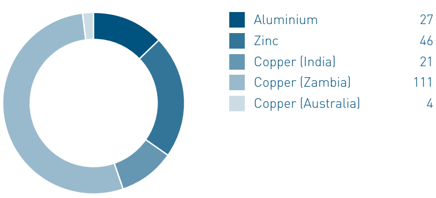
Table 1: Status of Certification of Vedanta operations to E & OHSAS Standards

Company	Unit	ISO 14001: certification	OHSAS 18001: Certification
Sterlite	Tuticorin smelter	Certified	Certified
	Silvassa copper refining facility	Certified	Certified
	Mt Lyall mine	Not intended	Not intended
	Thalanga mine	Not intended	Not intended
HZL	Rampura Agucha mine	Certified	Certified
	Rajpura Dariba mine	Certified	Certified
	Zawar mining complex	Certified	Certified
	Chanderiya smelter	Certified	Certified
	Darbari smelter	Certified	Certified
	Vizag smelter	Certified	Certified
BALCO	Manipat mine	Certified	Certified
	Bodai-Daldali deposit (Kawardha mines)	Target July 2006	Target July 2006
	Korba complex	Certified	Certified
MALCO	Yercaud mine	Certified	Certified
	Kolli Hills mine	Target March 2007	Target March 2007
	Mettur Dam complex	Certified	Certified
KCM	Konkola mines	Under Certification*	Certified
	Nchanga mines	Under Certification*	Certified
	Narnpunclwe mines	Under Certification*	Certified
	Nkana smelter	Under Certification*	Certified

* Expected to be certified by June 06.

We have over 200 specialists across the Group working on HSE activities. The distribution of HSE personnel across the major operations is reported below:

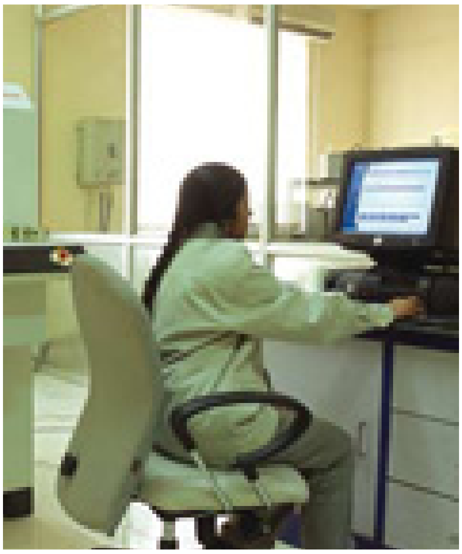
HSE SPECIALISTS AT VEDANTA



The operations are guided by the country-specific HSE regulatory framework compliance and individual operations work closely with the authorities on HSE-related issues.

Specialists on Community Initiatives

Each operation/unit has employed personnel with professional qualifications in either rural development or social work to work on community development programmes. These personnel include field workers who live in and around areas where we operate.



HSE Steward System at Tuticorin

An innovative HSE Steward System was introduced at Tuticorin on an experimental basis in 2004-2005 to improve standards. This system has gained widespread acceptance from employees of all units and has resulted in tangible improvements in areas of health, hygiene, housekeeping, safety and environment.

The total smelter complex has been divided into 28 areas and each area is owned by one designated HSE steward who implements the HSE system in totality in his/her own area. In addition, six HSE representatives from the unit's HSE department work with these stewards to ensure the system is implemented effectively. So far, 16 rounds of audits have been carried out and the compliance level has been over 90%. Though the HSE Steward System was introduced as a penalty-based system, enough care as been exercised in terms of empowering the stewards so that they are motivated.

Improvement and sustainability are the two key focus areas in the HSE Steward System.

Memberships of Charters and Institutions

We are committed to engaging in discussions on sustainable development at the international level. We therefore track the issues raised by various organisations relevant to our sector in forums like the International Council on Mining and Metals ('ICMM') and World Business Council for Sustainable Development ('WBCSD').

HSE and Community Development Initiatives

Individual units within Vedanta set short-term targets to be achieved in 2005-2006 which were appropriate to their operations, technology, and previous years' performance. Our performance on occupational health and safety, environment, and community initiatives is highlighted in the subsequent sections of this report.

Safety

The highlights of our initiatives in safety are provided below.

Safety Committees

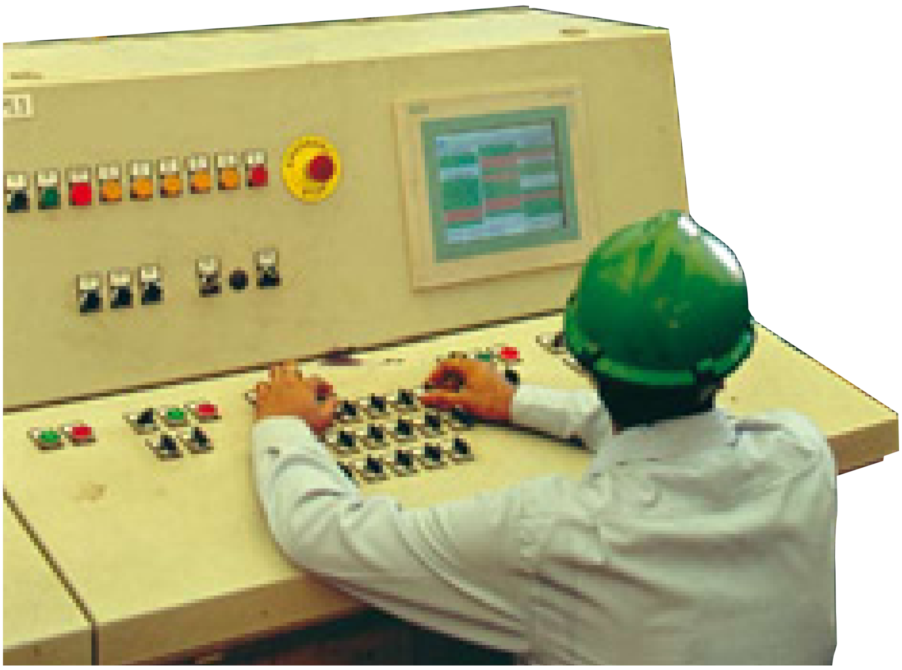
Safety committees are in place at different levels within the Group to review incidents, suggest improvements in safety systems and to implement risk reduction and training to prevent recurrence. Safety committees at individual units have been strengthened in terms of representation, frequency of meetings and the implementation of suggestions.

BALCO has introduced a drop box system to invite safety suggestions and concerns from employees, which are then reviewed and implemented.

HSE Steward System

We have started the HSC Steward System at Tuticorin and have replicated similar systems at BALCO, MALCO and HZL as a result of the success at Tuticorin. So far, 16 rounds of audits have been carried out at Tuticorin and the compliance level has been over 90%.

The implementation of this system was successfully completed at BALCO during 2005-06. At HZL, the implementation is still in progress due to their wider spread of operations and activities, however it is showing satisfactory results.



Green Card Reporting System

A green card reporting system has been introduced at BALCO for improving shop floor safety. This system is accompanied by a yellow/red cards system for safety violators.

Audits

Internal and external audits were undertaken by specialists or other relevant agencies. During the year, these looked at the operations identifying risks and hazards, whilst also recommending preventive measures. These audits have provided valuable feedback to the operational teams to assist with improving safety risks.

Training

As a policy we provide initial and periodic training to all employees and contractors. At some locations, such as in Korba, Tuticorin and Chanderiya, 5S training was provided to employees to embed safety as a way of working, rather than as an add-on to normal job requirements. The system of recording all incidents, including first aid cases and near-misses, was further enforced at all units during the year.

During the year, a total of 25,829 employees, including the contractors, were given HSE training. As a result of this training, significant performance improvements have been achieved across the Group's operations.

Sustainable Development Report continued

Lost Time Injury Frequency Rate ('LTIFR')

LTIFR across the Group's operations showed a significant reduction of over 30% during the year (reducing from 5.50 in 2004-05 to about 3.84 during the year). The LTIFR performance of various businesses is shown below.

Several initiatives have been responsible for an improved safety performance during the year, including:

- Safety performance being treated holistically with other business parameters.
- Strictness in the use of personal protective equipment such as helmets and safety shoes.
- Regular site visits to identify and prevent unsafe acts and conditions.
- Successful establishment of the HSE Steward System at Tuticorin, which is being replicated at other units.
- Adherence to the Work Permit System at BALCO and MALCO.
- Regular audits by experts in relevant areas such as safety, fire, HAZOP, etc.
- Contractor safety performance monitoring.
- Creation of a transport emergency plan.
- Introduction of proper risk assessment before commencing critical tasks.

The Group has placed considerable emphasis on observing safety systems and precautions from the planning stage of projects during the year. Dedicated safety teams have been formed for new projects. Adherence with rigorous safety systems and associated compliance have been made contract conditions with contractors.

Vedanta remains committed to achieving zero fatalities and serious injuries in all its operations. Despite Vedanta's continued focus on safety, there were, unfortunately, nine (three permanent employees and six contract workforce) fatalities at our operational units during the year. These included five at KCM (Zambia), three at HZL and one at BALCO. HSE committees have investigated all these incidents and action has been taken to prevent the recurrence of of such incidents.

Occupational Health

Unit operations maintained, and, in many instances, improved occupational health surveillance programmes for all employees and contractors during the year. These included specific work-related checks based on exposure to occupational hazards.

Of the total number of 28,198 examinations completed across our Group operations, 4,303 were at HZL, 2,186 at BALCO, 296 at MALCO, 3,353 at Sterlite, 18,048 at KCM and 12 at CMT.

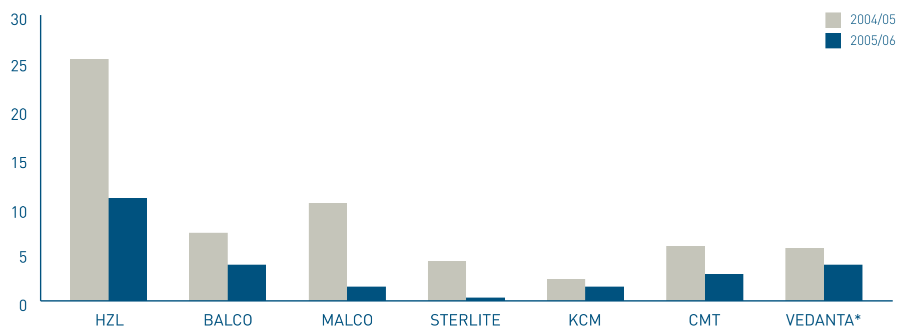
Specific focus was given on checking the following:

- audiometry, tuberculosis, noise induced hearing loss ('NIHL'), silicosis and pneumoconiosis at KCM;
- audiometry, silicosis and blood lead level (up to 40mg/100 ml) at HZL;
- audiometry, eye check and lung disease at BALCO; and
- new surveillance programmes monitoring NIHL, lead poisoning, arsenic poisoning, toxic anaemia, fluorosis, dermatitis and neumoconiosis, at Sterlite, Tuticorin.

Wherever required, medical treatment and counselling has been provided as a result of these checks.

An occupational health surveillance facility was started at Tuticorin, which included the provision of company mediclaim coverage to all employees and their families, half-yearly health check-ups for all employees and contractors working in hazardous locations, a total ban on the use of asbestos gloves and replacement with leather and Kevlar hand gloves and the provision of appropriate PPE. A programme was initiated to map the occupational health of all employees and contractors, based on the significance of exposures.

LOST TIME INJURY FREQUENCY RATES



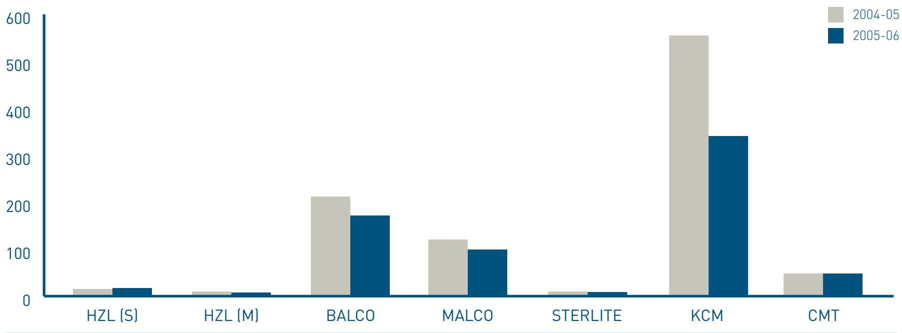
* Vedanta's 2004-05 LTIFR has been revised to include KCM.

Ausmelt Technology Adoption in Chanderiya

At Chanderiya smelter ausmelt technology is adopted. The off-gases from the ausmelt furnace contain varying percentage of SO_2, depending on the process cycle, which cannot be handled in acid plant due to its operational limitations. State-of-the-art technology provided by M/s Cansolv Technologies Inc., Canada has been adopted at the cost of INR 290 million. This patented technology uses an aqueous amine solution, Cansolv Absorbent DS, to achieve high efficiency selective absorption of sulphur dioxide from a large variety of gas streams. The scrubbing by-product is pure, water saturated SO_2 gas recovered by steam stripping which can be converted to sulphuric acid or sulphur. Both the Cansolv SO_2 scrubbing system and the absorbent have excellent health and safety properties.

This process uses the fact that SO_2 is absorbed in a cold amine solution and can be easily released from the solution (desorbed) when the SO_2 laden solution is heated. This absorption process is highly selective for SO_2 and is also easily reversible. By using this 'circle-type' process, the SO_2 can be separated from the other gaseous parts of the SO_2 gas. This separation of SO_2 from the other gaseous compounds allows the release of the non-absorbed gases to the atmosphere and production of a flow of concentrated SO_2 gas, which is easily fed into the sulphuric acid plant.

PRIMARY WATER



HZL (S-smelter), BALCO, MALCO, KCM and Sterlite: m^3/mt of metal.
HZL (M-Mine): m^3/mt of metal in concentrate CMT: m^3/mt of concentrate.

Environment

We remain committed to the efficient use of all resources. Many of our Indian operations made significant progress in implementing their commitments to the Charter on Corporate Responsibility for Environmental Protection ('CREP'), which included significantly reducing sulphur dioxide emissions, achieving zero discharge of waste water, improved handling and disposal of hazardous wastes and improvements in housekeeping and on-site plantations.

Water Consumption Reduction and Reuse

Water is a key resource which is primarily required for cleaning and cooling in many of our operations. Water management is therefore a critical element in our mining activities, particularly in respect of mine de-watering.

During 2005-06, we were able to conserve water due to initiatives such as improved metering and measurement systems, minimisation of leakages, other specific initiatives to further reduce water consumption, and reuse/recycling of treated wastewater and mine water, which together resulted in a reduction in primary water consumption, despite increased levels of production at many of our operations.

The specific initiatives that helped in reducing water consumption are summerised below.

MALCO

The commissioning of a cooling tower for vacuum pump for hydrate filtration and the revamping of the evaporator cooling tower, along with the modification of the water pipeline system for the Properzi cooling tower control, achieved a total reduction of 1,500 m^3/day of water.

- By bringing awareness of efficient use of water in the colony and villages a reduction of 1,000 m3/day was achieved.
- A sewage treatment plant of 150 KLD capacity for reusing the treated water in green belt development is under installation.
- As a result of these efforts, MALCO was awarded the National Award for excellence in water management by CII in 2005.

BALCO

The following projects for reduction in primary water consumption were taken up at BALCO during 2005-06. Some of these have already been implemented while others are expected to be implemented by mid- 2007. Once completed, we expect a reduction in our primary water requirement of about 10,000 m^3/day.

- Dry ash evacuation system in the 270 MW power plant.
- Dry red mud disposal.
- Recycling of kiln cooling water in alumina plant.
- Introduction of dry scrubbing system in GCP instead of the current wet scrubbing process.
- Treatment and recycling of backwash water in the water treatment plant.
- Use of treated sewage water for gardening in the townships.
- Reduction in water consumption in townships by eliminating wastages.
- Use of industrial recycled water in the in-plant utilities.

Sustainable Development Report continued

'... Conserve natural resources, raw materials, water and energy by process improvements, recycling and reducing waste including waste utilisation...'

Vedanta HSE Policy, June 2005

HZL

In order to achieve zero discharge of water, HZL aims to recycle 100% of its treated water. A number of water conservation initiatives were taken at the HZL smelters and mines during the year.

- At the Chanderiya smelter, new hydro and aussmelt smelters resulted in higher primary water consumption. However the commissioning and stabilisation of an RO plant, having a capacity of around 80 m^3/hr, resulted in significant overall reduction during the last four months of 2005-06. An additional RO plant is also being installed and is expected to be completed by October 2006, at an estimated cost of INR 75 million. Management at the unit have also initiated a comprehensive study of water management based on the collection, storage, treatment and reuse of effluent generated from floor washings and rain water.
- At the Debari smelter, the installation of an RO plant has also resulted in a reduction in water consumption. About 1,250 m^3/day of treated trade effluent and 100 m^3/day of treated sewage effluent are recycled in the processes and also used for gardening. Similarly at Vizag, an RO plant is expected to be installed and completed by March 2007.
- A 24% reduction in freshwater consumption per tonne of ore treatment was achieved at the Rampura Agucha mine through a combination of several actions. These included the retrofitting of all thickener with hi-rate system, the use of reclaimed water in all de-dusting systems, the use of evaporation retardant tailing dams, and the construction of a reclaimed water reservoir of 50,000m^3 capacity for storing water drawn from the tailing dam, thereby reducing the evaporation losses significantly.
- At Zawar mines, the recycling of surplus underground mine water resulted in a reduction of freshwater consumption in the mill beneficiation operations.

Sterlite

- At the Tuticorin unit an additional catchment pond was constructed at a cost of INR 80 million for the collection of rainwater during the monsoon for reuse in the process
- Rainwater harvesting was initiated at Silvassa by recharging bore wells.

CMT

- Copper Mines of Tasmania in Australia has completed an internal review of water usage and identified a recycling option, which included return of tailings water, neutralisation of acid mine water and re-circulation of thickener overflow.

Air Emissions

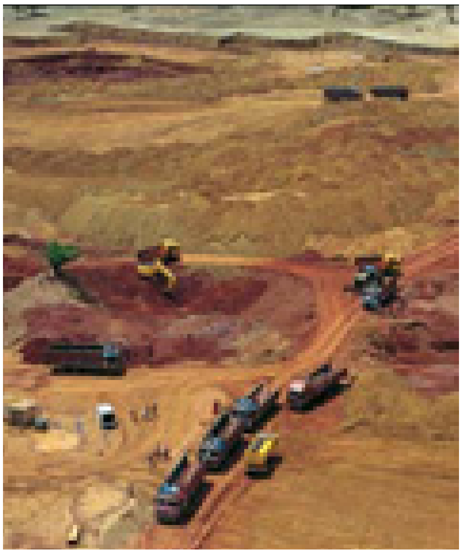
While our units comply with the applicable regulatory standards, we continue to work towards meeting new and evolving standards. To this end we continue to improve processes and technology so as to reduce air emissions. Such proactive planning will reduce the long-term costs associated with environmental issues.

Aluminium

- BALCO and MALCO initiated the phasing out of the wet scrubbing system in their old smelters and are installing dry scrubber systems to reduce the fluoride emissions. Approximately INR 500 million and INR 162.5 million, respectively, have been invested in these scrubber systems.
- The BALCO smelter also introduced a point-feeding system, which reduces the frequency of anode effect resulting in lower fluorine/PFC emissions. Additionally, the lower anode exposure is also expected to reduce the CO_2 generation due to lesser oxidation of carbon.
- The installation and commissioning of the new pot control software will enable earlier prediction of anode effects thereby reducing fluoride emissions by faster quenching of the AE.
- At MALCO, improving the air quality around the ash silo was initiated by providing an ash dust collection system using suction from the ESP.

Zinc

- DCDA technology has been adopted at the the Chanderiya lead zinc smelter hydro plant. The plant is now consistently achieving SO_2 emissions lower than the current regulatory requirement. Furthermore three continuous ambient air monitoring stations were installed.
- A tail gas treatment ('TGT') plant for reduction in SO_2 emission is being installed at Debari and Chanderiya at a cost of INR 200 million.



Red Mud Utilisation at MALCO

The extraction of alumina from bauxite generates a residue known as 'red mud', which primarily contains process residues, water and caustic soda. This red mud does not have a ready productive use and storing it involves issues relating to land cost, storage and pollution.

After some focused research it was found that the aluminium, iron and silica oxide constituents of red mud have potential uses in cement manufacturing as a replacement for low-grade additives like bauxite and laterite. On the basis of this research and subsequent trials MALCO has been able to find an application for the surplus red mud in cement manufacturing. In 2005-06, 76% of the red mud produced, about 110,000 tonnes, was used in cement manufacturing at nearby plants. Since January 2006 all the mud produced in the plant has been successfully used in cement manufacturing.

- The hydraulic vacuum sweeper at Chanderiya has become an integral part of housekeeping thereby reducing SPM levels within the complex.
- Emissions from particulate matter from slag grinding at the Debari smelter were reduced to less than 100mg/Nm^3. This was achieved by modifying and replacing bag filters and bag filter clamps and by adjusting the ampere settings of its blower.
- At Chanderiya, improvements in zinc refinery ventilation were achieved by modifying the ducting. A new ventilation system has also been planned at an investment of INR 35 million.
- Dust levels at Zawar mines have come down significantly as a result of old ductings being replaced with new ones, the installation of air spray mist and the use of skirt guard and impact pads for reducing spillages in the crusher house.
- Similarly, acid suppressant mist is being employed in the cell house at the Vizag smelter.

Copper

- SO_2 emissions are being brought down at Tuticorin with the installation of a TGT plant at the cost of INR 70 million.
- All ambient air quality stations have been converted to on-line for SO_2, SPM and Nox with a centralised display.at the main gate.
- A 3+1 convertor modification is being added along with TGS to further reduce SO_2 emissions.

Climate Change

We have set a strategy at the Group levels to address climate change issues by reducing greenhouse gas emissions and we have started developing five major projects as activities under the Clean Development Mechanism on the Kyoto Protocol. These are:

- Back pressure turbine projects for the utilisation of waste gases from the roaster plant at the Chanderiya smelter;
- The reduction of PFC emissions using cell house modifications in Vertical Stud Söderberg ('VSS') based at the aluminium smelter at BALCO;
- The improvement of fluoride recovery efficiency by using a dry scrubbing system at BALCO;
- The use of waste heat/gases in place of conventional fuels for calcinations at BALCO; and
- A waste heat recovery boiler in the ISA smelter at Tuticorin.

Waste Management

Our aim is to exceed regulatory compliance requirements for the reduction of waste generation both at source, during operations and in disposal. Consequently, the Group focuses on the proper identification, characterisation, quantification, segregation, storage and disposal of all solid wastes. Data on waste from all its operations is classified as hazardous or non-hazardous and also as disposable, recyclable or landfill waste, as specified by the applicable regulations. Overburden and waste rock from mines is systematically stacked in earmarked areas while tailings are disposed of in tailing dams. All fly ash generated in our Indian operations is used productively in the local cement industry.

Sustainable Development Report continued

The following specific waste management initiatives have been undertaken in our operations:

Aluminium

- A pioneering initiative taken by MALCO for red mud disposal has been welcomed by the pollution control authorities and is becoming recognised as a benchmark in the industry with other aluminium manufacturers being advised to adopt this practice.
- BALCO is moving towards the dry disposal of red mud, while currently red mud is disposed of in earmarked ponds.
- Our aluminium operations have been able to achieve a 66% uptake of red mud by the cement industries after reducing the caustic soda content.
- MALCO has commenced the disposal after treatment of spent pot lining for use as fuel.
- BALCO also sells its spent pot lining for use as fuel in cement industry.
- BALCO has also developed a process for recovery of fluoride salts from tunnel dust, ESP dust and carbon muck from the smelter.
- Efforts are being made to achieve 15% increase in the production of vanadium sludge, which is a by-product in the alumina refinery and for production of ferro vanadium at BALCO.
- Construction of secured landfill for the safe disposal of hazardous waste at BALCO has commenced at a cost of INR 4.5 Million.

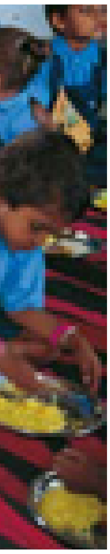
Zinc

- Jarosite from hydrometallurgical zinc smelters is disposed of in secured and lined containments at the Chanderiya smelter. The technology adopted involves the stabilisation of jarosite with lime and Portland cement to produce a hard, compact and inert mass known as jarofix. The total capital expenditure for this exercise was INR 122 million. This is the second such facility for jarosite disposal in the world.
- A moore cake treatment plant has been installed at the Debari smelter, at a cost of INR 120 million, for recovery of zinc from moore cake and the reduction in hazardous waste load.
- At the Debari smelter, anode mud is being recycled in the leaching and cadmium plant to reduce the fresh MnO_2 consumption.
- The TGT plant being installed at Debari will use zinc oxide in place of hydrated lime. The end product produced in the TGT plant will be recycled (in the process eliminating the generation of calcium sulphite and sulphate sludge, as would have been the case if a lime scrubber had been used) thereby this will result in lower hazardous waste generation.
- Waste rock at the Zawar and Rajpura Dariba mines is being used for the tailing dam embankment. Similarly, the Rampura Agucha mine has started using waste rock in road construction.

Copper

- The use or disposal of slag, gypsum and vanadium constitute the largest waste related concerns for copper producers. At Tuticorin, a secure landfill was constructed this year in an attempt to improve hazardous waste management.
- Copper slag is being used in road construction and abrasives. A CRRI study has also initiated a study for usage of slag on roads and embankments.
- The use of this slag with cement is also being explored. The NCCBM has completed a study for use of slag with cement and has recommended its use at the level of 3% at raw material stage and 33% in clinker stage.
- The highest ever sale of gypsum, 70,000mt, was achieved in March 2006 in comparison to the previous year's average of monhly 40,000mt.

Research studies are being undertaken to reduce the hazardous characteristics of waste and to ensure the re-use of waste materials.



Midday Meal Sponsorship

The Rajasthan State government has introduced the cooked midday meals programme in all primary schools in the State. The coverage of midday meal programmes has steadily expanded, and cooked lunches have rapidly become part of the daily school routine across the country. Jean Dreze the noted economist observes *'a recent survey suggests that school meals have made a promising start around the country. Yet, quality issues need urgent attention if midday meal programmes are to realise their full potential. Improved midday meal programmes could have a major impact on school attendance, child nutrition, and social equity.'*

Encouraged by such support the team at HZL approached the State government with a view to playing a proactive role in the implementation of the scheme. This was the first ever endeavour of Public Private Partnership in this specific area. A tri-partite partnership between the Government of Rajasthan, the Nandi Foundation, a Hyderabad-based NGO and HZL was formed which focused on providing cooked nutritious quality midday meals for the school-going children in the three Districts of Rajasthan, namely Bhilwara, Udaipur and Chittorgarh.

Within this partnership HZL set up centralised kitchens to cook daily midday meals for 55,000 primary school-going children at a cost of INR 11 million. The administrative responsibility for the kitchens is discharged by the State government and the actual cooking is undertaken by the Nandi Foundation.

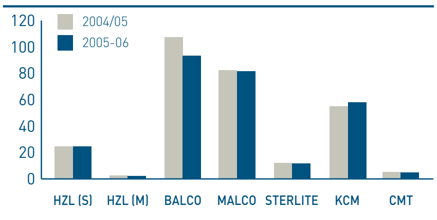
The unique aspect of this project is its scaleability and the cooperation between various agencies to help improve, along with health enrolment, attendance and retention of children in primary schools.

Energy Conservation

All our units have shown a high degree of commitment to the cause of energy conservation.

As a result of our energy conservation programmes and captive power generation facilities, we have been able to reduce power drawn from local electricity grids.

PRIMARY ENERGY



HZL (S-smelter), BALCO, MALCO, KCM and Sterlite: GJ/mt of metal.
HZL (M-Mine): GJ/mt of metal in concentrate.
CMT: GJ/mt of concentrate.

Total energy use (fuel and electricity) amounted to 41 million GJ during the year. Energy conservation efforts at Vedanta in that period included energy audits and the identification of energy efficiency projects, such as the use of energy efficient equipment. The current Group policy for technology selection is based on primary energy consumption criteria, as illustrated by the following examples:

- The hydro smelter at Chanderiya uses a cathode of power 3,000 kwh/mt compared to a normal requirement of 3,435 kwh/mt of metal;
- The slag mill at Rampura Agucha mine has achieved an energy saving of over 10% during the year;
- Both HZL and Sterlite have installed waste heat recovery boilers;
- Zawar mines improved the power factor by installing an auto power factor control system and reduced specific fuel consumption in CPP by optimising its operation;
- Rajpura Dariba mines replaced the cyclone feed pump direct current drive with variable frequency drive at the cost of INR 1.35 million resulting in further energy savings;
- At Rampura Agucha mines, energy conservation drives and the implementation of recommendations from CII audits resulted in a reduction in energy consumption; major projects undertaken included the installation of AC drives in the first stage cyclone feed pumps, optimisation of the running hours of compressors, installation of a ball sorter, adopting six sigma tools and installing new screw compressor with VFD for instrument air;
- BALCO's new smelter employs a pre-baked technology wherein power consumption is 13,500 kwh/mt as compared to the VSS technology in the existing smelter that consumes 17,618 kwh/mt of primary aluminium;
- In addition to the above, the following initiatives have resulted in a reduction of energy consumption by 8 GJ/mt of product:
  - The replacement of old inefficient Vacuum pumps in RMF and HF areas in the alumina plant;
  - The replacement of energy inefficient motors in the alumina plant;
  - The installation of VFD's in the filtrate aluminate liquor pump 1 and 2 in the alumina plant;
  - The reduction of the impeller size in the identified pumps;
  - Reducing AE duration from 3.4 min to 3.0 min by better operational discipline in the smelter;
  - Introduction of dry paste preparation systems in the smelter; and
  - Using shot blasted clean studs in the smelter.
- MALCO saved 936 kwh/d of energy by installations of VFDs and saved 900 kwh/d of energy by auto control in the soda tank and dilution tank. Other energy saving projects completed included the addition of a flash drum in the auto-clave condensate circuit and a temperature control loop in the third digester and plate heat exchanger.

Sustainable Development Report continued

Sustainable Environments for Sustainable Development

Left: the SHG at BALCO tending their barren forestland into a productive farm land using alternative cropping patterns

Right: greening the environment with their tree plantation drive at Yercaud Mines at MALCO

Communities

The Other Side of Mining: Sustainability Beyond Business

This section provides an insight into our commitment to environmental and social performance with practical examples of our actions, including case studies showing how Vedanta's people contribute to sustainable development in their daily lives.

We have adopted an approach whereby we integrate environmental and social aspects of our business into our decision-making framework. For us this means a proactive participation in enhancing the quality of life in the communities in the regions where we operate.

Last year we appointed a Group CSR Manager and site-level managers to provide focus to our CSR initiatives. This year, we consolidated the process by further embedding the CSR function within the Group. We have sharpened our focus this year with each unit having an annual business plan guided by our Social Policy. Spearheaded by the Group CEO and the CSR Manager, at the corporate level, and by the respective business heads, at the unit level, each unit has a CSR department with personnel qualified in either rural development or social work. The development catalysts or field workers who are local to the area they operate in are important members of our outreach team.

These development catalysts are experienced people from within the Group who have moved roles to the CSR department and given formal training in CSR. We enrolled 25 members of the team on a 12-day 'Orientation Programme in Rural Development' at the National Institute of Rural Development. Hyderabad. At present the CSR team consists of 40 people.

Approach/How we Manage our CSR

Stakeholder engagement is the key to any successful CSR intervention. To understand the needs of the community and plan a suitable response we conducted a base-line survey and need assessment. At some places this was done internally and at others through external agencies like the Department of Social Work, Loyola College and Madras School of Social Work. We used tools like Participatory Rural Appraisal ('PRA'), personal contact programmes, village meetings and focused group discussions to map their needs. This served four purposes:

- It involved the community in identifying and prioritising their issues
- It brought to the fore the real needs of the community
- It helped effective planning, prioritisation, allocation of budgets and implementation of a holistic development plan
- It ensured stakeholder participation in the development process.

All our interventions have a three–five year sustainable perspective in line with our business planning process. We define our role as that of a proactive enabler and partner in development. We map the needs of the community and acting upon them in collaboration with those communities, Government, NGO's and INGO's.

Based on the results of the study we have developed a holistic focus in

Sharper Pencils Sharper Minds

The eldest of six children from the remote village in rural Tamil Nadu, 13 year old Karthika's biggest battle in life has been to continue her education. With girls in her impoverished community dropping out from formal education and with her father not earning, she has had to overcome many obstacles in her quest for learning. A few visits to the evening study centre conducted by Sterlite in Tuticorin changed her life.

"It was so interesting," she said. "I knew then I had to continue my education." Her first hurdle was convincing her parents.

She was not only expected to work to earn money, but also to help her mother with the everyday chores. But Karthika knew that if they were ever to improve their situation, she had to do more than fetch water and work in the fields.

Despite the odds she now attends regular school and is enrolled in class X. That she does so is thanks to her enrolment at Sterlite's evening study centre. The centre takes children who have dropped out or having problems with their education because of financial reasons or sheer lack of support and guidance for education. At the centres they are given intensive coaching, individual tutoring where need be and vocational guidance. The older ones have also been paired with the younger ones to ensure continuity of support beyond school and the study centres. It is a sentiment echoed by Karthika. "I want other children especially girls to know that one has to face challenges in life, most of all for education. This is important as without it, you can't change your life – or your world."

Women Empowerment

The Sterlite Matri Mangal Post Graduate Girls College started its journey as a centre offering skill development courses for women. Set up in 1938 at Ringus in Rajasthan, the centre today functions as a residential post graduate college. Rajasthan is one of the more traditional societies in the country where women still exist in the purdah system and accessibility to education especially for female children is still uncertain. The college is a unique story of empowerment especially given its location. Today it is a prominent education centre for girls from 65 neighboring villages. This year, with an enrolment of 746 students and 22 teachers, the college offered programmes in social sciences and humanities, science and home science at undergraduate levels. The post-graduation programmes conducted in the regional language of Hindi are popular in courses like literature, political science and public administration. Equipped with state-of-the-art laboratories and library, sports and cultural facilities, debates and festivals, the college offers a wide range of opportunities. Women graduates from the college pursue careers as home-makers, bureaucrats, professors, entrepreneurs and teachers.

community development. Our significant interventions are:

- **Social Investment** in areas which empower the social fabric of the village namely health, education and livelihood.
- **Bio Investment** which addresses the interlinked components of water harvesting, agriculture and social forestry.
- The **Environment** component of community intervention focuses on planting trees, conservation and promoting eco-technologies.

Our work usually focuses on the area within a 10 kilometre radius of our operations.

Each unit has developed a three–five year horizon for their CSR interventions which is broken down into an annual work plan. Monitoring and review of these work plans is continuous with monthly reports, internal reviews and clearly outlined indicators for success established for each activity. Third party social audits are conducted every three years.

Today our community initiatives cover 124 villages, reaching out to more than 1.7 million people within a 10km radius of our plants. These cover four States in India – Chattisgarh, Rajasthan, Tamil Nadu, Orissa and four townships in Zambia.

Citizen Partnerships

Forging partnerships with unilateral and bi-lateral organisations is important to us. We work with many corporate responsibility organisations, including:

- The Global Health Initiative to Stop Tuberculosis of the World Economic Forum
- Care India
- State governments
- Sterlite Foundation
- District AIDS Control Society
- District Blindness Control Society
- District Agriculture Department
- Government Veterinary Department
- Rotary Club
- Bright Vision Society
- Society for Selfless Social Service
- US Agency for International Development (USAID)
- International Finance Corporation
- Confederation of Indian Industries
- TERI
- District Disability Rehabilitation Centre
- Hanuman Van Vikas Samiti
- Bhagwan Mahaveer Viklang Sahitya Samiti
- Tamil Nadu Voluntary Health Association (TNVHA)
- District Health Department
- District Education Society
- NABARD
- DRDA
- Farm Science Centre (Krishi Vigyan Kendra).

BALCO and HZL are also signatories of the UN Global Compact.

Sterlite was adjudged the 'Best Corporate Blood Donor' for 2005-06 in Tuticorin District by the Tamil Nadu Voluntary Health Association for providing the highest number of blood donations from a corporate enterprise.

Our Interventions

Education

We believe education plays a vital role in moulding the future and is fundamental to prosperity. To address this need in the rural and tribal terrain where we operate, we have developed an all-encompassing approach to education with interventions in pre-school centres ('Bal Wadis'), formal schools, study centres, infrastructure and study material support along with scholarships, sports, and cultural activities for the for all-round development of children and adults alike.

Formal schooling in the rural and tribal belts only starts at the age of six. The first five years of a child's life are most crucial. Pre-school centres are run by the Group in nearly all of our units for children between the ages of two and six years to address this gap. These centres are run in partnership with the Sterlite Foundation, an NGO with expertise in this field. We operate 21 such centres at Tuticorin, Udaipur and in Orissa covering more than 800 children. Besides providing quality education through play, these centres also serve a nutritious meal each day and conduct regular health check-ups and take anthropometric measurements.

At Sterlite, we have equipped 20 existing ICDS-run pre-school centres with a kitchen, boundary walls and play materials. MALCO has built a new building for one of its pre-school centres and repaired another one. Both these centres each have 30 children attending the school. Under Project Pavarish, HZL has renovated a building and constructed new toilets for child welfare centres in two villages, benefiting 80 children.

We also run some of the best schools around our plants for children of the employees and from the community at large. At MALCO, 2,700 students study at the MALCO Vidyalaya. HZL runs five Central Board of Higher Secondary Education-affliated schools and a State Board-affiliated school in five unit locations. It caters for a population of 3,057 children of which 1,703 children came from a rural background this year.

At VAL in Lanjigarh, we run one school under the Education Guarantee Scheme of the Government for 114 children from three villages. The Kendriya Vidyalaya at BALCO is run in association with Kendriya Vidyalaya Sangathan and is affiliated to the Central Board of Higher Secondary Education. The school has 976 students and 41 staff, including 32 teachers.

Sustainable Development Report continued

Empowered Women Empowered Societies at KCM

Left: The drivers of the widows cooperative

Right: The widows in action at a tailoring session

HZL conducts the Sterlite Matri Mangal Post Graduate Girls College at Ringus. This residential college imparts higher education to 725 rural and tribal girls each. A unique facility, 82% of the women enrolled come from nearby villages, of which 46% are married.

At Sterlite, the Evening Study Centres have ensured continuity in education for children. Fifteen study centres run by college-going girls and boys reach out to 1,500 children.

Rural Talent Search, a sponsorship scheme run by the government of Tamil Nadu, enables 100 students from each District to receive scholarship of INR 1,000 each to pursue their education. The entrance exam run at the State-level is highly competitive. Each year, MALCO support this scheme by running coaching classes for students who wish to take the exam. 185 students sat the exam this year.

Scholarships to support students is a crucial part of the education programme, having two purposes – serving as a great morale booster, and ensuring continuity which might otherwise be lost due to the lack of financial resources. Across Vedanta, companies have instituted various scholarships to meet local needs. Project Utkarsh at BALCO is a State-level scholarship supporting eight students this year to pursue their engineering education in premier institutes like IIT, BITS, and NIT. In addition, BALCO supports nine schools, benefiting 3,900 children in Balco Township. We give the schools INR 50 per student up to the 8th standard and INR 100 per student from the 9th to the 12th standard as a subsidy. At Sterlite, scholarships were instituted in VOC College, Tuticorin to help five needy/meritworthy students throughout the course tenure from this year. In addition, about 1,400 school-age children in coastal and rural regions were provided with notebooks and uniforms. At MALCO, three outstanding students were supported in their engineering education. Educational materials were also donated to 51 students at a primary school in Tharamangalam and the elementary school at Thippampatti for 85 children was renovated. HZL provided scholarships for 72 outstanding students selected at District-level in Chittorgarh.

Four non-formal education centres providing basic literacy skills for adult women are run at BALCO in Korba. The classes, which operate three times a week, are conducted by trained persons from the respective villages and have 88 women enrolled.

Project Jyoti is an employee volunteer program run at BALCO. Twelve employees volunteer an hour-a-week to spend time with the tribal children teaching and mentoring them.

HZL, under the Guru Govalkar Scheme of the government of Rajasthan, has provided facilities for 27 villages. So far they have built two classrooms and constructed an 8km long link road to connect two villages. At Zawar mines, a 9km long road connecting three villages was constructed under the Pradhanmantri Gram Sadak Yojana Scheme.

HZL constructed two classrooms for a senior secondary school in Puttholi village, which caters to five nearby villages.

Sports instil a spirit of competitiveness and bonding among children. MALCO co-sponsored the Coimbatore regional sports meet for the ITI students, training for 90 sports personnel for the National Forest Sports Meet and the State-level Taekwondo Sports Meet at Salem, where 114 sports personnel from all over the State participated.

Support for community sports and recreation at Konkola Copper Mines shows that sport plays an important role in society. As such KCM has a policy of supporting the development of sports in its areas of operation. KCM also provides support on an annual basis through sponsorship of events undertaken at KCM-owned sports clubs. During the year, KCM supported the Nchanga Open Youth Golf Tournament, July 2005. The Nchanga Golf Club in Chingola also hosted the Nchanga Open Youth tournament. Ninety-five youths participated at the event. The Konkola Open Golf Tournament, September 2005 was hosted by the Konkola Golf Club at the course in Chililabombwe. The event attracted 42 players from across the country.

Chingola Arts Society ('CAS') is the most active theatrical club in Zambia. Members from the community run the club. CAS gives awards for outstanding actors and performances annually at the Banham Awards. In December 2005, KCM supported the Banham Awards, held at Chingola Arts theatre, sponsoring four out of the 17 award categories.

10 youth clubs at Lanjigarh which conduct their activities in partnership with VAL. During the year they organised two football and cricket tournaments each and five cultural programmes.

Temples are the focal meeting and bonding points for communities in the Indian culture. This year at VAL, we built seven temples in seven villages and renovated the Shevarayan temple at Yercaud. Community halls are centres for a lot of cultural and community activity. At Sterlite we supported the construction of one such centre at Madathur, contributing INR 400,000 and engineering support.

Providing Basic Education

Malco Vidyalaya is located in 12 acres of land at Mettur in Tamil Nadu. It has been in existence for more than 30 years. With a committed team of 119 staff the school's mission is to promote excellence in the field of education. It has 2,630 students, from kindergarten to the 12th Standard, of whom only 8% are the children of employees. Supported completely by MALCO, the school has been rated as one of the best schools in Salem District.

Recognising students of merit, the Deputy Chairman has instituted the "Sterlite Scholarship" an award of INR 15, 000 every year for the top three students in Plus Two examinations to pursue an education in engineering in reputable colleges in India. Another 10 scholarships are awarded to students excelling in Class X. Last year 40 students enrolled for engineering in further education colleges on merit. Students bought home awards as District champions in art and literary competition at regional level.

Ten students won the Junior Scientist award. Best teachers and students awards are also awarded. A strong Parent Teacher Association (PTA) provides strong support to the school.

Under the R&R plan at VAL 66 youths from rehabilitated families were promised employment with the Group. Most of them were uneducated and being unskilled were not employable. The youths were divided into three groups. In the first phase they were taught basic literacy in Lanjigarh by a retired school principal. In the second phase they enrolled for ITI training at a college in Bhawnipatna. In the third phase they undergo a personality training programme at Entrepreneur Development Institute Bhubaneshwar and in the last phase they will be enrolled in an internship for six months before joining the Group. Currently the first batch is in the third phase, the second batch in the second phase and the third batch is in phase one.

Celebrating International Women's Day, HZL organised a talk at its Chanderiya unit for women from nearby villages. More than 50 women participated and discussed social issues like female foeticide and girls' education.

Health

Our health programme delivers curative and preventive health services. Most of our health programmes are run in partnership with the District Health Authorities or other authorities in the field. Advocacy is an essential component of this programme. Our health interventions include Group-run hospitals, mobile health services, general and specific health camps and awareness drives.

The Group runs state-of-the-art hospitals and clinics which not only look after employees and their dependants, but also provide care for the communities at large. At HZL, we have six hospitals in six locations with a central hospital at Udaipur providing quality health care for 230,249 patients through a team of 119 qualified doctors, nurses, technicians and other support staff. Similarly at BALCO we run a 100-bed hospital with an annual patient turnover of 14,600. Two health care facilities have been set up at VAL for both employees and members of the community. The first one, a first aid centre, is at the VAL plant site and the second is a dispensary at Niyamgiri Vedanta Nagar.

An outreach component of the health programme is the mobile rural health camps which are run across the Group. These are run especially where health infrastructure is missing. At BALCO, the 187 general health camps were conducted in four villages benefiting 6,610 patients. Similarly, at VAL these camps are both general, and addressing diseases like malaria, diarrhea, skin ailments and others. More than 12,000 people took advantage of these camps and 700 children were immunised. The dispensary at Niyamgari Vedanta Nagar is a focal point for all basic health care facilities and provides for 7,200 people. HZL's camps on eye care, family planning, immunisation, yoga and pediatrics have helped more than 9,000 people. Similarly the multi-specialty clinics and outreach camps at MALCO provided quality health care to over 3,918 people. MALCO also conducted major awareness drives and screening camps covering issues like TB, AIDS, and leprosy during local festivals and fairs, reaching out to more than 100,000 people in the process. They also conducted a rally on tuberculosis along with students from the local school and organised a quiz competition on leprosy for the school children.

Under the National Rural Mission of the Government of India, more than 22,000 people took advantage of the health care mobile clinics organised by HZL and the Health Department in nearby villages. Primarily conducted on the Maternal and Child Health Day, it aimed to improve the health status of children against the six killer diseases through an immunisation drive, IFA consumption by pregnant women, counselling of eligible couples on family planning and promotion of small family norms by the distribution of condoms and oral pills in the four districts of Jdaipur, Bhilwara, Chittorgarh and Rajsamund.

We are members of the India Business Alliance to Stop Tuberculosis (TB). This initiative is a joint collaboration between the Revised National TB Control Programme of the Government of India ('RNTCP'), a Global Health Initiative of the World Economic Forum and various Indian companies. Our interventions are at two levels: at the workplace and through outreach in the community. BALCO implemented the DOTS programme in the villages via the health workers who help identify the disease and administer drug too. The MALCO Clinic at Mettur is an authorised DOTS Centre, providing care, treatment and preventive measures for TB. Fourteen patients are under going such treatment. VAL also implemented the DOTS programme in the villages.

AIDS is a problem which we are seeking to address head-on by reaching out to the employees internally, the communities around our operations, the supply chain and beyond.

Korba has 1,500 trucks onsite each day. These carry migrant populations who are at risk of HIV/AIDS this is a major risk to the community around too. We planned an HIV/AIDS awareness campaign targeting truckers and sex workers. This sought to create awareness and equip both the groups with the right information. Special awareness camps and street plays were also organised. Literature and free condoms were distributed. One-on-one counselling was offered where needed. Taking a cross-community approach, we worked with NGO's like SROUT, ASTHA, CARE INDIA, IMME and the District AIDS Control Society on World AIDS Day.

Sustainable Development Report continued

HIV/AIDS Management Programme

Left and right: The health clinic accelerating access to health interventions at KCM

Unseen Perspective

The HIV/AIDS epidemic has had a major impact on the Zambian economic and social structure. It is against this backdrop that KCM launched an HIV/AIDS Programme in 2001 that aimed at raising awareness to prevent and control the spread of HIV/AIDS. To better understand the magnitude of the threat and allow for an appropriate response, KCM commissioned an HIV/AIDS anonymous prevalence study in 2001. About 7,000 employees representing 64% of the workforce voluntarily participated. This was followed by an AIDS audit to analyse knowledge, attitudes and practices, ('KAP') and study the impact of HIV on the company. The prevalence survey revealed a severe and advanced epidemic with an average prevalence of 19.6%.

KCM planned an HIV/AIDS control programme with a mission to minimise the social, economic and developmental consequences of the epidemic to the company, employees and community in which it operates i.e. Konkola, Nchanga, Nampundwe and Nkana. In addition a non-discriminatory HIV/AIDS Policy was drawn up for employees.

In combating HIV/AIDS, various strategies were adopted like Voluntary Counseling and Testing ('VCT'), Condom distribution; Syndromic treatment of sexually transmitted illnesses; Prevention of Mother to Child Transmission ('PMTCT'); Targeted Health Education; Support and treatment of opportunistic infections; Community Outreach, and Home-based care. These strategies have been enhanced over the years:

- In 2002, KCM implemented the PMTCT of HIV with assistance from the Ministry of Health who provided the initial training and infant formula.
- In March 2004, KCM agreed to pilot the International Finance Corporation's ('IFC') Draft HIV/AIDS Guide for the Mining Sector with its stakeholders. This exercise provided an opportunity for mine supply companies to draw on KCM's expertise and experience to initiate and establish awareness and prevention programmes. The information generated during the pilot phase provided input for the production of the final Resource Handbook on HIV/AIDS, which will be used worldwide in addressing issues of the pandemic. The IFC HIV/AIDS Guide for the Mining Sector was officially launched on 1 December 2004 by Dr. Kenneth Kaunda, Patron of the KCM HIV/AIDS Programme as part of World AIDS Day celebrations.
- In February 2004, a Memorandum of Understanding was signed with the Comprehensive HIV/AIDS Management Programme ('CHAMP') to implement the Business Response for Access to HIV/AIDS Treatment ('BRAT') Programme. 122 youths were recruited in Chingola to undertake the KAP Survey for CHAMP in the implementation of the BRAT programme.
- The KCM Business Response for Access to Treatment HIV/AIDS Programme and the Voluntary Counselling and Testing Expansion and Mobilisation for Access to HIV/AIDS Treatment was launched in June 2004.
- The KCM HIV/AIDS programme was enhanced with the BRAT intervention. On 23 March 2005, KCM signed a Statement of Collaboration with the United States International Development Agency (USAID), Comprehensive HIV/AIDS Management Programme and all major Zambian Mining Companies under the Global Development Alliance (GDA). The purpose of the GDA is to provide support to HIV and AIDS workplace programmes and through these workplace programmes to the employees, dependants and identified outreach communities of the alliance partners.

The programme is completely community-based and participatory. KCM peer educaters, voluntary members from the community along with a rigorous sensitisation programme like weekend public film shows, drama presentations, electronic billboard advertising, pay slip messages, e-mail communication, messages on the intranet, CEOs monthly message, KCM weekly radio programme, Konkola news health column, and IEC's like leaflets, pamphlets, posters and banners are the key players of the programme.

Indicators like VCT uptake (monthly), PMTCT uptake (monthly), ARV uptake (quarterly), HIV/AIDS-related hospital admissions (monthly), HIV/AIDS-related deaths (monthly) and awareness (through annual surveys) are monitored closely by an internal team to assess the impact. The programme annually is assessed by external auditors too.

No effort to reduce the spread of HIV/AIDS can be effective unless the process is ongoing. Going forward we have plans to enhance the entire range of services and align ourselves with more partners. The needs are urgent, the goals are ambitious, and with our collective effort, they are also reachable.

Outreach Tools

	Total
Ratio – Peer Educators: Employees	1:49
VCT Centres	14
Training of trainers	28
Community organisers	30
Health care providers	48
Counsellers	92
Community care givers	101
Peer educators	279
ARV uptake	300
Community educaters	2,097
VCT uptake	7,004
Testing Kits	8,000
Workplace sensitisation	13,400
Community sensitisation	17,000
Educational materials	87,500
Condom Distribution	7,320,000

From a Daily Wage Earner to an Entrepreneur

2002: Sulochana Harijan, 45, was a landless widow, two sons, small hut for a house, earnings INR 20–25 per day and only odd jobs here and there.

2005: With the advent of VAL, Sulochana has a permanent roof and a rehabilitation package with an investment in post office savings giving her regular income. She enrolled to be part of a Self Help Group, namely Budhima Mahila Samiti. The group started with thrift saving of INR 50 per month. They were trained to produce phenyl and were given access to markets. After training the group marketed their phenyl to the plant and the contractors. With success came confidence and they decided to widen their activities and penetrated the local markets with branded phenyl – 'Niyamgiri Phenyl'. Today Sulochana, as the president of the group, travelling with her team members to towns to buy raw material, sell the finished product and participates in District level events to explore further markets and advocate hygiene and sanitation. Her monthly earnings have improved from INR750 to INR1,000 with opportunities to enhance it further.

KCM is also involved in the fight against HIV/AIDS. They have a policy on HIV/AIDS that protects the confidentiality of employees' status, the employee's right to work and benefits irrespective of their status and prohibits discrimination. In combating HIV/AIDS, the following strategies have been developed: voluntary counselling and testing ('VCT'); condom distribution; syndromic treatment of sexually transmitted illnesses; prevention of mother to child transmission ('PMCT'); targeted health education; support and treatment of opportunistic infections; community outreach; and home based care. To date, 2,810 people have accessed the VCT services. Awareness and prevention campaigns were undertaken through public film shows, one-on-one peer dialogue and one-to-one counselling. Since August 2005, 53,331 people have attended the public shows, of whom 50% are below 15 years of age. KCM has also signed a Statement of Collaboration with the United States International Development Agency ('USAID'), Comprehensive HIV/AIDS Management Programme and all major Zambian Mining Companies under the Global Development Alliance ('GDA'). The purpose of the GDA is to provide support for HIV and AIDS programmes and through these workplace programmes for employees, dependants and the wider communities.

The Take Home Ration ('THR') programme is a State government scheme administered by the VAL team. It is a nutrition programme for the pregnant and lactating mothers and children between the ages of zero and six years. THR camps are run weekly in all the villages. During the camps children are examined for general health, anthropometric measurements are taken to monitor growth and immunisation is provided by doctors from the VAL team. Mothers are also immunised and given iron tablets and a nutritious ready-to-eat mix. This mix, which comes from the Government of Orissa, consists of Orimix – a mixture of powdered grains, pulses and vegetable oil. 76 such camps were conducted attended by 2,054 mothers and 1,770 children.

At VAL, 30 people were fitted with lower artificial limbs popularly known as Jaipur Foot in India and 23 tricycles were also distributed. This project was a collaborative effort between Bhagwan Mahaveer Viklang Samiti, the District Disability Rehabilitation Centre and VAL.

Cataract surgeries have been found to be a boon in most areas enabling many people to become independent again. At BALCO 212 cataract surgeries were performed and, in an eye camp in collaboration with the District Blind Control Society, 57 cataract operations were performed at HZL and 12 at VAL in collaboration with the Rotary Club.

MALCO's cardiology camp conducted in partnership with Adyar Heart Foundation, Chennai was attended by 607 people. All of them were given blood sugar, cholesterol, ECG, echo scans and physical examinations by the cardiologist. Fourteen adults and seven children were referred for further treatment. We also sponsored open heart surgery for two children identified during the cardiology camp in

Redefining agriculture as a profitable venture with project Kadambari at BALCO

Sustainable Development Report continued

'...Work with communities to contribute to their development...'

Vedanta HSE Policy, June 2005

collaboration with the Pondichery Heart Foundation. More that 12,000 patients suffering from cardiac ailments were provided treatment at Hindustan Zinc Cardiology Centre, Udaipur by HZL.

During KCM's annual Roll Back Malaria Programme, prevention and treatment go hand-in-hand. Last year, this programme covered more than 36,500 households within a 10km radius of Chililabombwe, Chingola and Nampundwe and part of Kitwe. The programme involved anti-malaria spraying, drainage clearance and grass cutting in partnership with the community and the National Malaria Control Centre. The KCM Roll Back Malaria Programme has been adopted as model for malaria eradication in Zambia. This year the programme commenced with an indoor residual spraying exercise. In readiness for the campaign, Konkola Copper Mines, in partnership with British Petroleum trained eight trainers. To eliminate mosquito breeding sites and promote the maintenance of clean surroundings, KCM introduced a garden and house competition for communities in all of the towns in which it operates. All of the 42 townships within the KCM areas of operation were encouraged by the 132 Community Educators to participate in the competition. A total of 1,187 houses entered the competition from which 45 were declared as winners.

During the year, more than 5,000 people benefited from Sterlite's rural health clinics operating in the villages of Madathur, Milavittan, Therkku Veerapnadiyapuram and Kayaloorani. These centres are run two days per week and offer free screening, medication and referral services for general diseases. In chronic cases patients are referred to the District or City hospital. A medical team of a doctor and a paramedic from Sundaram Arulraj Hospital conduct the clinics in all of the villages. Two TB cases were identified and referred for treatment at Tuticorin Government Hospital from the Madathur Rural Health Centre. The first clinic was set up in 1997 in response to the need for quality health care for the villagers. An impact study conducted in March this year showed a marked improvement in the overall health status of the villages and in the availability of care. Sterlite has also equipped three primary health centres ('PHCs') with a deep freezer and autoclave machine for sterilisation, financial assistance for ambulance repair and electrification of the family planning operating theatre. It also conducted a public relations campaign and arranged for PHCs to promote the Pulse Polio Campaign in order to maintain 'Polio Free Zone' status in our area of operation.

MALCO has set up a blood donors' club. The club maintains the database of 100 voluntary blood donors in the region who can be called on during emergencies.

Advocacy of good sanitation and hygiene is an important component of the health programme. At VAL in order to strengthen this, specific sanitation drives were conducted in every village with activities like a cleanliness drive, promotion of the use of mosquito nets, and importance of being hygienic. Proper drainage systems are crucial in maintaining hygiene and sanitation.

Women members at Sterlite mapping their village and issues using the Participatory Rural Appraisal tool

Widows Entrepreneurship Project – KCM

Widows and orphans are a vulnerable group. Some widows are responsible for an average family size of eight members per household with little or no income. Most widows are engaged in low-income activities such as seasonal agriculture and the sale of cash crops at local markets. The income generated from these activities is barely adequate to support their families, with some families failing to provide even for their children's education, leading to school drop-outs.

It is against this backdrop that in 2005 Konkola Copper Mines undertook a project to assist widows of ex-mine employees in establishing an income-generating project through the provision of skills in tailoring and design, as well as business management. KCM contacted the widows of former employees from 2000 to date and 188 women expressed an interest in the project with 85 women from Chingola and Chililabombwe being selected for the programme. These women attended the training on a part-time basis over a six month period. They formed a co-operative known as the Fipelwa na Lesa Co-operative, which means "God given". The co-operative will:

- assist widows of deceased mine employees to set up an income-generating project;
- offer life skills for personal and professional growth; and
- train widows in skills like tailoring and design for manufacture of PPE for KCM.

The Don Bosco Youth Training Centre a Chingola-based Catholic institution was identified to provide training for tailoring and design. The six-month course was conducted at two training sites – The Don Bosco Youth Training Centre and the KCM Lower Trust School in Chililabombwe. The trainees in Chililabombwe use the nine sewing machines donated by KCM whilst those in Chingola use machines provided by the training centre.

Participants also learnt the art of tie-and-dye, a method of fabric design which is highly popular in traditional wear. On completion of the programme, a review found the need for a further one-month refresher course. After skill-training, the group enrolled on a business management programme with the Don Bosco Youth Training Centre to learn the art of running a business. The group has now formed a working co-operative in garment manufacturing and obtains business contracts through KCM and other clients. KCM provided administrative services for the formation of the business enterprise, linking them to the company's procurement system. The programme has now been extended to another group of widows.

Four drains were constructed at VAL in the rehabilitation colony. At MALCO a public toilet was constructed for women at Ramamoorthy village and at Karumulaikoodal High School. The school has 550 students of which 250 are girls.

Defecation in open spaces is common in rural areas, resulting in the spread of infections and diseases. The merits of using a flush toilet were therefore communicated to the villagers at Rogbahary. A partnership programme was developed with the help of the beneficiaries and the panchayat and 32 households came forward to build flush toilets in their household area. BALCO and the panchayat supported this project providing expertise and building materials, while the facility owners contributed their own labour.

At BALCO 10 community volunteers from six villages were trained in first aid to serve as Swasth Mitra or health supporters. They are provided with basic first aid kits and equipped to address basic health problems for the villagers.

Potable water is another major problem in most villages. At BALCO in Roghbary village, a 7,000 litre water tank was built and street taps placed at common locations to address this problem. The project was implemented in collaboration with the Gram Panchayat, Jal Nigam, Korba and BALCO. MALCO supplies 800,000 litres of potable water per day to five villages through pipelines. HZL on the other hand supplied 48.6 million litres of potable water to 29 villages with a total population of over 40,000. VAL installed eight hand pumps thus making safe drinking water accessible. Under the Central Government Scheme of Swajaldhara Drinking Water Project, Sterlite contributed INR 714,000 on behalf of the community. The total outlay of the project is INR 86.4 million. This project is expected to provide drinking water to 20,000 people in 43 villages on completion. Sterlite also provides 10,000 litres of drinking water to Milavittan village by tanker, benefiting 100 families each day.

At BALCO under NAL-JAL Yojna drinking water facility was provided for 200 school children in Dhondro village. These children would drink water from the village well, which was not only unsafe but hazardous too. A drinking water facility has now been created in the school premises providing a 2,000 litre tank with multiple taps. The water is sourced from a local well with the help of a submersible pump.

The trauma centre at BALCO built at a cost of INR 8 million is equipped with an ICU and an emergency trauma care centre. The new centre has five beds which are remotely controlled and centrally supervised with individual life support systems. Surgery can also be performed in the beds which can be converted into cabins in less than a minute .The centre is also supported with a state-of-the-art ambulance, which can be converted into an operation theater in case of emergencies.

Under the Total Sanitation Campaign of the Government of India Project, HZL has assisted in the construction of five public toilet complexes in nearby villages catering for a population of 5,000 people. HZL contributed INR 2 million out of a total cost of INR 10 million.

Livelihood

Rural people are moving out of natural resource-based occupations. These transitions are neither simple nor painless. Looking at ways to enhance their livelihood the self help group model seemed most appropriate and effective. At the heart of these interventions is the need to gain access to new resources and opportunities and to climb out of poverty.

At KCM widows of former KCM employees at Zambia have been mobilised to form a co-operative. The co-operative manufactures and supplies protective clothing to KCM. KCM has donated nine sewing machines which are used to train the women. The training covers tailoring, business management and accessing finance for the enterprise. The programme attracted 85 women and Don Bosco Youth Training Centre of Chingola was identified as the trainer in tailoring and design for the widows. The training lasted six months and was held on three days a week. The business management aspect of the training will commence soon.

Our interventions in micro-enterprise through the Self Help Groups ('SHG') have been doing well and are poular with the local population especially the women. Each group has between 10-20 women members. The project is conducted in four phases; the formation of the SHG; thrift saving for six months; the entrepreneurship development programme; and an income generation programme including intensive marketing support to ensure the sustainability of the enterprise. Once credibility has been established, microfinance from a bank for the enterprise is relatively easy to obtain.

At Tuticorin, we have partnered with Mahaliar Thitam and six NGOs for the Sterlite Women Empowerment Project. We are working with 121 SHG's and 1,815 women members with savings of INR 840,000. More than 43 SHG's are linked to some form of income

Sustainable Development Report continued

The 20 metre long water channel linking the check dam to 21 acres of farm land at BALCO and the embankment is also the venue for the plantation of 30,000 Jatrophas

generation activities like prawn pickle making, chitin preparation, ornamental fish breeding, fish noodles, candle making, rabbit, goat, pig and poultry rearing to name a few.

At HZL, 690 women have been trained for micro-enterprise management and are part of 35 SHG's. Currently they are in the thrift saving stage. All our development interventions on the ground are conducted through SHGs where training is provided for the job on the job. The entire process is monitored and supervised by a three-tier village structure being the SHG's committee itself, the panchayat and the CSR team.

In this regard, workshops were also jointly organised with NABARD Gram Panchayats Polytechnic College and District-level government agencies to highlight the effectiveness of SHG's as a workable strategy for poverty alleviation.

At BALCO, two SHG's have been set up to make papad (an Indian delicacy) and dona (bowls made from leaves). The papad-making group sells their products in the local market and also have a long-term contract with local schools for the midday meals programme. They thus have an average monthly income of INR 1,200 per member. The other group produces 1,000 donas a day with two machines installed. They have a buy-back arrangement for the machines with the machine supplier and earn INR 600 per month.

A third SHG with 15 members are currently undergoing training on sewing and stitching.

At VAL, 22 self help groups with 346 members were trained in thrift saving. Of these, two groups have been involved in phenyl and spice making. Another SHG produces detergent powder which is marketed by the Bright Vision Society. The group has branded the product as 'Style' with a punch line of 'style mein dhone ka, style mein pahene kaa', which means, 'wash it in style wear it in style'. The monthly revenue of the members is between INR 1,100–1,500. The other 19 groups are currently in the thrift saving phase. In the coming months they will form an income generation enterprise based on their interest and skill. A core aspect in exploring different livelihood measures is connectivity. At VAL we have developed five roads, 24km long, and concreted five internal roads, 1km long, to make services accessible. These infrastructure improvements have helped us to provide direct and indirect employment to around 3,000 people.

Bio Investment

At BALCO, land and water resources are plentiful. Project Kadambri is an initiative to revitalise agriculture. The tribal farmers of the villages generally take one paddy crop annually. We enrolled three non-functional SHG's to explore vegetable and fruit cultivation, floriculture and bio-diesel plantation possibilities. The programme was launched in collaboration with an agronomist from the District Horticulture Department. Three awareness technical workshops were conducted with 245 farmers. The farmers were introduced to agricultural best practice like the use of improved seeds, modern tools and techniques and crop protection through pesticides.

Hybrid seeds were distributed to 200 farmers to be used on 15 acres of land. The groups were involved in different projects. One of the groups worked on two model plots where they cultivated 100 papaya and 50 lemon plantations. Another SHG identified seven acres of barren forestland in their village for cash crops like vegetables and floriculture and bio-diesel using jatrophas. A first in the District the farmers today earn over INR 5,000 per month. Facilitating the process, further a 20-metre long water channel was constructed to supply water from the check dam to the fields via a three kilometre long channel, the embankment of which is being used for the plantation of 30,000 jatrophas.

HZL trained 50 farmers in vermicompost; an organic manure which is used in their own fields and sold in the local market.

HZL also planted 2,200 trees at the Dudh Talia in collaboration with the Forest Department under the Social Forestry Programme. HZL will tend for the plants for three years before handing it over to the Forest Department.

Veterinary camps are a common need of most villages. HZL, in joint collaboration with the Department of Animal Husbandry, helped to immunise 20,000 animals and provide minor surgery treatment. Simultaneously, through personal contact programmes and IEC materials, the villages were provided with prevention mechanisms against seasonal infection and effective guidance on cattle nutrition practices.

The Mansi Wakal Dam

HZl has been an active player in the construction of the Mansi Wakal Dam. A mammoth undertaking of the government of Rajasthan catering for the drinking and irrigation water requirements of the city of Udaipur and the nearby areas. HZL contributed INR 9.4 million out of a total expenditure of INR 31.1 million. Apart from financial assistance, HZL also provided technical expertise.

Bringing Natural Resources and Skills into Play

The Sterlite plant is located in the coastal region of Tuticorin in Tamil Nadu. Integration and innovation are the two key words which describe this project. Kadal Tamira Justice Self Help Group is an empowered group of women. When looking at possible enterprises, they were clear that they wanted to use the locally available resources, their own skills and something that could be easily consumed in the local market for their enterprise. Thus the idea of setting up a prawn pickle making unit was born. Though proficient in the art of cooking, the women felt the need for professional training in the art of pickle making to ensure quality, standard and scaleability. The group underwent 15 days of intensive training on seafood processing with the Fisheries College, Tuticorin.

The group would never have become a model for others had they suppressed their business acumen. For home makers like many other women in the village, life changed when they took on the job of making and selling prawn pickles. A group of accomplished entrepreneurs their monthly production of 15 kg supplies a select customer base of bank employees and school teachers.

"Sterlite's support and entrepreneurship development training have given these women the confidence to venture into economic activities to supplement family income and even be sole bread earners. They now need further guidance on branding and market opportunities." comments Ms. Jayarani, Director, Justice Mahalir Munnetra Iyakam, one of the partner NGOs.

The Nampundwe population at KCM is made up of cattle farmers. The water supply in Nampundwe was previously erratic which meant that the farmers had to walk as far as 25km to find water for their cattle. KCM assisted the farming community by constructing animal drinking troughs near the tailings dam. The newly constructed animal troughs feed 1,000 cattle. The troughs are located near the community.

KCM has continued its agribusiness programme to help KCM employees and retirees undertake smallholder farming to provide a sustainable livelihood wealth creation, food security and alternative employment. Beekeeping and honey production was undertaken under a Global Development Alliance that KCM forged with various agricultural based organisations. The Zambia Agribusiness Technical Assistance Centre (ZATAC) conducted training in beekeeping and honey production for participants under the Agribusiness Scheme. 36 employees, former employees and dependants took part in the training. Technical and field services were provided by Environment and Development in Zambia ('EDZ'), an enterprise that specialises in providing technical and marketing services for beekeeping/honey production.

Some 80 farmers enrolled in a paddy and vegetable cultivation programme at VAL. They were encouraged to test their soil to understand the cropping preferences and deficiencies. 25 of them opted to grow variety of vegetables. The results were a two-fold increase in their earnings. The other 55 farmers intensified their efforts with paddy and wheat and had 1.5 times more yield compared to their previous harvest.

Environment

A workshop on alternate and non-conventional energy sources was organised for 60 farmers with ten farmers installing gobar gas plants. Through a tri-partite partnership, the beneficiaries have contributed their labour and raw materials like bricks, cement and sand, BALCO have provided skilled labour especially masons and engineers, and CREDA ('Chattisgarh State Renewable Energy Development Authority') provided with technical expertise and equipment.

5,000 saplings have been planted under the road side plantation and school campus plantation programmes at HZL.

MALCO conducted a major drive at Yercaud to de-weed and de-silt the lake to remove all the water hyacinth spread across the lake. Also as part of the Green Yercaud programme, they planted saplings on open areas in the town. 8,000 saplings were also distributed as part of the campaign at Yercaud and 6,600 saplings were distributed at Kolli Hills.

In a green drive at VAL, the company and villagers, planted 40,000 trees across 40 acres, augmented by two environment awareness camps on plant protection and nursery development. The communities have plans for developing orchards in the region. The nursery developed in-house will provide with quality saplings.

Sterlite provided 775 trees planted by students from Kamaraj College and local NGOs.

External Audits

VAL has involved the Asian Institute for Sustainable Development ('AISD') in collaboration with Xavier Institute of Social Service ('XISS') Ranchi to study the socio-economic status of the rural communities in 75 villages situated in the close proximity to its industrial operations in two districts namely Kalahandi and Rayagada.

LEAD India, an associate of LEAD International organised a Global Training Session ('GTS') for the first time in India. The objective of the GTS was to sensitise LEAD associates on water governance, forest governance and corporate social responsibility. BALCO invited the LEAD associates for a site visit and gave them a first hand experience of the CSR activities at BALCO. A group of 17 LEAD associates from various countries like Russia, Mexico, Malaysia, Zambia, Nigeria, Brazil, Indonesia, China, Holland, Nepal, and India participated in an interactive session with SHGs in village Dhondru. The team members were given information about Project Kadambari, its concept, sustainability, marketing and impact on their lives. The members expressed a desire to know more about the jatropa plantation. The Group also had a glimpse of AID awareness programme being carried out by our village teams through street plays. The ladies from the group took part in the Karma (tribal) dance.

Sterlite engaged the Department of Social Work, Loyola College to conduct a social audit of their CSR initiatives in March this year. The study was conducted across a cross section of 1,050 respondents from 11 villages within a radius of 10 kilometres of the plant. The key points the study highlighted were:

- Most of the Sterlite's initiatives are need-based and make a meaningful contribution to the community.
- The Sterlite Study Centre is the most popular programme .
- The rural health centres are much appreciated by the community.
- The SHG's are well established in the thrift saving phase and there is a marked improvement in the quality of their lives as a result.
- 77% of the respondents rated Sterlite's initiatives as very useful.

Sustainable Development Report continued

Health for all through the mobile health camps at VAL

Going forward, there is a need to move towards making the communities in the neighbourhood more self-sufficient and self-reliant. Towards this there should be value-adding additions to the current programmes along with some new initiatives. Some of the recommendations put forward by the villagers and the college were: focused social mobilisation in villages where Sterlite's presence is weak; vocational guidance for children in class IX and above; computer classes; issue-based doctors to be made available at the health centres along with extending their reach; potable water to be made more accessible; linking SHG's to livelihood; livelihood enhancement and youth development programmes.

Future Objectives

We will continue to focus on our mission of working with communities to contribute to their sustainable development. Our ongoing sustainable development efforts are driven by a realisation that we are both a user and a contributor to the eco-systems within which we operate. Going forward we will therefore adopt, where practicable, new technologies and best practices in anticipation of eco-system changes, in order to manage our operations, business performance, environmental and social sustainability and our market reputation.

Awards and Recognitions

During 2005-06, many of our operations received awards and commendations for their contribution to aspects of sustainable development. These were received at local, regional and national levels. Some of the significant achievements include:

HZL

Rampura Agucha Mine

- National Energy Conservation Award for 2005 in Mining Sector to Rampura Agucha Mine by the Ministry of Power, Government of India. This is the first ever award given under this category.
- Excellence Award at the 16th Mine Environment and Mineral Conservation Week under the auspices of Indian Bureau of Mines, Ajmer.
- Overall first in the mechanised open cast mines category in Ajmer region.
- Silver Greentech Safety and Environmental Excellence Award for 2005-06.

Rajpura Dariba Mine

- Placed overall second in the underground mine in Udaipur region under the aegis of Directorate General of Mines Safety (Northern Zone), Ministry of Labour, Government of India.

Zawar Mine

- Placed overall first in underground mine in Udaipur region under the aegis of Directorate General of Mines Safety (Northern Zone), Ministry of Labour, Government of India.
- Appreciation Certificate for Safety in the metal sector by the Greentech Foundation for 2005-06.

Vizag Smelter

- Andhra Pradesh government award for best management for 2005 for outstanding contribution in the maintenance of industrial relations, social welfare and productivity.
- Greentech Platinum Award for Safety in the metal sector by Greentech Foundation for 2005-06.
- Greentech Silver Award for Environmental Excellence in to metal sector by Greentech Foundation for 2005-06.

Delivering Value with Recycled Water

This is a story of four brothers from Kotri village in the Rajsamand District in Rajasthan. At a village meeting the one agenda item which took precedence was the issue of livelihood of the four brothers. Though the brothers owned 10 bhigas of land they were unable to cultivate it as the village had suffered from drought for the previous three years. With no other means of irrigation and with only odd jobs for income they were unable to meet the needs of their family of 27. One of our Group's executives who was part of that meeting proposed diversion of the used water from the 485 houses in the village, in order to help them till their land. The idea was well received and a committee of 10 members including the HZL representative and civil work experts set to work. They surveyed the area to understand the problem, identify a solution and check its feasibility. It was found that the village had the facility to store 190,000 litres of water for the village. 150,000 litres was used daily of which 75,000 litres could be collected and re-used. It was decided to construct a 1,000-metre water channel to divert the water to the 10 bighas land of the four brothers. The Gram Panchayat and HZL jointly constructed the channel. The four brothers were asked to pay INR 4,000 as a usage fee. The brothers have taken three crops this year along with vegetable cultivation on nine bhighas and fodder on the remaining one bhiga. They have now set up two more enterprises. They supply 15 litres of milk daily to the villages and manufacture and supply vermicopmost-organic manure. Their revenue today is now INR 8,000 per month.

Redefining Cropping Patterns

Dhondro village is situated on the northern side of BALCO plant and is inhabited by tribal people. The land in the village is undulating and deprived of irrigation. There is a stream flowing through the edge of the village, which has its source in the adjoining forest. The villagers take only one crop during the year. During the mapping exercise with the stakeholders it was observed that there was abundant land and water in the village. Project Kadambri was conceived to optimise these resources through a sustainable development programme.

Village Development Committee and Self Help Group

Two hundred men and women from the village participated in the meeting to form the Village Development Committee ('VDC'). It was decided that the VDC would be responsible for the overall socio-economic development of the village. One of the projects identified was a change in the cropping pattern from paddy to floriculture and vegetable cultivation to cashcrops. Christened as Project Kadambari eight members got together to form an SHG for the project.

Resource Identification

A dead bore well was revived for irrigation. Seven acres of barren forestland in the village was procured from the Forestry Department with the intervention of the panchayat and the Van Samithi. For technical inputs it collaborated with the District Horticulture Department. Awareness/technical workshops were conducted for the SHG members who were introduced to best agricultural practice, like the use of better quality seeds, modern tools and techniques and crop protection using of pesticides. Vegetable and floriculture was promoted on 50% of land with plantation of 4,000 jasmine bulbs, 3,000 rose saplings, and two kilogrammes of marigold seeds. On the other half, 4,000 jatropha trees were planted, providing an excellent source of bio-diesel and also having medicinal applications too.

Ensuring Sustainability

With support from the BALCO team, the functional group laid rules for governance and sustainability:

- One person per family would work on the field daily for five hours.
- In cases of absenteeism during emergencies, the member would have to provide the secretary with a valid reason for their absence.
- Members could take 15 days leave annually. Leave above 15 days would affect their share in the profit.
- 20% of total profit will be deposited in the bank account of the group as a corpus fund.
- A monthly review meeting would be organised with the BALCO team.
- Total transparency in the accounting system. All records for purchase, sales and quantity produced would be clearly maintained.
- Each member was to guard in the field at night for protection on a rotation basis. A roster for the same would be maintained by the secretary.

The group is now engaged in farming the whole year round, has a market for the produce in Korba itself, is self sustained and earns INR 5,000 per month. The scope of their work keeps growing.

Chanderiya Lead and Zinc Smelter

- Greentech Bronze Award for Safety in the metal sector by Greentech Foundation for 2005-06.

BALCO

- Winner of Silver Award in mining and metal sector for outstanding achievement in safety management by the Greentech Foundation.
- BALCO mines at Mainpat was the recipient of the following awards from the Director General of Mines Safety (DGMS), Bilaspur region:
  - Third prize in over all performance in safe mining practices
  - First prize in explosive handling
  - First prize in lowest LTIFR in mining sector.

MALCO

- Received Best Social Work award by Tamil Nadu Social Welfare Minister
- Placed first in excellent water efficient unit at national level and third in leadership and excellence in HSE in southern region, awarded by CII for 2005
- Commendation Certificate for strong commitment in the national level competition for the Sustainability Award for 2006.

Sterlite

- International Safety Award for 2005 from British Safety Council
- Greentech Silver Award for Safety in the chemical sector by Greentech Foundation for 2005-06
- CII award for 'Excellent Energy Efficient Unit'

Future Goals

The past year has taken us through a stage of strengthening our policies and long-term strategies to bring our sustainable growth in harmony with our communities and nature. We plan to consolidate these achievements further and set higher targets for the future years.

Nurturing the environment in the plant premises – the lush green unit of HZL at Chanderiya

Sustainable Development Report continued

PRICEWATERHOUSECOOPERS

Independent Assurance on Sustainable Development Report for 2005-06

1. Background and Responsibility:
At the request of Vedanta Resources Plc. (the "Group"), we have reviewed the Sustainable Development Report (the "Report") for the period 1st April 2005 to 31st March 2006 relating to performance on Occupational Health, Safety and Environment ("HSE"), with a view to provide independent assurance on the non-financial information contained in this Report.

The Management of Vedanta is responsible for the collection and presentation of information on HSE performance in the Report. Our responsibility, is to express conclusions with limited assurance on HSE performance of the Group as contained in the Report in accordance with the International Standard on Assurance Engagements 3000 ("ISAE 3000").

2. Scope of Review:
The scope of the review included:
- verification of primary information on statements and data relating to Vedanta's HSE performance through site visits to BALCO (Korba Complex), HZL (CLZS Complex at Chanderiya and Zawar Mining Complex) and Sterlite (Tuticorin) and providing limited assurance in respect of these statements and data;
- checking of monitoring and reporting procedures to support reliability of disclosures made in the Report;
- assessment whether the Report provides an appropriate representation of existing policies on HSE;
- checking of data on the following indicators:
- Lost Time Accidents
- Occupational Health
- Energy (generation, consumption and conservation)
- Water (withdrawn, consumed, recycled and discharged
- Air emissions
- Waste Management
- Training by type

3. Approach:
We planned and performed our work in accordance with the ISAE 3000 to obtain limited assurance. We sought all information and explanations that we considered necessary to provide us with sufficient evidence for ascertaining that the above mentioned indicators were consistent with the activities in the units for the period 1 April 2005 to 31 March 2006, and were documented and stated in accordance with the guidelines stated under their HSE policies.

4. Parties responsible for Assurance Engagement:
The assurance engagement was completed by PricewaterhouseCoopers (Pvt.) Ltd's multi-disciplinary team with requisite skills and experience on similar engagement, and was led by Dr. P. Ram Babu, employed with PwC with over 26 years of experience in Corporate Sustainability Management and Reporting Systems.

5. Conclusion:

a) The senior management is committed to sustainable development and believes in achieving progress by contributing to the basics of life in harmony with nature; this is further discerned from the fact that HSE governance is an issue of very high concern and regular reviews of HSE performance are undertaken.

b) The tone set at the top on HSE performance improvement has resulted in the establishment of a robust HSE business planning and reporting process which is being cascaded from the corporate to the different operational units; specific objectives and targets have been set to articulate Vedanta's business priorities, which include sustainability issues; however, Vedanta may consider expanding the scope of its report to include additional HSE key performance indicators relevant to the Group's processes and operations.

c) During our review, we have not noticed any misstatement and we can state that:

- the information cited at HSE indicators relating to lost time accidents, occupational health, energy, water, air emissions, waste management, and training in the Report has been fairly stated; and

- the Report presents a fair and balanced account of Vedanta's material HSE performance.

PricewaterhouseCoopers Pvt. Ltd.
Mumbai, India
May 18, 2006

Board of Directors







1.	2.
3.	4.
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7.	

Vedanta Resources' Board of Directors is chaired by Anil Agarwal. The other members of the Board are Navin Agarwal, Kuldip Kaura, Naresh Chandra, Aman Mehta, Shailendra Kumar Tamotia and Euan Macdonald.

EXECUTIVE DIRECTORS

1. Anil Agarwal, aged 53 (N*)
Executive Chairman

Mr Agarwal, who founded the Group in 1976, is also Chairman of Sterlite and is a director of BALCO, HZL, and Vedanta Alumina Ltd. Since 1976 the Group has grown under his leadership, vision and strategy. Mr Agarwal has over 30 years experience as an industrialist.

2. Navin Agarwal, aged 45
Deputy Executive Chairman

Mr Agarwal is also Executive Vice-Chairman and director of Sterlite, Chairman of KCM and MALCO and a director of each of BALCO, MALCO and HZL. He joined Sterlite at its inception and the Board of Vedanta in November 2004.

Mr N Agarwal is the chairman of the Executive Committee of Vedanta. In this capacity, he is responsible for overall delivery of the Group's strategy, including the overall development of the new green- and brown-field projects, in organic growth opportunities including joint ventures and alliances, the strategic treasury and fund raising initiative and global investor relations, as well as augmenting and managing the top talent of the Group.

Mr Agarwal has also been instrumental in globalising Vedanta's business and operations. He was actively involved in the internal growth and expansion of the Group's business in Australia and Zambia. He actively led Vedanta's succesful listing on the London Stock Exchange in 2003.

Mr Agarwal has over 20 years experience in strategic and operational management. He received a degree in Commerce from Sydenham College, Mumbai, India and has participated in the Owner/President Management Programme at Harvard University, USA.

3. Kuldip Kaura, aged 58 (H)
Chief Executive

Mr Kaura is also Managing Director of Sterlite and Deputy Chairman of KCM. Mr Kaura, who joined Sterlite in 2002, was managing director of HZL and became the Chief Operating Officer of the Company at its inception. He is also a director of HZL, Vedanta Alumina and KCM and has held various positions in operations and business management at ABB India. Mr Kaura was a member of the board of directors of ABB India from 1996 and was appointed Managing Director and Country Manager of ABB in 1998. Mr Kaura has a degree in Mechanical Engineering (Honours) from the Birla Institute of Technology & Science's in Pilani and Executive education at London Business School & IFL, Sweden.

NON-EXECUTIVE DIRECTORS

4. Naresh Chandra, aged 71 (A)(N)(R*)

Mr Chandra joined the board in May 2004. Mr Chandra was Home Secretary in India in 1990, Cabinet Secretary from 1990 to 1992, Senior Adviser to the Prime Minister of India from 1992 to 1995 and the Indian Ambassador to United States of America from 1996 to 2001. He was Chairman of the Indian Government Committee on Corporate Governance & Audit from 2002 to 2003 and is currently Chairman of the Committee on Civil Aviation Policy. Mr Chandra has a Master's degree in Mathematics from Allahabad University.

5. Aman Mehta, aged 59 (A*)(R)

Mr Mehta, a senior banker, joined the board in November 2004 following his retirement from HSBC where he had a career spanning 36 years. He held numerous positions, including that of Chairman and Chief Executive Officer of HSBC USA Inc. (the New York based arm of HSBC Holdings plc), and as Deputy Chairman of HSBC Bank Middle East, based in Dubai with responsibility for the HSBC Group's operations in the Middle East. In 1999, Mr Mehta was appointed Chief Executive Officer of the Hong Kong and Shanghai Banking Corporation, a position he held until his retirement. Mr Mehta has a degree in Economics from Delhi University. He now resides in Delhi and is a member of a number of Corporate and Institutional Boards in India as well as overseas.

6. Shailendra Kumar Tamotia, aged 66 (H*)(N)

Dr Tamotia, an aluminium specialist, joined the board in November 2004. He started his career in 1962 with an initial appointment at Bhilai Steel Plant in Chhattisgarh. Dr Tamotia held numerous positions at NALCO from 1984 until 1996, including Chairman and Managing Director in 1993. He was also President and Chief Executive Officer of Indian Aluminium Company Ltd from 2000 until 2004. Dr Tamotia has an Honours degree in Civil Engineering, a Master's degree in Engineering, Soil Mechanics and Foundation Engineering.

7. Euan Macdonald, aged 66 (A)(N)(R)

Mr Macdonald spent over 20 years with SG Warburg, specialising in emerging market finance. From 1995 to 1999, Mr Macdonald was Chairman of SBC Warburg India, responsible for all the bank's activities in India, and from 1999 to 2001, he was Executive Vice Chairman of HSBC Securities and Capital Markets, India. Mr Macdonald has a degree in Economics from Cambridge University and a Masters degree in Finance and International Business from Columbia Business School.

(A) Member of the Audit Committee
(H) Member of the Health, Safety and Environment Committee
(N) Member of the Nominations Committee
(R) Member of the Remuneration Committee
(*) Committee Chairman

Executive Committee

Expertise, knowledge and teamwork

Executive Committee
The Group's Executive Committee is chaired by Navin Agarwal. Its other members are Kuldip Kaura, Tarun Jain, TL Palani Kumar, DD Jalan, T Venkatesan, MS Mehta and CV Krishnan.

Tarun Jain, aged 46
Director of Finance, Sterlite
Mr Jain is also a director of BALCO, MALCO, HZL and Sterlite. He is also responsible for strategic financial matters at Group level. Mr Jain has been with Sterlite since 1984 and is a graduate of the Institute of Cost and Works Accountants of India, a member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India.

TL Palani Kumar, aged 56
Managing Director, BALCO
Mr Palani Kumar is responsible for the Aluminum Business and joined the Group in July 2003. Prior to joining the Group, Mr Palani Kumar was the Managing Director and CEO of New Holland Tractors (India) Private Ltd, which is part of the Fiat group. Mr Palani Kumar also held the position of, Executive Director and CEO of Escorts Tractors Ltd. He previously held senior management positions with Tube Investments of India Ltd and Asian Paints (India) Ltd. Mr Palani Kumar has a degree in Chemical Engineering from the Indian Institute of Technology, Madras and a Master's degree in Business Administration from the Indian Institute of Management, Ahmedabad.

DD Jalan, aged 49
Chief Financial Officer, Vedanta Resources
Mr Jalan joined Sterlite in 2001 as President – Australian Operations, responsible for TCM and CMT mines. He has over 27 years of experience with various companies in the engineering, mining and non-ferrous metal sectors. Mr Jalan has been associated with the Aditya Birla Group in various capacities and, from 1996 to 2000, was in charge of commercial and financial activities at the copper smelter business of Indo-Gulf Fertiliser Ltd. Mr Jalan is a member of the Institute of Chartered Accountants of India.

T Venkatesan, aged 53
President of Sterlite, Copper Division
Mr Venkatesan is a director of Vedanta Alumina with responsibility for overall management of the Copper Business. Mr Venkatesan joined Sterlite in 1999. Prior to joining Sterlite, he was Senior Vice President with the AV Birla Group in their telecommunication business, and has held senior executive positions in Triveni Engineering and the Eicher Group. Mr Venkatesan has a degree in Economics from Madras University and is a member of the Institute of Chartered Accountants of India.

MS Mehta, aged 50
Chief Executive Officer, Hindustan Zinc Ltd
Mr Mehta is responsible for the Zinc Business and joined the Group in 2000. Prior to moving as CEO of HZL, he was the Commercial Director (Base Metals) responsible for the marketing of copper, aluminum, zinc and lead, procurement of copper concentrate, export and tolling of zinc concentrate and coal procurement. Before joining the Group, Mr Mehta was with Lloyds Steel Industries Ltd, where he handled wide ranging portfolios; marketing, procurement, working capital finance and projects. Mr Mehta has a Mechanical Engineering degree from MBM Engineering College and an MBA from the Indian Institute of Management, Ahmedabad.

CV Krishnan, aged 56
Chief Executive Officer and Managing Director, KCM
Mr Krishnan is responsible for the copper business in Zambia. Mr Krishnan rejoined the Group in March 2005 after spending 18 months with a non-governmental organisation. Prior to that, he was the Chief Executive Officer, Metals and had responsibility for the entire metals business of the Group. Mr Krishnan has over 30 years experience and has held senior positions in Larsen & Toubro, A. F. Ferguson & Co, Shriram Fertilizers & Chemicals and E.I.D Parry. Prior to joining the Group in May 1999, he was the Chief Executive Officer and Managing Director of Essar Power. Mr Krishnan has a degree in Technology from the Indian Institute of Technology, Madras and a Master's degree in Business Administration from the Indian Institute of Management, Ahmedabad. He has attended the Global Leadership Programme at Michigan Business School, United States and has completed a course in Advanced Training in Industrial Management in the Netherlands.

Corporate Governance Report

Introduction
The Board of Vedanta Resources plc believes that high standards of corporate governance are critical to ensuring business success. The Board also believes that, in the interests of shareholders, the application of corporate governance standards must reflect the nature and location of the Group's Businesses, the ownership of the Company and its subsidiaries, and the Group's development needs whilst ensuring the talents within the Group are utilised to their fullest potential.

The objective of this report is to provide details of the Group's governance policies, processes and structures and its compliance with the principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council (the 'Code') in July 2003.

Directors
The Board
The role of the Board is to provide leadership to the Group in a manner which maximises opportunities to develop its portfolio of businesses profitably whilst assessing and managing the associated risks. The boards of individual businesses are responsible for managing their businesses profitably whilst controlling risks. The Board assesses the strategic objectives of each business, monitors performance, ensures the availability of financial, management and other resources required to meet the objectives, sets Group standards of conduct and ensures that effective controls are in place to manage risk and that the interests of investors and other stakeholders are observed.

Board Composition
The Board consists of an Executive Chairman, two Executive Directors and four independent non-executive Directors. During the year, there has been no new appointment to the Board.

The Board has adopted a schedule of matters reserved for its consideration (which was updated in June 2005) to ensure that the Board is in a position to assess strategy, monitor performance and maintain effective controls whilst delegating operational management to the Executive Committee and the businesses. Such matters reserved to the Board include, but are not limited to, approving Group strategy and annual budgets, major capital expenditure, major acquisitions and disposals.

Board Balance and Independence
The Board comprises the following members:

Mr AK Agarwal	Executive Chairman
Mr N Agarwal	Deputy Executive Chairman
Mr KK Kaura	Chief Executive
Mr N Chandra	Non-executive Director and Senior Independent Director
Mr A Mehta	Non-executive Director
Dr SK Tamotia	Non-executive Director
Mr ER Macdonald	Non-executive Director

All four non-executive Directors served throughout the year ended 31 March 2006 and up to the date of this report. Each member of the Board receives information showing the performance of the Group and its principal businesses with the annual budget each quarter and is given a full Board pack with the agenda in advance of each Board meeting.

Brief biographies of all of the Directors are set out on page 51.

The Board considers that all of the non-executive Directors are independent of the Group as defined by Code Provision A.3.1. In making this assessment, the Board is aware that Messrs Mehta and Macdonald have held previous senior management positions within subsidiary companies of HSBC Holdings plc, which acted as the joint global co-ordinator and book runner at the time of the Company's Listing in December 2003. However, at the time of their appointments, the Board considered that neither Mr Mehta's nor Mr Macdonald's previous employments included the provision of corporate finance services in London by the HSBC Group (and thus they had no involvement with the Group prior to their appointment) and that the value of the business transacted between the Company and the HSBC Group was less than 1% of the turnover of either organisation.

The Executive Committee, comprising the Executive Directors and the senior management within the Group who head the Group's principal businesses and corporate functions, meets on a monthly basis to consider the operating performance of each of the principal subsidiaries. Mr Navin Agarwal is chairman of the Executive Committee. The Executive Committee functions as a conduit for keeping the Board informed of significant issues and making recommendations in relation to Group performance and developments. Major capital projects are reviewed by the Executive Committee prior to being submitted to the Board. In addition, the Executive Committee monitors the implementation of action plans in response to internal audit findings.

The Chief Financial Officer, Mr DD Jalan, attends all Board meetings.

There are four Board Committees: Remuneration, Audit, Nominations and Health, Safety and Environment. Each has its own clearly defined terms of reference and reports directly to the Board. Additional information on the Remuneration, Audit and Nominations Committees is given below and, in the case of the Health, Safety and Environment Committee, in the Sustainable Development Report on pages 24 to 49.

Frequency of Meetings
During the year, the Board has met six times for full scheduled meetings, the Audit Committee has met four times, the Remuneration Committee three times and the Nominations Committee once. Attendance of members at Board and Committee meetings was as follows:

	Board	Audit	Remuneration	Nominations
	6	4	3	1
Current Directors				
AK Agarwal	4	n/a	n/a	1
N Agarwal	6	n/a	n/a	n/a
KK Kaura	6	n/a	n/a	n/a
N Chandra	6	4	3	1
A Mehta	5	3	3	n/a
SK Tamotia	6	n/a	n/a	1
ER Macdonald	6	4	3	1
Previous Director				
PE Sydney-Smith*	2	1	n/a	n/a

* Resigned 3 August 2005

Corporate Governance Report continued

During the year, the Chairman held informal discussions with non-executive Directors without the Executive Directors being present. Only members of a Board committee are entitled to attend the relevant committee meetings, although other Directors may attend Board committees at the invitation of the relevant committee chairman.

Arrangements have been made for Directors to receive independent professional advice in the performance of their duties at the Company's expense. No Director took such professional advice during the year.

Directors and officers of the Company and its subsidiaries are covered by directors' and officers' liability insurance. The Company has a policy based on the Model Code published in the Listing Rules, which covers dealings in securities and applies to Directors and senior management. A comprehensive insider list is maintained and all participants are notified of close periods.

The Notice concerning the forthcoming AGM is included with the accompanying Chairman's Letter. This sets out full details of the resolutions being proposed to re-appoint Directors retiring by rotation. The Board fully supports all the re-appointment resolutions being put forward at the AGM.

Chairman, Chief Executive and Senior Independent Director
There is a clear division of the responsibilities between the running of the Board and the executive responsibility for running the business. In June 2005, the Board approved a policy setting out the key responsibilities of the Executive Chairman and Chief Executive. A clear separation is maintained between the responsibilities of the Executive Chairman and the Chief Executive.

The Executive Chairman, as agreed by the Board, is primarily responsible for providing strategic leadership to the Board and further enhancing Vedanta's exceptional growth pipeline. Meanwhile, the Chief Executive, as agreed by the Board, is primarily responsible for the leadership of the executive team, implementation of the Group's strategy, the management of resources, the maintenance of a sound control environment, setting budgets and managing performance within those budgets.

Mr Naresh Chandra is Senior Independent Director ('SID'). His prime responsibilities are to lead discussions at meetings of the non-executive Directors, provide an effective channel of communication between the Chairman and non-executive Directors, ensure that the views of the non-executive Directors are given due consideration and provide a point of contact for any shareholder who wishes to raise concerns which the normal channels of communication through the Chairman and Chief Executive have failed to resolve, or for which contact is inappropriate.

Relationship Agreement
At the time of Listing, the Company and Volcan, the majority shareholder, entered into a relationship agreement ('the Relationship Agreement') to regulate the ongoing relationship between them. 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 only 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 independent non-executive Directors make up a majority of the Board and Vedanta's ability to operate independently of Volcan is protected by the Relationship Agreement.

Information and Professional Development
Appropriate induction is provided to all Directors on appointment to the Board, and subsequently as necessary, taking into account their individual qualifications and experience. Directors undertake visits to operations and have discussions with local management.

All 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.

All Directors have access to the Company's professional advisers whom they can consult where they judge it necessary in order to better discharge their responsibilities. The Directors attend other update briefings in order to familiarise themselves with new regulatory requirements.

Nominations Committee
The Nominations Committee, which consists of Mr Anil Agarwal (chairman), Mr Chandra, Dr Tamotia and Mr Macdonald, reviews and makes recommendations to the Board concerning the structure, size and composition of the Board, and concerning candidates for appointment as executive or non-executive Directors of the Company. The terms of reference were reviewed and updated by the Board in June 2005. They are available on request from the Company Secretary.

The Nominations Committee has a list of criteria to be applied in assessing potential new appointments to the Board and this was used as part of the selection process for appointing new non-executive Directors during 2004 and 2005.

Mr Kaura's contract with the Company was due to expire on 30 June 2006. The Nominations Committee, at its meeting on 30 May 2006, extended his contract with the Company until 31 March 2008. This was approved by the Board on 31 May 2006.

Performance Evaluation

During the year, the Board commissioned a new Board evaluation process involving a formal and rigorous evaluation of its own performance and that of its committees and individual Directors. This process involved each Director completing a questionnaire exploring the workings, governance and effectiveness of the Board, its committees and individual Directors. This included the Directors providing the SID with feedback, within the questionnaire, on the performance of the Executive Chairman during the year. The Chairman discussed the results individually with the Directors and the SID discussed the Chairman's own performance evaluation with the Chairman. A report of the overall results was presented to the Board and an action plan drawn up. The Board will consider the style and frequency of future evaluation exercises.

Re-appointment

Under the Company's Articles of Association, any Director appointed by the Board during the year must retire at the annual general meeting following his or her appointment. In addition, the Articles of Association require that at least one-third of the remaining Directors retire by rotation and seek re-appointment. Accordingly, Mr Anil Agarwal and Dr Tamotia will retire at the forthcoming AGM and offer themselves for re-appointment to the Board.

Remuneration Committee

The Remuneration Committee consists of Mr Chandra (chairman), Mr Mehta and Mr Macdonald, all of whom are independent non-executive Directors. The terms of reference which were reviewed and updated by the Board in June 2005, are available on request from the Company Secretary. The Remuneration Committee is responsible, on behalf of the Board, for setting the remuneration policy and remuneration packages for the Executive Directors and for maintaining an awareness of the overall remuneration of the key operational and financial heads within the Group ('the Senior Management Group').

The Remuneration Report, which is presented on pages 58 to 62, sets out the remuneration policy and other disclosures concerning the remuneration of the Executive Directors. The Remuneration Report will be submitted for approval at the forthcoming AGM.

Accountability and Audit

Financial Reporting

The Board is required to present a balanced and understandable assessment of the Group's position and prospects. The Statement of the Directors' Responsibilities in respect of the Financial Statements is presented on page 66 and contains a 'going concern' statement as required by the Code.

The Board is satisfied that it has met this obligation. The Board has considered the financial position of the Company and the Group as shown in the Balance Sheet and the Consolidated Balance Sheet as at 31 March 2006, together with the other financial statements, the budget for the current year, the Group's business plans and the cash resources available to the Group. The Directors consider that the Company and the Group will be able to meet their financial commitments for the foreseeable future and that it is, therefore, appropriate for the Financial Statements to be prepared on the 'going concern' basis.

Internal Control and Risk Management

The Code requires the Group to maintain a robust system of internal control to safeguard shareholders' interests and the Company's assets. The Board is responsible for reviewing the effectiveness of the system at least annually and to report to shareholders that they have done so. The revised guidance issued by the Turnbull Review Group in October 2005 ('Turnbull Guidance') sets out how listed companies are expected to comply with the relevant sections of the Code.

A formal risk management programme, facilitated with the help of external advisers, was introduced in 2004 for identifying, evaluating and managing risk. Risks were categorised according to likelihood and impact, and strategies devised for addressing significant risks identified during the review process. The resultant risk matrix is reviewed by the Audit Committee twice a year in accordance with the Turnbull Guidance.

The Group's internal audit activity is managed through the Management Assurance Services function and is an important element of the overall process by which the Board obtains the assurance it requires to ensure that risks are being properly identified, managed and controlled. It also provides assurance on the effectiveness of relevant internal controls. The scope of work, authority and resources of the Management Assurance Services function are periodically reviewed by the Audit Committee and its work is supported by the services of leading international accountancy firms (but specifically not including the Group's external auditors). The Audit Committee has, during the year, reviewed the level of internal audit resources within the Group and believes that it is appropriate to the Group's size.

Corporate Governance Report continued

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 a quarterly meeting of the audit committee of that subsidiary. These committees are appointed by the board of directors of each relevant subsidiary.

The responsibilities of the Management Assurance Services function include recommending improvements in the control environment and ensuring compliance with the Group's procedures and policies.

A formal policy and process for reviewing the effectiveness of the Management Assurance Services function was approved by the Audit Committee in June 2005. At that time, it was also agreed that the Audit Committee should ordinarily conduct this review at its March 2006 meeting prior to agreeing the internal audit plan for the following financial year. Consequently, the Audit Committee has conducted this review and issues arising both from this review and the external audit have been incorporated into the internal audit plan.

The planning of internal audit is approached from a risk perspective. For internal audit purposes, the Group is divided into three auditable groupings, namely: manufacturing/operating entities, special projects and other entities. In preparing an internal audit plan, reference is made to the risk matrix referred to above, inputs sought from senior management and project managers, and reference made to past audit experience and financial analysis. In broad terms, manufacturing/operating entities are audited on a monthly basis and administrative units and head office on a quarterly basis.

This process is designed to manage rather than, in all instances, eliminate the risk of failing to achieve the Group's business objectives. As such, the process can only provide reasonable rather than absolute assurance against material misstatement or loss.

The Management Assurance Services function was awarded the 'Recognition of Commitment' award by the Institute of Internal Auditors ('IIA') Florida, USA, in December 2005. The award recognises internal audit departments which are able to demonstrate an ongoing commitment to improving the quality of internal auditing in the areas of professional excellence, quality of service and professional outreach. Vedanta's Management Assurance Services function was one of only 26 internal auditing departments in the world which received this award in 2005, and one of 158 since the awards inception.

Treasury Committee
A Treasury Committee has been established as a sub-committee of the Executive Committee. The Treasury Committee recommends Group policy, which is approved by the Board, relating to all aspects of funding, management of interest rate and foreign exchange exposures, and co-ordinates relationships with banks, rating agencies and other financial institutions. The Treasury Committee monitors all significant treasury activities undertaken by Group companies and ensures compliance with Group policy. A monthly report detailing the Group's cash/debt position, bank covenants, exposures and hedging is circulated to the Executive Committee.

Financial Reporting Systems
The Group has a comprehensive financial reporting system, which is reviewed and modified as circumstances require. Procedures include detailed operational budgets for the year ahead which are reviewed and approved by the Board. Budgets and forecasts are prepared using conservative and consistent assumptions, and these are continuously reviewed. Performance against key performance indicators is monitored throughout the financial year and forecasts updated with reference to information on key risk areas. In addition, monthly management reports are prepared both on a divisional and consolidated basis. These are presented to the Executive Committee.

Audit Committee and Auditors
The Audit Committee consists of Mr Mehta (chairman), Mr Chandra and Mr Macdonald, all of whom are independent non-executive Directors. The Board considers that Mr Mehta has the required recent and relevant financial experience by virtue of his previous full-time role at HSBC Bank and through his experience on the audit committees of other international companies. Mr Chandra, who chaired the Government of India's Committee on Corporate Governance, has a deep understanding of corporate governance issues in general and of the Indian environment in particular. During his career, Mr Macdonald has held senior positions in banking and financial services.

The terms of reference were reviewed and updated by the Board in June 2005 and are available on request from the Company Secretary. The terms of reference incorporate the various provisions set out in provisions C.3.2 to C.3.6 of the Code. Its activities in these areas are explained in more detail in the following paragraphs. In addition, the main subsidiary companies, which are listed on stock exchanges in India, have their own audit committees in accordance with local corporate governance requirements. By monitoring their discussions and findings, the Audit Committee gains further insights into the quality of financial reporting and internal control.

The Audit Committee reviews the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

The Audit Committee met four times during the year under review, its meetings also being attended by senior management from the Group's principal operating subsidiaries and the auditors, as required. During the year, the Audit Committee discharged the responsibilities described above. Its activities included:

- formally reviewing the draft annual report, the interim statement and the IFRS restatement;
- considering the effectiveness of the internal audit function and risk management process;
- reviewing the external audit engagement, scope and strategy;
- reviewing and monitoring the external auditors' independence and objectivity, and the effectiveness of the audit process;
- keeping under review the level of non-audit fees compared to audit fees paid to the external auditors;
- giving pre-approval to non-audit work carried out by the external auditors; and
- in response to the requirements of International Standards on Auditing that auditors report instances of fraud, reviewing the Group's procedures for identifying and dealing with cases of fraud.

During the year, a policy was implemented on the provision of services by the external auditor. Under this policy, the Audit Committee has agreed a scope of services which the external auditors are permitted to deliver to the Group. The policy also specifies which services are prohibited. This ensures that the independence of the external auditors are thereby safeguarded.

Relations with Shareholders

Dialogue with Institutional Shareholders

The Board recognises that meetings with analysts and shareholders constitute an important element of the Company's investor relations programme. Meetings take place with major investors either individually or on a group basis, as required. These meetings may be initiated either by the Company or analysts and investors, and are managed at Group level through the Associate Director-Investor Relations, Mr Sumanth Cidambi, who also briefs the Board on the Company's relationships with its shareholders.

The Company announces its annual and half-year results to the London Stock Exchange and the press in advance of the publication of the annual and interim reports. Summary reports are also published for the first and third quarters. Other price-sensitive information is announced as and when appropriate and the Board has adopted a communications policy to ensure that this is done in a timely and considered manner. Presentations are made to analysts and the press by the Chairman, Deputy Chairman and Chief Executive following the release of the interim and preliminary announcements.

The interim and annual reports are the primary means of communicating with all shareholders. Financial reports, press releases and other information about Vedanta are available on the website (www.vedantaresources.com).

Constructive use of the Annual General Meeting

This year's AGM will be held on 2 August 2006 at 3.00pm, at the Mayfair Conference Centre, 17 Connaught Place, Marble Arch, London W2 2EL. The Notice of Meeting will therefore be circulated more than 20 working days before the meeting. An update will be provided on trading performance and shareholders will be given the opportunity to ask questions. The Company will announce the numbers of proxy votes cast for, against or abstaining for each resolution and will make the chairmen of the Audit, Remuneration and Nominations Committees available to answer questions from shareholders.

Statement of Compliance with Combined Code

The Board has sought to achieve the standards of corporate governance as set out in Section 1 of the Code and believes that the Company complied with the provisions of the Code throughout the year ended 31 March 2006, except as follows.

First, as previously reported, the Executive Chairman, Mr Anil Agarwal, did not, on appointment, meet the independence criteria because he was previously the Chief Executive of the Company and, through Volcan Investments Ltd, he and his family have a controlling interest in Vedanta (Code Provision A.2.2 and A.3.1). Mr Agarwal, founder of Vedanta, has built the Group from its inception in 1976. The Board believes that his knowledge, experience and energy are invaluable to the Executive Chairman's role of setting a vision for the Group, creating business opportunities and providing leadership. Furthermore, Mr Agarwal's appointment in March 2005 as Executive Chairman, allowed him to step back from operational management and focus on turning new opportunities into value-creating projects, thereby further extending the Group's exceptional growth pipeline into the future.

Finally, pursuant to the Relationship Agreement and as disclosed at the time of Listing, Volcan will be consulted on all appointments to the Board. The Nominations Committee therefore works collaboratively with Volcan over making appointments to the Board and, to this extent, differs from the process set out in Code Provision A.4.1.

Remuneration Report

Introduction

The Remuneration Report sets out the policies and practices adopted by the Company during the year ended 31 March 2006 in respect of members of the Board.

The Executive Directors are based in India (with the exception of Mr Anil Agarwal, who is UK-based), along with the majority of the Group's professional management. Consequently their remuneration is set by reference to the prevailing rates within that market. This Remuneration Report seeks to describe the Company's approach to remuneration by putting it into an Indian context.

The Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ('the Regulations') (Schedule 7A, Companies Act 1985). Part II of this Remuneration Report contains the information on which the auditors are required to report to the Company's members.

Part I (Unaudited)

Remuneration Committee (the 'Committee')

The chairman of the Committee is Mr Naresh Chandra. The other members of the Committee are Messrs Euan Macdonald and Aman Mehta. All three members of the Committee served during the year and are all independent Directors.

The Committee is primarily responsible, on behalf of the Board, for setting the remuneration policy and remuneration packages of the Executive Directors, and for maintaining an awareness of the overall remuneration of the key operational and functional heads within the Senior Management Group. The Committee's aim is that the Executive Directors and the Senior Management Group are rewarded appropriately for their contribution to the Group and are motivated to enhance the return to shareholders. The Committee is directly responsible for setting the remuneration packages for the Executive Directors.

Mr Anil Agarwal, in his capacity as Executive Chairman, and Mr Kuldip Kaura, in his capacity as Chief Executive, attend meetings of the Committee by invitation. No Director plays a part in any discussion about his own remuneration. Mr S Venkatesh (Head of Human Resources) advises the Committee on the policies and practices being applied to the Senior Management Group and acts as minutes secretary to the Committee. He also provides input into discussions concerning the remuneration and benefits offered to the Executive Directors during the year.

Remuneration Policy

The Company's Executive Directors, together with the majority of the Senior Management Group, are based in India (with the exception of Mr Anil Agarwal, who is UK-based). A consistent approach is used in determining the remuneration of the Senior Management Group, including the Executive Directors. Both performance-related and non-performance-related components of the remuneration packages for Executive Directors and the Senior Management Group are therefore set by reference to local market practice in India and influenced by the Group's policy of balancing the internal development of the Group's management cadre with the selective introduction of new ideas and experience into the wider management team through external recruitment. Against this backdrop, the Board's overall objective is therefore to have in place a remuneration policy that helps facilitate the development of managers from within the existing operations, whilst offering remuneration packages that reflect the Group's position as a pre-eminent player in the Indian mining sector, in particular, and the manufacturing sector as a whole.

Accordingly, the Board remains committed to the principle of retaining and incentivising managers by ensuring that the structure of individual packages remains in line with market practice, whilst also taking into account the performance of the individual and the Company as a whole. This principle applies equally to the Executive Directors and the Senior Management Group.

The following factors are taken into account when setting remuneration levels for the Executive Directors and the Senior Management Group:
- levels of remuneration throughout the Group;
- market practices prevailing in the countries in which executives work; and
- market practices in the Indian mining and manufacturing sectors (in respect of operational management) and in all sectors (in respect of corporate and supporting functions), excluding certain very high-paying sectors, for example, financial services, high end BPOs, etc.

The Group attempts to align the interests of the Executive Directors and Senior Management Group with those of the shareholders by linking share and cash incentives to corporate performance. Therefore, the remuneration packages of the Executive Directors and Senior Management Group comprise:
- a salary for day-to-day performance of duties;
- an annual bonus as an incentive to meet short-term goals – these are set by reference to individual key result areas ('KRAs'), personal qualities and the financial performance of the Group;
- awards under the Long Term Incentive Plan (the 'LTIP') (referred to below) to incentivise long-term and strategic performance; and
- benefits in kind in accordance with local market practices.

A significant development of this policy during the year was the decision to broaden the base of the LTIP awards in order to use that scheme to incentivise a significant proportion of the professional managers within the Group.

Given the India-focused approach taken to remuneration policy, it has not been felt necessary to appoint independent compensation and benefit consultants to advise the Committee on remuneration matters during the year.

Salaries, Pensions and Other Benefits

Salaries and Cost to Company

Salaries for Executive Directors and members of the Senior Management Group are set by reference to those positions of comparable status, skill and responsibility in the metals and mining industries, and in the manufacturing and engineering industries more generally.

Mr Anil Agarwal has a service agreement with the Company under which he receives a salary of £600,000 per annum.

The basic remuneration of executives in India is referred to as 'cost to company' ('CTC') which represents an aggregate figure encompassing basic pay, pension contributions and allowances.

Messrs Navin Agarwal and Kaura both have service agreements with Sterlite Industries (India) Ltd which have been augmented by letters of appointment with the Company. During the year, Mr Agarwal was entitled to CTC of INR22,001,393 per annum and Mr Kaura was entitled to CTC of INR15,790,000 per annum pursuant to their Sterlite service agreements. Under their letters of appointment with the Company, Messrs Navin Agarwal and Kaura are each paid fees of £50,000 per annum, to reflect the amount of time they spend on Board business.

Salaries are reviewed on an annual basis and changes will generally be implemented with effect from 1 April each year taking into account the period of service during the year.

The salary levels of the Executive Directors agreed by the Committee on 31 May 2006 take effect from 1 April 2006 and are as follows:

	Designation	Vedanta salary level from 1 April 2006 (£)	Sterlite salary level from 1 April 2006 (INR)	Total
AK Agarwal	Executive Chairman	600,000	–	600,000
N Agarwal	Deputy Executive Chairman	50,000	28,162,795	405,950
KK Kaura	Chief Executive	50,000	17,600,000	272,447

* Using an exchange rate of INR79.12: £1.

Pensions
The Company does not provide pension benefits to Mr Anil Agarwal and this is reflected in the determination of his overall remuneration package. The Indian-based Executive Directors are entitled to contribute to the Provident Fund, a Gratuity and a Superannuation Fund which provide pension benefits consistent with local market practices. These are defined contribution pension arrangements.

Contributions to the Provident Fund, Gratuity and Superannuation Fund are included within the CTC payable to an individual in India.

Benefits in Kind
Mr Anil Agarwal is provided with a car and fuel in the UK for business and personal use. For his frequent business trips to India, Mr Agarwal is provided with a car and driver for business use and is entitled to the exclusive use of Company-owned accommodation.

Benefits in kind provided to Indian-based senior executives are set in line with local market practices and include private medical insurance, accident insurance, the use of a car and driver, and for certain individuals, the provision of accommodation, either in Company-owned or leased premises. Mr Navin Agarwal and Mr Kaura are provided with Company-owned and leased accommodation, respectively. Mr Agarwal was also reimbursed club membership fees.

Annual Bonus
The Company operates an annual bonus scheme providing the Executive Directors and the Senior Management Group with an opportunity to earn a cash amount based on the achievement of stretching annual performance targets. The bonus targets are reviewed by the Committee at the beginning of the financial year over which performance will be measured. The annual bonus is non-pensionable.

The maximum bonus payable to the Executive Directors is 100% of annual base salary, whilst for members of the Senior Management Group, the maximum bonus payable is 50% of annual base salary. In respect of Messrs Navin Agarwal and Kaura, salary means the aggregate of their salary payable from Vedanta and their CTC payable by Sterlite.

Performance conditions are attached to all bonus arrangements, which are set by reference to individual KRAs, personal quality measures and the financial performance of the Group. The majority of KRA targets relate to financial or operational measures. However, certain KRAs monitor performance in respect of softer issues, or 'enablers', for example, people management and environmental performance.

For the year ended 31 March 2006, the payment of the annual bonus was dependent on the achievement of a combination of individual and corporate objectives, which correlated to the responsibilities of the individual and the Group budget for the year.

EBITDA was taken as the single parameter of corporate performance and the weighting for this parameter was 50%. An individual's performance against his KRAs, as reviewed in the annual performance appraisal, accounted for 40% of an individual's bonus weighting, with the remaining 10% of the bonus weighting being for the personal qualities of the individual.

Employee Share Schemes
The Group aims to provide superior rewards for outstanding performance and a high proportion of 'at risk' remuneration for Executive Directors. Three employee share schemes were approved by shareholders on Listing. The Board has no present intention to introduce any further share schemes.

The Vedanta Resources Share Reward Plan was adopted solely for the purpose of rewarding employees who had contributed to the Company's development and growth over the period leading up to the Company's Listing in December 2003. No further awards have been made under that plan nor are any planned in the future.

Similarly, it is not intended that options will be granted in the foreseeable future under the Vedanta Resources Share Option Plan, adopted to provide maximum flexibility in the design of incentive arrangements over the long term.

Vedanta Resources Long Term Incentive Plan (LTIP)
Consistent with the Board's objective of developing the potential inherent within the wider management group, the principal focus during the year under review has been on broadening the constituency of employees eligible to participate in the LTIP. Following awards granted in February 2006, 40% of this wider management group, a total of 1,328 employees, are now covered by the LTIP.

Since its launch in 2004, the Company's performance, measured in terms of Total Shareholder Return ('TSR', being the movement in the Company's share price plus reinvested dividends), has been compared over a three-year period from the date of grant with the performance of the companies

Remuneration Report continued

constituting the FTSE Worldwide Mining Index (excluding precious metals).

The rules however do not specify the comparator companies. It was therefore proposed by the Committee that the Company adopt a specific list of companies as a comparator group ('the Adapted Comparator Group') so that periodic assessments of the Company's TSR performance can be made. The Committee is satisfied that the Adapted Comparator Group is appropriate and will ensure the continued alignment of the interests of the Executive Directors and wider management group with those of the shareholders.

The maximum value of shares that can be conditionally awarded to an Executive Director in a year is 100% of annual salary. The maximum value of shares that can be awarded to members of the Senior Management Group is calculated by reference to the balance of fixed salary and share-based remuneration consistent with local market practice.

Nominations for awards under the LTIP are made by the chief executive officers of each operating company and heads of large independent projects based on guidelines issued by the Group. Individuals are assessed and categorised by reference to the criticality of their roles to the relevant business unit, past performance and future potential. The size of awards is linked to fixed salary, being either 200%, 150% or 100% of salary, based on how the individual has been assessed in accordance with the Group's guidelines. Where there is a specific need to fine-tune the number of options awarded, such adjustments are made.

The extent to which an award vests will depend on the Company's TSR ranking against the Adapted Comparator Group at the end of the three-year performance period.

The vesting schedule is shown in the table below, with straight-line vesting in between the points shown down to the nearest whole share.

Vedanta's TSR Performance against Adapted Comparator Group	% of Award Vesting
Below median	nil
At median	40
At or above upper quartile	100

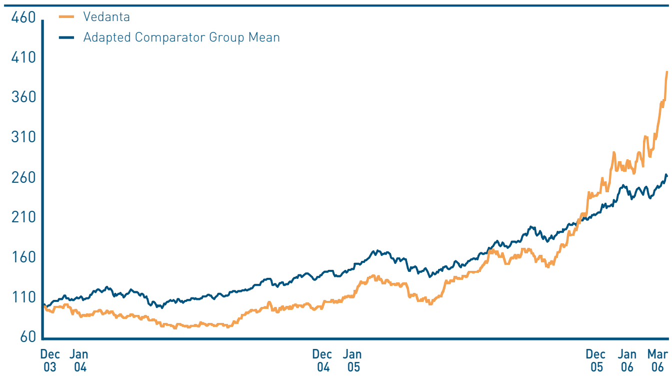
The performance condition will be measured by taking the Company's TSR over the four weeks immediately preceding the date of grant and over the four weeks immediately preceding the end of the three-year performance period, and comparing its performance with that of the Adapted Comparator Group. The information to enable this calculation to be carried out on behalf of the Committee will be provided by the Company's advisers. The Committee considers that this performance condition, which requires that the Company's total return has outperformed the Adapted Comparator Group, provides a reasonable alignment of the interests of the Executive Directors and the Senior Management Group with those of the shareholders.

Details of the awards held by the Executive Directors as at 31 March 2006 are shown in the table of Directors' Long Term Incentive Awards on page 62.

Total Shareholder Return Performance Graph

The graph below shows the TSR performance of the Company in comparison with that of the Adapted Comparator Group for the period from 10 December 2003 (the date of Listing) to 31 March 2006. The Adapted Comparator Group is presented as it is the comparator group under the rules of LTIP. To provide more detail, the graph presents performance on a monthly basis rather than using year end dates as required by the Regulations.

TOTAL SHAREHOLDER RETURN PERFORMANCE
10 December 2003 (Listing) to 31 March 2006
Vedanta versus Adapted Comparator Group Average (rebased to 100)

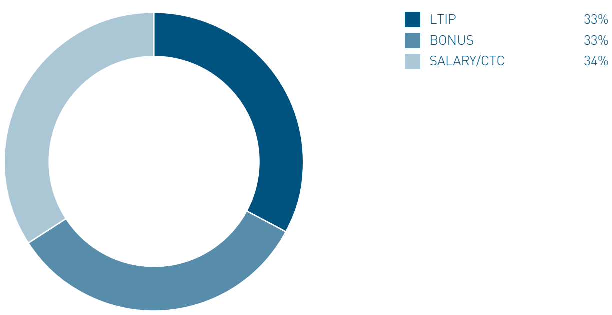


Source: DataStream

Relative Importance of Fixed and Variable Pay

A significant proportion of the remuneration of the Executive Directors is performance-linked. Assuming the Executive Directors receive the maximum bonus entitlement and full vesting of the maximum LTIP awards, the chart below demonstrates the balance of fixed and variable pay in these circumstances for the Executive Directors.

FIXED AND VARIABLE PAY OF EXECUTIVE DIRECTORS



Executive Directors' Service Contracts
Mr Anil Agarwal and Mr Navin Agarwal are employed under contracts of employment with the Company which are not for a fixed term but which may be terminated by not less than six months' notice. Mr Anil Agarwal's notice period was reduced from 12 to six months on 31 May 2005. Provision is made in their contracts for payment to be made in lieu of notice on termination. In the case of Mr Anil Agarwal, this would be equal to basic salary and costs to the Company for providing certain benefits during the notice period or part thereof.

Navin Agarwal has a letter of appointment with Vedanta which may be terminated by giving six months' notice. Mr Kaura has a letter of appointment with Vedanta which may be terminated by giving three months notice. In the case of their service agreements with Sterlite, they may be terminated by giving three months' notice. In any event, Mr Kaura's appointment as a director of Sterlite will automatically expire on 30 June 2006, being the expiry date specified in his Sterlite contract. His contract with Vedanta has been extended until 31 March 2008. Mr Navin Agarwal's appointment as a director of Sterlite will expire on 31 July 2008, being the expiry date specified in his Sterlite contract, whilst his appointment as a Director of Vedanta is a rolling contract. The Sterlite contracts and the Vedanta letters of appointment may be renewed.

Copies of all Executive Directors' service contracts and the Letters of Appointment of the non-executive Directors are available for inspection during normal business hours at the registered office of the Company.

Non-executive Directors' Fees
The Board is responsible for setting non-executive Directors' fees and reviews them periodically. In setting the fees of non-executive Directors, the Board has taken into account the complexity of the Group, the significant travel and time commitments required for attending Board and other meetings in India and the UK, and the unique risk profile of the Company. Non-executive Directors' fees are made up of three elements:

Base fee	£50,000
Committee membership fee	Up to £5,000 (depending on the scope of the committee concerned)
Committee chairmanship fee	Up to £20,000 (depending on the scope of the committee concerned)

Chairman's Salary
The Chairman's salary is approved by the Board (without the Chairman being present) on the recommendation of the Committee.

Non-executive Directors' Letters of Appointment
The non-executive Directors have Letters of Appointment which may be terminated by either party giving three months' notice. The non-executive Directors' Letters of Appointment set out the time requirements expected of them in the performance of their duties. Non-executive Directors are normally expected to spend at least twenty days per year on Company business. There is no provision in the Letters of Appointment of the non-executive Directors for compensation to be paid in the event of early termination.

External Appointments
The Board's policy on external appointments is that an Executive Director may accept one appointment external to the Group (other than any appointment to related parties or Volcan in the case of Messrs Anil Agarwal and Navin Agarwal) as a non-executive director of a publicly listed company anywhere, but with the prior approval of the Board, and that the fees for any such appointment may be retained by the individual.

Currently, none of the Executive Directors holds any such outside appointments, other than Messrs Anil Agarwal's and Navin Agarwal's directorships of related parties of Volcan.

Equity Dilution resulting from Employee Share Schemes
The dilution limits set out in the rules of the employee share schemes in December 2003 allow up to an aggregate of 10% of the Company's issued share capital to be issued or issuable pursuant to awards under any of the Company's employee share schemes over a period of 10 years. Up to 5% of the Company's issued share capital may be used for the Company's discretionary schemes over a 10-year period. Shares issued or issuable pursuant to awards made under the Reward Plan are not counted for these purposes. Currently, 1.28% of the Company's issued share capital is issuable in respect of outstanding awards under the LTIP.

Individual Service Contract Details

	Date of contract	Notice period	Outstanding term
AK Agarwal	27 November 2003	6 months	Rolling notice period
N Agarwal (Vedanta)	4 May 2005	6 months	Rolling notice period
N Agarwal (Sterlite)	1 August 2003	3 months	Until 31 July 2008
KK Kaura (Vedanta)	4 May 2005	3 months	Until 31 March 2008
KK Kaura (Sterlite)	20 October 2004	3 months	Until 30 June 2006
N Chandra[1]	1 June 2006	3 months	Until 1 June 2007
A Mehta	24 November 2004	3 months	Until 23 November 2007
SK Tamotia	24 November 2004	3 months	Until 23 November 2007
ER Macdonald	23 March 2005	3 months	Until 22 March 2008

(1) Mr Chandra is engaged on a contract renewable every 12 months.

Remuneration Report continued

Part II (Audited)
Directors' Remuneration
Year ended 31 March 2006

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 March 2006 for individual Directors who held office in the Company during this period. All amounts are in UK pounds sterling although payments in India under service contracts with Sterlite are paid in Indian rupees.

Directors' Remuneration

	Salary/CTC fees £'000	Compensation for loss of office £'000	Annual performance bonus £'000	Benefits in kind £'000	Total £'000
Executive Directors					
AK Agarwal[1]	468	–	164	32	664
N Agarwal[2]	328	–	97	26	451
KK Kaura [3]	250	–	61	2	313
Non-executive Directors					
N Chandra	85	–	–	–	85
A Mehta	75	–	–	–	75
SK Tamotia	73	–	–	–	73
ER Macdonald	63	–	–	–	63
Previous Director					
PE Sydney-Smith [4]	115	310	–	3	428
Total	1,457	310	322	63	2,152

(1) Mr Anil Agarwal's benefits in kind include life assurance, and provision of a car and fuel in the UK for business and personal purposes.
(2) Mr Navin Agarwal's benefits in kind include private health insurance, accident insurance and provision in India of Company-owned accomodation and a car, driver and fuel for business and personal purposes.
(3) Mr Kaura's benefits in kind including private health insurance, accident insurance, and provision in India of Company – leased accomodation and a car, driver and fuel for business and personal purposes.
(4) Mr Sydney – Smith's benefits in kind include private health insurance and provision of laptop.

Directors' Long Term Incentive Plan Awards

	Options					
	At 1 April 2005	Granted	At 31 March 2006	Exercise price ($)	Earliest exercise date	Latest exercise date
AK Agarwal	120,000	–	120,000	0.10	26 February 2007	26 August 2007
	–	42,500	42,500	0.10	1 February 2009	1 August 2009
N Agarwal	50,000	–	50,000	0.10	26 February 2007	26 August 2007
	–	33,400	33,400	0.10	1 February 2009	1 August 2009
KK Kaura	50,000	–	50,000	0.10	26 February 2007	26 August 2007
	–	25,000	25,000	0.10	1 February 2009	1 August 2009

The performance conditions attached to LTIP awards granted in the current year require the Company's TSR to equal or exceed the TSR performance of the median of the Adapted Comparator Group before 40% of the award can vest, and to be equal to or greater than the performance of the Company at the upper quartile of that group for the whole award to vest. Awards vest on a sliding scale in between these points.

The mid-market price of the shares at 31 March 2006 was 1,410 pence and from 1 April 2005 to 31 March 2006, the share price varied between 374 pence and 1,410 pence. LTIP awards were granted to the Directors during the year.

Directors' Interests in Ordinary Shares

The interests of the Directors (which are beneficial unless otherwise stated) in ordinary shares at 31 March 2006 were:

Number of ordinary shares held in the Company	At 31 March 2006	At 1 April 2005 or date of appointment if later
AK Agarwal	154,157,921	154,157,911
N Agarwal	200,000	200,000
KK Kaura	50,000	50,000
N Chandra	–	–
A Mehta	–	–
SK Tamotia	–	–
ER Macdonald	–	–

The register of Directors' interests is open to inspection at the Company's registered office and contains full details of Directors' interests.

In addition, Mr Anil Agarwal and Mr Navin Agarwal each held nominee shares in direct and indirect subsidiaries. These holdings are non-beneficial.

There have been no changes in the beneficial shareholdings of the Directors between the end of the financial year and 31 May 2006.

Approval

This report has been approved by the Board of Directors of Vedanta Resources plc.

Signed on behalf of the Board of Directors

Naresh Chandra
Chairman of the Remuneration Committee

31 May 2006

Directors' Report

The Directors have pleasure in presenting their report and audited Financial Statements of Vedanta Resources plc and its subsidiaries for the year ended 31 March 2006.

Principal Activities

The Company is a holding company for a diversified metals and mining group. The Group has three major activities:

- The Aluminium Business, comprising bauxite mining, alumina refining and aluminium smelting operations
- The Copper Business, comprising copper ore mining, smelting and refining operations in India and Australia, and integrated copper production in Zambia
- The Zinc Business, comprising zinc-lead mining and smelting operations.

The Group's other activities include an aluminium conductor business and an investment in an aluminium foil business. With the exception of KCM in Zambia and a copper mine in Australia, the Group's operations are all located in India. The principal subsidiaries and associated undertakings of the Group are listed in note 39 to the Financial Statements.

Enhanced Business Review

Under section 234ZZB of the Companies Act 1985, the Company is required to provide an enhanced business review containing the following components:

- A fair review of the business of the Company,
- A description of the principal risks and uncertainties facing the Group.

The enhanced business review is a balanced and comprehensive analysis of the development and performance of the business of the Company during the year and its position at the year end. The review is consistent with the size and complexity of the Group and includes an analysis using financial KPIs to the extent that these are necessary for an understanding of the development, performance and position of the Group. Where appropriate, the Company has considered using other KPIs, including information relating to health, safety and environmental factors. The review, where appropriate, includes references to, and explanations of, amounts included in the annual accounts.

The requirements of the enhanced business review are fulfilled in the disclosures contained within the Chairman's Statement on pages 2 to 5, the Business and Financial Reviews on pages 10 to 23 and the Sustainable Development Report on pages 24 to 49.

Post Balance Sheet Events

There have been no significant post balance sheet events.

Future Developments

Information about the Group's future development plans may be found in the Business Review on pages 10 to 17.

Financial Results

The audited Financial Statements are presented on pages 68 to 114. Group revenue and operating profit for the year ended 31 March 2006 amounted to $3,701.8 million (2005: $1,884.2 million) and $943.8 million (2005: $328.0 million), respectively. Attributable profit was $373.5 million (2005: $178.9 million).

Dividend

The Directors recommend a final dividend for the year ended 31 March 2006 of 14.3 US cents per ordinary share (2005: 11.55 US cents per ordinary share). Subject to the approval of the shareholders, the final dividend will be paid on 17 August 2006 to shareholders on the register of members, as at 21 July 2006.

Taken together with the interim dividend of 5.7 US cents per ordinary share declared on 17 November 2005 and paid to shareholders on 13 January 2006, the total dividend for the year is 20.0 US cents per ordinary share (2005: 17.05 US cents per ordinary share).

Share Capital

The Company's authorised share capital as at 31 March 2006 was $40,000,000 and £50,000, comprising 400,000,000 ordinary shares of $0.10 each and 50,000 deferred shares of £1 each, respectively. The Company's issued share capital as at that date was 50,000 deferred shares, one of which has been fully paid and 49,999 of which have been paid up as to one-quarter of their nominal value, and 286,781,195 ordinary shares each credited as fully paid.

On 10 February 2006, 5,195 ordinary shares were allotted as fully paid to early leavers under the Long Term Incentive Plan.

As at the date of this report, there has been no other change to the authorised and issued share capital since 31 March 2006.

The authorised and issued share capital of the Company as at 31 March 2006 is also set out in note 31 to the Financial Statements.

Significant Changes to the Group's Capital Structure

On 21 February 2006, Vedanta Finance (Jersey) Ltd issued a total of $725 million 4.60% guaranteed convertible bonds due 2026. The net issue proceeds of the Bonds, after deduction of fees and expenses, amounted to $719.7 million and are being used primarily for the repayment of subsidiary debt and funding capital projects including the Jharsuguda smelter and other general corporate purposes. Further details relating to this issue of bonds can be found in note 25 to the Financial Statements.

Directors' Report continued

Directors and Directors' Interests

The names, specific responsibilities and biographical details of the current Board of Directors are shown on page 51. Directors interest in shares are shown in the Remuneration Report on pages 58 to 62.

The following Directors held office during the year ended 31 March 2006:

	Appointed	Resigned	Designation
Executive Directors			
AK Agarwal	16 May 2003		Executive Chairman
N Agarwal	24 November 2004		Deputy Executive Chairman
KK Kaura	23 March 2005		Chief Executive
Non-executive Directors			
N Chandra	18 May 2004		Non-executive Director
A Mehta	24 November 2004		Non-executive Director
SK Tamotia	24 November 2004		Non-executive Director
ER Macdonald	23 March 2005		Non-executive Director
Previous Director			
PE Sydney –Smith	14 November 2003	3 August 2005	Finance Director

Details of Directors' service contracts, emoluments, the interests of Directors and their immediate families in the share capital of the Company, options to subscribe for shares in the Company and interests in the share capital of its subsidiaries are shown in the Remuneration Report on pages 58 to 62.

Corporate Governance

Disclosures on the application of the principles and compliance with the provisions of the Combined Code can be found on pages 53 to 57.

Charitable Donations

During the year, the Group made charitable donations of $1.2 million paid to Sterlite Foundation ($0.6 million), Vedanta Foundation ($0.1 million) and other charitable donations ($0.5 million) (see note 35 to the Financial Statements).

The Board believes that working with the communities in which the Group operates is critical to the success of its operations and is an important element of the Group's philosophy and culture. Donations to charities working in these communities are one of the means by which the Group provides such support. Further details about the Group's involvement with local communities during the year can be found in the Sustainable Development Report on pages 24 to 49.

Political Donations

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

During the year, the Group made donations of $0.1 million to the Political and Public Awareness Trust, a trust whose principal objective is the promotion of political awareness in India. Further details are set out in note 35 to the Financial Statements.

Substantial Shareholdings

As at 31 May 2006, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary shares of the Company:

Notification received from:	Number of ordinary shares	% of Issued share capital[2]
Volcan Investments Ltd[1]	154,157,921	53.75%
Barclays PLC	21,036,981	7.34%
Wellington Management Company LLC	14,778,999	5.15%

(1) The Company has also been notified that Agnivesh Agarwal and Dwarka P Agarwal are indirectly interested in 154,157,921 ordinary shares (representing 53.75% of the Company's Issued Share Capital) by virtue of their beneficial interests in the shares of Volcan.
(2) Based on issued ordinary capital of 286,781,195 shares.

Supplier Payment Policy

The Group does not follow any specific external code or standard on payment terms. Instead, responsibility for determining payment terms is delegated to the individual Businesses within the Group, which take into consideration local market and industry practice. As a Group, the policy for determining payment terms is either to agree terms of payment at the start of a binding contract or to ensure that the supplier is aware of the individual business's usual payment terms. Payment is made in accordance with contractual and other legal obligations, and reflects local market practices.

Trade creditor days of the Group at 31 March 2006 were 87 days (2005: 97 days).

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

Policy on Derivatives and Financial Instruments
An explanation of the Group's financial management objectives and policies together with details of the Group's exposure to price risk, credit risk, liquidity risk and cash flow risk appears in note 26 to the Financial Statements.

Auditors and the Disclosure of Information to the Auditors
So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of fellow Directors and the Company's auditors, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

A resolution to re-appoint the auditors, Deloitte & Touche LLP, will be proposed at the forthcoming Annual General Meeting in accordance with section 385 of the Companies Act 1985. The re-appointment of Deloitte & Touche LLP has been approved by the Audit Committee, which will also be responsible for determining their remuneration on behalf of the Board, subject to the approval of shareholders at the forthcoming Annual General Meeting.

Annual General Meeting Business
The third annual general meeting of the Company will be held at the Mayfair Conference Centre, 17 Connaught Place, Marble Arch, London, W2 2EL on 2 August 2006 at 3.00pm. The Notice convening the AGM accompanies this Annual Report and sets out details of the business to be considered.

By Order of the Board

Deepak Kumar
Company Secretary

31 May 2006

Vedanta Resources plc
Hill House
1 Little New Street
London EC4A 3TR

Registered in England No. 4740415

Statement of Directors' Responsibilities
in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ('IFRS') and have chosen to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ('UK GAAP').

In the case of the Group's IFRS financial statements, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standard Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In the case of the Company's UK GAAP financial statements, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company for safeguarding the assets, taking reasonable steps for the prevention and detection of fraud and other irregularities, and for the preparation of the report of the Directors and the Remuneration Report which comply with the requirements of the Companies Act 1985.

The Board's statement on 'going concern' is included in the Corporate Governance Report on pages 53 to 57.

Independent Auditors' Report
to the members of Vedanta Resources plc

We have audited the Group financial statements of Vedanta Resources plc for the year ended 31 March 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 40. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the individual Company financial statements of Vedanta Resources plc for the year ended 31 March 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the Group financial statements in accordance with applicable law and 'IFRS' as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money-purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Remuneration Report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Remuneration Report described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the Group financial statements and the part of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Separate Opinion in Relation to IFRS

As explained in note 1 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

31 May 2006

Consolidated Income Statement

	Note	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Continuing operations			
Revenue	3	3,701.8	1,884.2
Cost of sales		(2,591.4)	(1,415.7)
Gross profit		**1,110.4**	**468.5**
Other operating income		41.5	25.9
Distribution costs		(81.1)	(51.5)
Administrative expenses		(127.0)	(92.6)
Administrative expenses – special items	4a	–	(22.3)
Operating profit	3	**943.8**	**328.0**
Investment revenues	5	51.6	37.5
Finance costs	6	(59.3)	(30.1)
Share of loss of associate	15	(1.4)	(5.6)
Special item – surplus on acquisition	4b	–	56.5
Profit before taxation		**934.7**	**386.3**
Tax expense	10	(280.4)	(87.0)
Profit for the year		**654.3**	**299.3**
Attributable to:			
Equity holders of the parent		373.5	178.9
Minority interests		280.8	120.4
		654.3	**299.3**
Basic earnings per ordinary share (US cents)	11	130.2	62.5
Diluted earnings per ordinary share (US cents)	11	128.2	61.5

Consolidated Balance Sheet

	Note	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Assets			
Non-current assets			
Goodwill	13	12.1	12.2
Property, plant and equipment	14	2,763.0	2,288.6
Interest in associate	15	1.8	3.3
Financial asset investments	16	27.1	24.8
Other non-current assets	17	27.3	34.6
Other financial assets (derivatives)	26	63.2	–
Deferred tax asset	28	71.9	90.0
		2,966.4	**2,453.5**
Current assets			
Inventories	18	535.0	337.7
Trade and other receivables	19	593.0	339.6
Other current financial assets (derivatives)	26	49.0	–
Liquid investments	20	244.4	262.0
Cash and cash equivalents	21	1,847.3	1,185.6
		3,268.7	**2,124.9**
Total Assets		**6,235.1**	**4,578.4**
Liabilities			
Current liabilities			
Short term borrowings	22	(239.8)	(194.7)
Convertible loan notes	22	–	(23.7)
Trade and other payables	24a	(942.5)	(675.0)
Other current financial liabilities (derivatives)	26	(114.7)	–
Provisions	27	(12.2)	(37.0)
Current tax liabilities		(34.7)	(15.1)
		(1,343.9)	**(945.5)**
Net current assets		**1,924.8**	**1,179.4**
Non-current liabilities			
Medium and long term borrowings	22	(1,236.0)	(1,303.5)
Convertible loan notes	25	(600.4)	–
Trade and other payables	24b	(15.6)	(41.2)
Other financial liabilities (derivatives)	26	(93.4)	–
Deferred tax liabilities	28	(286.9)	(234.9)
Retirement benefits	30	(38.2)	(38.6)
Provisions	27	(222.5)	(208.6)
Non-equity minority interests	22	(59.4)	(59.4)
		(2,552.4)	**(1,886.2)**
Total liabilities		**(3,896.3)**	**(2,831.7)**
Net assets		**2,338.8**	**1,746.7**
Equity			
Share capital	31	28.7	28.7
Share premium account		18.6	18.6
Share based payment reserves		4.1	2.5
Convertible bond reserve	25	123.3	–
Hedging reserves		(29.1)	–
Other reserves		213.1	43.9
Retained earnings		1,058.4	1,016.8
Equity attributable to equity holders of the parent		**1,417.1**	**1,110.5**
Minority interests		921.7	636.2
Total equity		**2,338.8**	**1,746.7**

These Financial Statements were approved by the Board of Directors on 31 May 2006.

Signed on behalf of the Board of Directors

Anil Agarwal
Chairman

KK Kaura
Chief Executive

Consolidated Cash Flow Statement

	Note	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Operating activities			
Profit before taxation	3a	934.7	386.3
Adjustments for:			
Depreciation	3a	157.7	103.7
Investment revenues		(51.6)	(37.5)
Finance costs		59.3	30.1
Other non-cash items		8.5	(27.3)
Other adjustments		1.4	6.1
Operating cash flows before movements in working capital		**1,110.0**	**461.4**
Increase in inventories		(190.1)	(61.0)
Increase in receivables		(236.8)	(79.1)
Increase/(decrease) in payables		231.6	(18.1)
Cash generated from operations		**914.7**	**303.2**
Dividends received		7.0	2.8
Interest income received		58.5	57.8
Interest paid		(112.1)	(64.1)
Income taxes paid		(186.5)	(65.8)
Dividends paid		(49.4)	(15.8)
Net cash from operating activities		**632.2**	**218.1**
Investing activities			
Acquisition of subsidiary		–	(28.3)
Cash acquired with subsidiary		–	41.2
Purchases of property, plant and equipment		(656.2)	(535.3)
Proceeds on disposal of property, plant and equipment		0.7	14.1
Dividends paid to minority interests of subsidiaries		(8.9)	(7.7)
Disposal/(purchase) of liquid investments		12.8	(164.0)
Investment in associate		0.1	(6.2)
Buyback of shares from minority interests of subsidiaries		–	(2.3)
Deconsolidation of cash held by SEWT	32c	(19.5)	–
Net cash used in investing activities		**(671.0)**	**(688.5)**
Financing activities			
Issue of ordinary shares		–	0.1
Proceeds from issue of convertible loan notes	25	719.7	–
Increase/(decrease) in short-term borrowings		28.4	(96.6)
(Decrease)/increase in long-term borrowings		(20.9)	607.0
Proceeds from issue of shares to minority interests of subsidiaries		–	1.7
Net cash from financing activities		**727.2**	**512.2**
Net increase in cash and cash equivalents		688.4	41.8
Exchange difference		(26.7)	(3.5)
Cash and cash equivalents at beginning of year		1,185.6	1,147.3
Cash and cash equivalents at end of year	21,23	**1,847.3**	**1,185.6**

Consolidated Statement of Changes in Equity

$ million	Share capital	Share premium	Share based payment reserves	Other reserves*	Retained earnings	Total	Minority interests	Total equity
	Attributable to equity holders of the Company							
At 1 April 2004	**28.6**	**18.6**	**–**	**12.7**	**919.9**	**979.8**	**367.0**	**1,346.8**
Profit for the year	–	–	–	–	178.9	178.9	120.4	299.3
Acquisition of subsidiary	–	–	–	–	–	–	98.7	98.7
Movement on decrease in minority interests	–	–	–	–	(32.4)	(32.4)	56.3	23.9
Exchange differences on translation of foreign operations	–	–	–	13.2	–	13.2	1.5	14.7
Transfers	–	–	–	18.0	(18.0)	–	–	–
Shares issued under the Reward Plan	0.1	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	–	–	(31.6)	(31.6)	(7.7)	(39.3)
Recognition of share-based payment	–	–	2.5	–	–	2.5	–	2.5
At 31 March 2005	**28.7**	**18.6**	**2.5**	**43.9**	**1,016.8**	**1,110.5**	**636.2**	**1,746.7**

$ million	Share capital	Share premium	Share-based payment reserves	Convertible bond reserve	Hedging reserves	Other reserves*	Retained earnings	Total	Minority interests	Total equity
	Attributable to equity holders of the Company									
At 31 March 2005	**28.7**	**18.6**	**2.5**	**–**	**–**	**43.9**	**1,016.8**	**1,110.5**	**636.2**	**1,746.7**
Adjustment for adoption of IAS 39**	–	–	–	–	(3.2)	0.9	(9.8)	(12.1)	(2.1)	(14.2)
At 1 April 2005	**28.7**	**18.6**	**2.5**	**–**	**(3.2)**	**44.8**	**1,007.0**	**1,098.4**	**634.1**	**1,732.5**
Profit for the year	–	–	–		–	–	373.5	373.5	280.8	654.3
Issue of convertible bond (note 25)	–	–	–	123.3	–	–	–	123.3	–	123.3
Deconsolidation of SEWT (note 32c)	–	–	–	–	–	–	(88.2)	(88.2)	29.5	(58.7)
Movement on increase in minority interests	–	–	–	–	–	–	(0.4)	(0.4)	24.6	24.2
Exchange differences on translation of foreign operations	–	–	–	–	0.2	(16.1)	–	(15.9)	(14.1)	(30.0)
Transfers	–	–	–	–	–	184.7	(184.7)	–	–	–
IPO related credit	–	–	–	–	–	–	0.6	0.6	–	0.6
Movement in fair value of cash flow hedges and financial investments (note 26)	–	–	–	–	(26.1)	(0.3)	–	(26.4)	(24.3)	(50.7)
Dividends paid	–	–	–	–	–	–	(49.4)	(49.4)	(8.9)	(58.3)
Recognition of share-based payment	–	–	1.6	–	–	–	–	1.6	–	1.6
At 31 March 2006	**28.7**	**18.6**	**4.1**	**123.3**	**(29.1)**	**213.1**	**1,058.4**	**1,417.1**	**921.7**	**2,338.8**

* Other reserves comprise:

	Currency translation reserve	Merger reserve	Investment revaluation reserve	General reserves	Total
At 1 April 2004	**–**	**4.4**	**–**	**8.3**	**12.7**
Exchange differences on translation of foreign operations	13.2	–	–	–	13.2
Transfer from retained earnings	–	–	–	18.0	18.0
At 31 March 2005	**13.2**	**4.4**	**–**	**26.3**	**43.9**
Adjustment for adoption of IAS 39**	–	–	0.9	–	0.9
At 1 April 2005	**13.2**	**4.4**	**0.9**	**26.3**	**44.8**
Exchange differences on translation of foreign operations	(16.1)	–	–	–	(16.1)
Revaluation of available-for-sale investments	–	–	(0.3)	–	(0.3)
Transfer from retained earnings***	–	–	–	184.7	184.7
At 31 March 2006	**(2.9)**	**4.4**	**0.6**	**211.0**	**213.1**

** Details of the accounting policy change are provided in note 38.

*** Under Indian law, a general reserve is created through a year-on-year transfer from the income statement. The purpose of these transfers is to ensure that distributions in a year are less than the total distributable results for that year. This general reserve becomes fully distributable in future periods.

Notes to the Consolidated Financial Statements

1. Presentation of Financial Statements

Compliance with Applicable Law and IFRS

The Financial Statements have been prepared in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, Article 4 of the IAS Regulation and International Financial Reporting Standards (IFRS) as adopted by the European Union and related interpretations.

The Group complies with all IFRS, including those adopted for use in the European Union and those issued by the International Accounting Standards Board.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest million except where otherwise indicated.

At the date of authorisation of these Financial Statements, the following Standards and Interpretations which have not been applied in these Financial Statements were in issue but not yet effective:

IFRIC 4 – Determining Whether an Arrangement Contains a Lease
IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper-inflationary Economies
Amendments to IAS 39 – Financial Instruments – Recognition and Measurement: The Fair Value Option
IFRS 7 – Financial Instruments: Disclosures

Conversion to IFRS

This is the first year that Vedanta has produced financial statements under IFRS. This section describes how IFRS has been applied under IFRS 1 'First Time Adoption of International Financial Reporting Standards'. The adoption of IFRS has resulted in a number of significant adjustments to the previously reported results and equity shareholders' funds presented under UK generally accepted accounting principles (UK GAAP). The main changes were in relation to share-based payments, pensions, intangible assets, deferred taxation and financial instruments. Further details of the conversion to IFRS are provided in note 37.

IFRS 1, 'First-Time Adoption of International Financial Reporting Standards', permits those companies adopting IFRS for the first time to take some exemptions from the full requirements of IFRS in the transition period. The following Standards have been adopted early by the Group:

- IFRS 6 'Exploration for and Evaluation of Mineral Resources' is applicable to the Group from 1 April 2006. However, the Group adopted this standard early from 1 April 2004
- IFRS 2 'Share based payments' has been adopted early by the Group from 1 April 2004, for its grant of equity instruments to its employees.

Vedanta has adopted the following key exemptions:

- Business combinations: Business combinations prior to the transition date (1 April 2004) have not been restated onto an IFRS basis
- Financial instruments: Financial instruments in the comparative periods presented in the annual report for year ended 31 March 2005, are recorded on the UK GAAP basis applicable in that year, rather than in accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.

Parent Company Financial Statements

The financial statements of the parent company, Vedanta Resources plc, have been prepared in accordance with UK GAAP and with UK accounting presentation. The Company balance sheet is presented in note 41.

2a. Accounting Policies

Basis of Consolidation

The consolidated financial information incorporates the results of the Company and all its subsidiaries, being the companies that it controls. This control is normally evidenced when the Group is able to govern a company's financial and operating policies so as to benefit from its activities or where the Group owns, either directly or indirectly, the majority of a company's equity voting rights unless in exceptional circumstances it can be demonstrated that ownership does not constitute control.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Revenue Recognition

Revenue represents the net invoice value of goods and services provided to third parties after deducting discounts, volume rebates, outgoing sales taxes and duties, and is recognised usually when all significant risks and rewards of ownership of the asset sold are transferred to the customer and the commodity has been delivered to the shipping agent. Revenues from sale of material by-products are included in revenue.

Dividend income is recognised when the shareholders' right to receive payment is established.

Interest income is recognised on an accrual basis in the income statement.

Special Items

Special items are those that management considers, by virtue of their size or incidence, should be disclosed separately to ensure that the financial information also allows an understanding of the underlying performance of the business. The determination as to which items should be disclosed separately requires a degree of judgement.

Business Combinations

The results of subsidiaries acquired or sold during the year are consolidated for the periods from, or to, the date on which control passed. Acquisitions are accounted for under the purchase method. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date.

Excess purchase consideration, being the difference between the fair value of the consideration given and the fair value of the identifiable assets and liabilities acquired, is capitalised as an asset on the balance sheet.

Where the fair values of the identifiable assets and liabilities exceed the cost of acquisition, the surplus is credited to the income statement in the period of acquisition.

To the extent that such excess purchase consideration relates to the acquisition of mining properties and leases, that amount is capitalised within property, plant and equipment as 'mining properties and leases'. Other excess purchase consideration relating to the acquisition of subsidiaries is capitalised as goodwill. Goodwill arising on acquisitions is reviewed for impairment annually.

Goodwill relating to associates is included within the carrying value of the associate. The unamortised balance is reviewed for impairment on an annual basis.

Goodwill arising on acquisitions before 1 April 2004, the date of transition to IFRS, has been retained at the previous UK GAAP amounts as at that date, subject to being tested for impairment at that date.

Where it is not possible to complete the determination of fair values by the date on which the first post-acquisition financial statements are approved, a provisional assessment of fair values is made and any adjustments required to those provisional fair values, and the corresponding adjustments to purchased goodwill, are finalised within 12 months of the acquisition date.

Internally generated goodwill is not recognised.

Investments in Associates

In the consolidated financial information, investments in associates are accounted for using the equity method. An associate is an entity over which the Group is in a position to exercise significant influence and normally owns between 20% and 50% of the voting equity but is neither a subsidiary nor a joint venture. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above and is included in the carrying value of investments in associate.

The consolidated income statement includes the Group's share of associates' results. The investment is initially recorded at the cost to the Group in the consolidated balance sheet and then, in subsequent periods, the carrying value of investment is adjusted to reflect the Group's share of the associate's profits or losses and for impairment of goodwill and any other changes to the associate's net assets.

Notes to the Consolidated Financial Statements continued

2a. Accounting Policies continued

Property, Plant and Equipment

Mining Properties and Leases

Exploration and evaluation expenditure is written off in the year in which it is incurred.

The costs of mining properties and leases, which include the costs of acquiring and developing mining properties and mineral rights, are capitalised as property, plant and equipment under the heading 'Mining properties and leases' in the year in which they are incurred.

When a decision is taken that a mining property is viable for commercial production, all further pre-production primary development expenditure other than land, buildings, plant and equipment, etc is capitalised as part of the cost of the mining property until the mining property is capable of commercial production. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production. From that point, capitalised mining properties and lease costs are amortised on a unit-of-production basis over the total estimated remaining commercial reserves of each property or group of properties.

Stripping costs/secondary development expenditure incurred during the production stage of operations of an ore body are charged to the income statement immediately.

Exploration and evaluation assets acquired are recognised as assets at their cost of acquisition subject to meeting the commercial production criteria mentioned above and are subject to impairment review.

In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the period.

Commercial reserves are proved and probable reserves. Changes in the commercial reserves affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

Other Property, Plant and Equipment

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing an asset to working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which the costs are incurred. Major shut-down and overhaul expenditure is capitalised.

Assets Under Construction

Assets under construction are capitalised in the capital work-in-progress account. Upon completion, the cost of construction is transferred to the appropriate category of property, plant and equipment assets. Costs associated with the commissioning of an asset and any obligatory decommissioning costs are capitalised where the asset is available for use but incapable of operating at normal levels until a period of commissioning has been completed.

Depreciation

Mining properties and other assets in the course of development or construction, and freehold land, are not depreciated. Capitalised mining properties and lease costs are amortised once commercial production commences, as described in 'Property, plant and equipment – mining properties and leases'. Leasehold land and buildings are depreciated over the period of the lease.

Other buildings, plant and equipment, office equipment and fixtures, and motor vehicles are stated at cost less accumulated depreciation and any provision for impairment. Depreciation commences when the assets are ready for their intended use. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Buildings: Operations	30 years
Administration	50 years
Plant and equipment	10–20 years
Office equipment and fixtures	3–20 years
Motor vehicles	9–11 years

Major overhaul costs are depreciated over the estimated life of the economic benefit derived from the overhaul. The carrying amount of the remaining previous overhaul cost is charged to the income statement if the next overhaul is undertaken earlier than the previously estimated life of the economic benefit.

Property, plant and equipment held for sale or which is part of a disposal group held for sale is not depreciated. Property, plant and equipment held for sale is carried at the lower of its carrying value and fair value less disposal cost and is presented separately on the face of the balance sheet.

2a. Accounting Policies continued

Non-current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Impairment

The carrying amounts of property, plant and equipment and investments in associates are reviewed for impairment if events or changes in circumstances indicate that the carrying value of an asset may not be recoverable and the carrying amount of goodwill is reviewed for impairment annually. If there are indicators of impairment, an assessment is made to determine whether the asset's carrying value exceeds its recoverable amount. Whenever the carrying value of an asset exceeds its recoverable amount, an impairment loss is charged to the income statement.

The Group reviews the residual value and useful life of an asset at least annually and, if expectations differ from previous estimates, the change(s) are accounted for as a change in accounting estimate.

For mining properties and leases, investments in associates, other investments and goodwill, the recoverable amount of an asset is determined on the basis of its value in use, being the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life, discounted using a market-based, risk-adjusted, discount rate.

For other property, plant and equipment, the recoverable amount of an asset is also considered on the basis of its net realisable value, where it is possible to assess the amount that could be obtained from the sale of an asset in an arm's length transaction, less the cost of disposal.

Recoverable amounts are estimated for individual assets or, if this is not possible, for the relevant cash-generating unit.

Government Grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Other grants are credited to the income statement as and when the related expenditure is incurred.

Inventories

Inventories and work-in-progress are stated at the lower of cost and net realisable value, less any provision for obsolescence.

Cost is determined on the following bases:
- Purchased concentrate is recorded at cost on a first-in, first-out ('FIFO') basis; all other materials including stores and spares are valued on weighted average basis
- Finished products are valued at raw material cost plus costs of conversion, comprising labour costs and an attributable proportion of manufacturing overheads based on normal levels of activity
- By-products and scrap are valued at net realisable value.

Net realisable value is determined based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Taxation

Tax expense represents the sum of tax payable and deferred tax.

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Exceptions to this principle are:
- Tax payable on the future remittance of the past earnings of subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future
- Deferred income tax is not recognised on goodwill impairment which is not deductible for tax purposes or on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- Deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Notes to the Consolidated Financial Statements
continued

2a. Accounting Policies continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the relevant Group entity intends to settle its current tax assets and liabilities on a net basis.

Retirement Benefit Schemes

The Group operates or participates in a number of defined benefit and contribution pension schemes, the assets of which are (where funded) held in separately administered funds. The cost of providing benefits under the plans is determined each year separately for each plan using the projected unit credit method by independent qualified actuaries.

Actuarial gains and losses arising in the year are recognised in full in the income statement of the year.

For defined contribution schemes, the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year.

Share-based Payments

Certain employees (including Directors) of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions are determined by an external valuer and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the current expectations. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

Provisions for Liabilities and Charges

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources, that can be reliably estimated, will be required to settle such an obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows to net present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Unwinding of the discount is recognised in the income statement as a borrowing cost. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

Restoration, Rehabilitation and Environmental Costs

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mine. Costs arising from the installation of plant and other site preparation work, discounted to net present value, are provided for and a corresponding amount is capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged to the income statement over the life of the operation through the depreciation of the asset and the unwinding of the discount on the provision. The cost estimates are reviewed periodically and are adjusted to reflect known developments which may have an impact on the cost estimates or life of operations. The cost of the related asset is adjusted for changes in the provision due to factors such as updated cost estimates, changes to lives of operations, new disturbance and revisions to discount rates. The adjusted cost of the asset is depreciated prospectively over the life of the asset to which it relates. The unwinding of the discount is shown as a financing cost in the income statement.

Costs for restoration of subsequent site damage which is caused on an ongoing basis during production are provided for at their net present values and charged to the income statement as extraction progresses. Where the costs of site restoration are not anticipated to be material, they are expensed as incurred.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

2a. Accounting Policies continued

Foreign Currency Translation

The functional currency for each entity in the Group, is determined as the currency of the primary economic environment in which it operates. For all principal subsidiaries, the functional currency is the local currency of the country in which it operates, except KCM, wherein the functional currency is US dollars, since most of its transactions are denominated in US dollars. In the financial statements of individual group companies, transactions in currencies other than the local functional currency are translated into local currency at the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in other currencies are translated into local currency at exchange rates prevailing on the balance sheet date.

For the purposes of consolidation, the income statement items of those entities for whom the US dollar is not the reporting currency are translated into US dollars at the average rates of exchange during the period. The related balance sheets are translated at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of such operations, and on foreign currency borrowings to the extent that they hedge the Group's investment in such operations, are reported in the consolidated statement of changes in equity. All other exchange differences are included in the income statement.

On disposal of a foreign entity, the deferred cumulative exchange differences recognised in equity relating to that particular foreign operation would be recognised in the income statement.

Financial Asset Investments

Quoted financial asset investments are classified as available for sale under IAS 39 and are initially recorded at cost and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses on financial asset investments are recognised directly in equity. On disposal or impairment of the investments, the gains and losses in equity are recycled into the income statement.

Investments in unquoted equity instruments that do not have a market price and whose fair value cannot be reliably measured are measured at cost.

Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Liquid Investments

Investments maturing after more than 90 days are classified as liquid investments and are fair valued through the income statement.

Trade Receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade Payables

Trade payables are stated at their nominal value.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, short-term deposits with banks and short-term highly liquid investments that are readily convertible into cash and which are subject to insignificant risk of changes in the principal amount.

Borrowings

Interest bearing loans and overdrafts are recorded at the proceeds received. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis and charged to the income statement using the effective interest method. They are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes to the Consolidated Financial Statements continued

2a. Accounting Policies continued

Convertible Loan Notes

Convertible loan notes are accounted for as compound instruments. The equity component and the liability component are separated out on the date of the issue. The equity component is recognised in a separate reserve and is not subsequently remeasured. The liability component is held at amortised cost. The interest expensed on the liability component is calculated by applying the effective interest rate (the prevailing market interest rate for similar non-convertible debt). The difference between this amount and interest paid is added to the carrying amount of the convertible loan notes.

Borrowing Costs

Borrowing costs directly relating to the financing of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time as the related asset is substantially ready for its intended use i.e. when it is capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available in the short term (from money borrowed specifically to finance a project), the income generated from such short-term investments is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average rate applicable to the relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Derivative Financial Instruments

In order to hedge its exposure to foreign exchange, interest rate and commodity price risks, the Group enters into forward, option, swap contracts and other derivative financial instruments. The Group does not hold nor issue derivative financial instruments for speculative purposes.

- The Group uses the derivative financial instruments described above to manage exposure to foreign exchange, interest rate and commodity price risks.

- The policy for accounting for financial instruments from 1 April 2005 is as follows:

- Derivative financial instruments are initially recorded at their fair value on the date of the derivative transaction and are re-measured at their fair value at subsequent balance sheet dates.

- Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement. The hedged item is recorded at fair value and any gain or loss is recorded in the income statement and is offset by the gain or loss from the change in the fair value of the derivative.

- Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in equity. Amounts deferred to equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement.

- Derivative financial instruments that do not qualify for hedge accounting are marked to market at the balance sheet date and gains or losses are recognised in the income statement immediately.

- Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

- Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

2b. Critical Accounting Judgements and Estimation Uncertainty

In the course of applying the policies outlined in note 2(a), management has made estimations and assumptions that impact the amounts recognised in the Financial Statements. Vedanta believes that judgement and estimation has been made in the following key areas:

Mining Properties and Leases

The carrying value of mining properties and leases is determined by depreciating the assets over the life of the respective mine using the unit of production method based on proved and probable reserves. The estimate of reserves is subject to assumptions including life of the mine and may change when new information becomes available. Changes in reserves as a result of factors such as production cost, recovery rates, grade of reserves or commodity prices could impact the depreciation rates, asset carrying values and environmental and restoration provisions.

Useful Economic Lives of Assets and Impairment

Property, plant and equipment other than mining properties and leases are depreciated over their useful economic lives. Management reviews the useful economic lives at least once a year and any changes could affect the depreciation rates prospectively and hence the asset carrying values.

The Group also reviews its property, plant and equipment, including mining properties and leases, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. In assessing property, plant and equipment for impairment, factors leading to significant reduction in profits such as changes in commodity prices, the Group's business plans and significant downward revision in the estimated mining reserves are taken into consideration. The carrying value of the assets of a cash generating unit (CGU) and associated mining reserves is compared with the fair value of those assets, that is, the higher of net realisable value and value in use. Value in use is usually determined on the basis of discounted estimated future cash flows. This involves management estimate of commodity prices, market demand and supply, economic and regulatory climates, long-term mine plans and other factors. Any subsequent changes to cash flow due to changes in the above mentioned factors could impact on the carrying value of the assets.

Vedanta reported in the last annual report that the fair value of property, plant and equipment acquired as part of KCM in November 2004 was being reviewed against their recoverable amounts at the date of acquisition. This review was completed during the current year and no impairment has been considered necessary to the value of assets acquired.

Restoration, Rehabilitation and Environmental Costs

Provision is made for costs associated with restoration and rehabilitation of mining sites as soon as the obligation to incur such costs arises. Such restoration and closure costs are typical of extractive industries and they are normally incurred at the end of the life of the mine. The costs are estimated on the basis of mine closure plans and the estimated discounted costs of dismantling and removing these facilities. The costs of restoration are capitalised when incurred reflecting our obligations at that time and corresponding provision is created. The capitalised asset is charged to the income statement over the life of the asset through depreciation over the life of the operation and the unwinding of the discount on the provision. Management estimates are based on local legislation and/or other agreements such as the KCM acquisition agreement. The actual costs and cash outflows may differ from estimates because of changes in laws and regulations, changes in prices, analysis of site conditions and changes in restoration technology.

The Group's Indian operations do not provide for restoration costs over and above statutory requirements. In Australia, appropriate provision has been made in accordance with the local legal requirement and in the case of KCM, provisions have been made with reference to a plan agreed with the Government of Zambia at the time of KCM's privatisation in April 2000 and pursuant to the acquisition agreement.

Provisions and Liabilities

Provisions and liabilities are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events that can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances which may be subject to change. The actual cash outflows take place over many years in the future and hence the carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take into account the changing circumstances and other factors that influence the provisions and liabilities.

Notes to the Consolidated Financial Statements continued

2b. Critical Accounting Judgements and Estimation Uncertainty continued

Contingencies

In the normal course of business, contingent liabilities may arise from litigation and other claims against the Group. Where the potential liabilities have a low probability of crystallising or are very difficult to quantify reliably, they are treated as contingent liabilities. Such liabilities are disclosed in the notes but are not provided for in the Financial Statements. Although there can be no assurance regarding the final outcome of the legal proceedings, it is not expected that such contingencies will have a materially adverse impact on the Group's financial position or profitability. In addition to contingencies, the Group also has significant capital commitments, in relation to various capital projects, which are not recognised on the balance sheet. The value of such commitments at 31 March 2006 was $1,233.4 million as set out in note 34.

Underlying Earnings and Special Items

The financial statements include the presentation of 'Underlying earnings' after adjusting for special items. This is an additional measure of performance in order to provide a better understanding of the underlying operational results of the Group. Such special items are generally non-recurring in nature and are disclosed separately in the Financial Statements. Identification of such items involves a degree of judgement by management.

3. Segmental Analysis

The Group's primary format for segment reporting is business segments. The business segments consist of non-ferrous metals i.e. aluminium, copper and zinc, with residual components being reported as others. Business segment data includes an allocation of corporate costs to each sector on an appropriate basis. The risks and returns of the Group's operations are primarily determined by the nature of the different activities that the Group engages in. Inter-segment sales are charged based on prevailing market prices. The Group's activities are organised on a global basis.

(a) Business Segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments for the years ended 31 March 2006 and 2005.

Year ended 31 March 2006 $ million	Continuing operations Aluminium	 Copper	 Zinc	 Other	 Elimination	Total operations
Revenue						
Sales to external customers	453.0	2,241.3	875.5	132.0	–	3,701.8
Inter-segment sales	40.1	–	–	–	(40.1)	–
Segment revenue	493.1	2,241.3	875.5	132.0	(40.1)	3,701.8
Result						
Operating profit	102.8	338.6	489.5	12.9	–	943.8
Net finance costs	–	–	–	–	–	(7.7)
Share of associate's loss	–	–	–	–	–	(1.4)
Profit before taxation	–	–	–	–	–	934.7
Tax expense	–	–	–	–	–	(280.4)
Profit for the year from continuing operations	–	–	–	–	–	654.3
Assets and liabilities						
Segment assets	1,214.1	2,001.4	1,223.3	811.5	–	5,250.3
Interest in associate	–	–	–	–	–	1.8
Unallocated assets*	–	–	–	–	–	983.0
Total assets	–	–	–	–	–	6,235.1
Segment liabilities	(745.7)	(1,405.8)	(319.5)	(614.3)	–	(3,085.3)
Unallocated liabilities*	–	–	–	–	–	(811.0)
Total liabilities	**–**	**–**	**–**	**–**	**–**	**(3,896.3)**
Other segment information						
Additions to property, plant and equipment	540.5	96.6	49.0	–	–	686.1
Depreciation	(32.5)	(80.6)	(43.5)	(1.1)	–	(157.7)

* Unallocated assets and liabilities relate to corporate function.

3. Segmental Analysis continued
(a) Business Segments continued

Year ended 31 March 2005 $ million	Continuing operations Aluminium	Copper	Zinc	Other	Elimination	Total operations
Revenue						
Sales to external customers	281.7	1,014.7	486.4	101.4	–	1,884.2
Inter-segment sales	26.3	–	–	–	(26.3)	–
Segment revenue	308.0	1,014.7	486.4	101.4	(26.3)	1,884.2
Result						
Operating profit/(loss)	57.4	103.2	190.6	(23.2)	–	328.0
Non-operating special items	–	–	–	–	–	56.5
Operating profit after special items	–	–	–	–	–	384.5
Net finance revenues	–	–	–	–	–	7.4
Share of associate's loss	–	–	–	–	–	(5.6)
Profit before taxation	–	–	–	–	–	386.3
Tax expense	–	–	–	–	–	(87.0)
Profit for the year from continuing operations	–	–	–	–	–	299.3
Assets and liabilities						
Segment assets	965.9	1,703.2	877.5	712.0	–	4,258.6
Interest in associate	–	–	–	–	–	3.3
Unallocated assets*	–	–	–	–	–	316.5
Total assets						4,578.4
Segment liabilities	(694.7)	(1,081.2)	(337.8)	(552.5)	–	(2,666.2)
Unallocated liabilities*	–	–	–	–	–	(165.5)
Total liabilities	–	–	–	–	–	(2,831.7)
Other segment information						
Additions to property, plant and equipment	438.3	49.5	245.8	70.7	–	804.3
Depreciation	(18.3)	(55.9)	(28.8)	(0.7)	–	(103.7)
Impairment losses	–	–	–	(17.8)	–	(17.8)

* Unallocated assets and liabilities relate to corporate function.

(b) EBITDA by Segment

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Aluminium	135.3	75.6
Copper	425.3	163.0
India/Australia	219.0	87.0
Zambia	206.3	76.0
Zinc	532.9	218.5
Other	8.0	(3.1)
EBITDA*	**1,101.5**	**454.0**
Depreciation	(157.7)	(103.7)
Operating special items	–	(22.3)
Group operating profit	**943.8**	**328.0**

* EBITDA represents operating profit before special items, depreciation and amortisation.

Notes to the Consolidated Financial Statements continued

3. Segmental Analysis continued

(c) Geographical Segmental Analysis

The Group's operations are located in India, Zambia and Australia. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Far East	963.8	487.1
India	1,762.3	1,130.6
Africa	136.6	19.0
Other	839.1	247.5
Total	**3,701.8**	**1,884.2**

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Australia	163.1	112.8	3.8	2.4
India	3,869.2	3,456.8	618.6	780.0
Zambia	768.4	639.8	63.7	20.9
Other	1,434.4	369.0	–	1.0
Total	**6,235.1**	**4,578.4**	**686.1**	**804.3**

4. Special Items

(a) Administrative Expenses

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Restructuring and redundancies	–	(4.1)
Impairment of non-core assets	–	(17.8)
Loss on sale of assets	–	(0.4)
Total	**–**	**(22.3)**

(b) Others

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Release of surplus on acquisition[1]	–	56.5
Total	**–**	**56.5**

1 As set out in the Group's financial statements for the year ended 31 March 2005 as presented under UK GAAP, the Group acquired KCM in November 2004. The assets and liabilities acquired were included at provisional fair values. The difference between the total consideration of $46.1 million and provisional fair value of net assets acquired ($102.6 million) was recognised in the UK GAAP financial statements as negative goodwill totalling $56.5 million.

As explained in the press release dated 27 September 2005 (see note 1), under IFRS negative goodwill is not recognised in the balance sheet but is recognised immediately in the income statement.

5. Investment Revenues

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Interest and other financial income	67.6	48.3
Dividend income from other financial investments	7.0	2.8
Foreign exchange gain/(loss) on cash and liquid investments	1.1	(6.1)
Expected return on defined benefit arrangements	1.1	0.9
Capitalisation of foreign exchange differences and interest income (note 14)	(25.2)	(8.4)
Total	**51.6**	**37.5**

6. Finance Costs

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Interest on bank loans and overdrafts	75.6	49.8
Interest on convertible loan notes (note 25)	4.0	–
Interest on other loans	44.5	11.0
Unwinding of discount on provisions	5.6	–
Unwinding of discount on KCM deferred consideration	2.1	–
Interest on defined benefit arrangements	4.7	2.8
Capitalisation of borrowing costs (note 14)	(77.2)	(33.5)
Total	**59.3**	**30.1**

7. Profit for the year has been stated after charging/(crediting)

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Included in cost of sales:		
Depreciation on property, plant and equipment	157.7	103.7
Costs of inventories recognised as an expense	1,451.0	696.1
Included in other expenses:		
Operating special items (note 4a):		
– Restructuring costs	–	4.1
– Impairment charges	–	17.8
– Loss on sale of asset	–	0.4
Auditors' remuneration for audit services (note 8)	1.1	1.5
Research and development	0.3	–
Staff costs (note 9)	194.6	133.1
Net foreign exchange (gains)/losses	(4.5)	1.2
Release of negative goodwill on acquisition of KCM (note 4b)	–	(56.5)

Notes to the Consolidated Financial Statements continued

8. Auditors' Remuneration

The table below shows the fees payable globally to the Group's auditors, Deloitte & Touche, for external audit and other assurance services, as well as fees paid to other accountancy firms for external audit and other assurance services in each of the two years ended 31 March 2006:

External audit and other assurance services	Year ended 31 March 2006 UK $ million	Other $ million	Total $ million	Year ended 31 March 2005 UK $ million	Other $ million	Total $ million
Deloitte & Touche:						
– external audit	0.6	0.4	1.0	0.9	0.5	1.4
– other audit related	0.8	0.4	1.2	0.5	–	0.5
Total	**1.4**	**0.8**	**2.2**	**1.4**	**0.5**	**1.9**

External audit and other assurance services	Year ended 31 March 2006 UK $ million	Other $ million	Total $ million	Year ended 31 March 2005 UK $ million	Other $ million	Total $ million
Other accountancy firms:						
– external audit	–	0.1	0.1	–	0.1	0.1
Total	**–**	**0.1**	**0.1**	**–**	**0.1**	**0.1**

Included in the other assurance services provided by Deloitte & Touche UK for the year ended 31 March 2006 are $0.2 million of fees for the interim review in respect of the period for the six months ended 30 September 2005 (September 2004: $0.2 million) and $0.3 million as fees for IFRS restatement for year ended 31 March 2005 and comparatives which have been expensed to the income statement. During the year ended 31 March 2006, $0.3 million (31 March 2005: $0.3 million) of fees for assurance services in respect of bond issues have been capitalised as part of bond issue costs.

The following table shows the fees paid globally to the Group's external auditors in respect of non-audit services provided in the two years ended 31 March 2006:

Non-audit services	Year ended 31 March 2006 UK $ million	Other $ million	Total $ million	Year ended 31 March 2005 UK $ million	Other $ million	Total $ million
Deloitte & Touche	–	–	–	0.3	–	0.3
Other accountancy firms	–	0.1	0.1	0.8	0.5	1.3
Total	**–**	**0.1**	**0.1**	**1.1**	**0.5**	**1.6**

Included in the non-audit services provided by Deloitte & Touche for the year ended 31 March 2005 are $0.2 million of fees for due diligence services in respect of the acquisition of KCM which have been capitalised as part of the costs of acquisition. Other non-audit services provided by Deloitte & Touche relate to company secretarial compliance.

9. Employee Numbers and Costs

Average number of persons employed by the Group in the year.

Class of business	Year ended 31 March 2006 Number	Year ended 31 March 2005 Number
Aluminium	5,799	5,254
Copper	10,654	11,189
India/Australia	1,047	1,003
Zambia	9,607	10,186
Zinc	6,076	5,987
Other	174	183
Total	**22,703**	**22,613**

Costs incurred during the year in respect of employees and Directors	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Salaries and wages	171.3	107.1
Social security costs	8.7	10.3
Defined contribution pension scheme costs (note 30)	10.6	5.0
Defined benefit pension scheme costs (note 30)	2.4	8.2
Share-based payments charge	1.6	2.5
Total	**194.6**	**133.1**

10. Tax

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Current tax:		
UK corporation tax	–	(0.6)
Foreign tax:		
– India	177.8	65.3
– Zambia	1.1	0.2
– Other	7.1	0.5
	186.0	**65.4**
Deferred tax:		
Current year movement in deferred tax	94.4	29.3
Attributable to decrease in the rate of Indian corporation tax	–	(7.7)
	94.4	**21.6**
Total tax expense	**280.4**	**87.0**
Effective tax rate	30.0%	22.5%

Major components of income tax expense for the year ended 31 March 2006 are:

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Consolidated income statement		
Current tax		
Current tax charge	186.0	65.4
Deferred tax		
Deferred tax charged to income statement	94.4	21.6
Income tax expense reported in consolidated income statement	**280.4**	**87.0**
Consolidated statement of changes in equity		
Deferred tax reported in equity	**13.5**	**–**

Overview of the Indian Direct Tax Regime

The following is an overview of the salient features of the Indian direct tax regime relevant to the taxation of the Group:

- Companies are subject to Indian income tax on a stand alone basis. There is no concept of tax consolidation or Group relief in India
- Companies are charged tax on profits of assessment years which run from 1 April to 31 March. For each assessment year, a company's profits will be subject to either regular income tax or Minimum Alternative Tax ('MAT'), whichever is the greater
- Regular income tax is charged on book profits (prepared under Indian GAAP) adjusted in accordance with the provisions of the Indian Income Tax Act. Typically the required adjustments generate significant timing differences in respect of the depreciation of fixed assets, relief for provisions and accruals, the use of tax losses brought forward and pension costs. Regular income tax is charged at 30% (plus surcharges taking the effective tax rate to 33.66%). The corporate tax rate up to 2004-05 was 35% (plus surcharges taking the effective tax rate to 36.59%)
- MAT is charged on book profits but typically with a limited number of adjustments. MAT is charged at 7.5% (plus surcharge). From the year 2006-07, MAT will be charged at 10% (plus surcharge). However, MAT paid during a year can be set off against normal tax within a period of seven years succeeding the assessment year in which the MAT credit arose
- There are various tax exemptions or tax holidays available to companies in India. The most important to the Group are:
  i) the industrial undertakings' exemption: Profits of newly constructed industrial undertakings located in designated areas of India can benefit from a tax holiday. A typical tax holiday would exempt 100% of the plant's profits for five years, and 30% for the next five years, and
  ii) the power plants' exemption: Profits on newly constructed power plants can benefit from a tax holiday. A typical holiday would exempt 100% of profits in ten consecutive years within the first 15 years of the power plants' operation. The start of the ten-year period can be chosen by a company
- Tax is payable in the financial year to which it relates
- Tax returns submitted by companies are regularly subjected to a comprehensive review and aggressive challenge by the tax authorities. There are appeals procedures available to both the tax authorities and taxpayers and it is not uncommon for significant or complex matters in dispute to remain outstanding for several years before they are finally resolved in the High Court or the Supreme Court.

Notes to the Consolidated Financial Statements continued

10. Tax continued

Overview of the Zambian Tax Regime

- Copper and cobalt mining companies pay company tax at 25%
- Period for carry forward of tax losses for KCM and Smelterco is 20 years
- Companies are charged tax on profits of accounting years
- Income tax is charged on book profits (prepared under IFRS) adjusted in accordance with the provisions of the Income Tax Act 1996 as amended
- Tax returns are submitted on a self assessment basis to the Zambian Revenue Authority ('ZRA') which will review the return if found inadequate. Any disputes will be referred to the Revenue Appeals Tribunal and subsequently to the High Court or the Supreme Court.

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 March 2006 is as follows:

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Accounting profit before income tax	**934.7**	**386.3**
At Indian statutory income tax rate of 33.66% (2005: 36.59%)	314.6	141.4
Temporary difference not recognised in deferred tax	(6.0)	1.2
Utilisation of tax losses	0.6	(3.0)
Disallowable expenses	7.1	12.7
Non-taxable income	(5.0)	(26.5)
Impact of tax rate differences	(14.3)	(15.4)
Tax holiday and similar exemptions	(17.8)	(27.5)
Dividend distribution tax on overseas subsidiaries	2.7	3.0
Minimum Alternative Tax	1.7	1.1
Adjustments in respect of previous years	(3.2)	–
At effective income tax rate of 30.0% (2005: 22.5%)	**280.4**	**87.0**

11. Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options). The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Net profit attributable to equity holders of the parent	**373.5**	**178.9**

	Year ended 31 March 2006 million	Year ended 31 March 2005 million
Weighted average number of ordinary shares for basic earnings per share	286.8	286.4
Effect of dilution:		
– Convertible loan notes	3.1	–
– Share options	3.6	1.5
Adjusted weighted average number of ordinary shares for diluted earnings per share	**293.5**	**287.9**

(a) Earnings per Share on Profit for the Year

Basic earnings per share based on the profit for the year	Year ended 31 March 2006	Year ended 31 March 2005
Profit for the year attributable to equity holders of the parent ($ million)	373.5	178.9
Weighted average number of shares of the Company in issue (million)	286.8	286.4
Earnings per share on profit for the year (US cents per share)	**130.2**	**62.5**

11. Earnings per Share continued

(a) Earnings per Share on Profit for the Year continued

Diluted earnings per share based on the profit for the year	Year ended 31 March 2006	Year ended 31 March 2005
Profit for the year attributable to equity holders of the parent ($ million)	373.5	178.9
Adjustment in respect of convertible bonds of Vedanta ($ million)	2.7	–
Adjustment in respect of convertible bonds of Sterlite ($ million)	–	(1.9)
Profit for the year after dilutive adjustment ($ million)	**376.2**	**177.0**
Adjusted weighted average number of shares of the Company in issue (million)	293.5	287.9
Diluted earnings per share on profit for the year (US cents per share)	**128.2**	**61.5**

Shares issued during the year ended 31 March 2005 were 303,000 on 18 March 2005 and 85,000 on 31 March 2005 pursuant to the exercise of the second tranche of awards under the Reward Plan. Shares issued under the Long Term Incentive Plan on 22 February 2006 were 2,506,350. The issue of these shares has been included in determining the 2006 weighted average number of shares.

Profit for the year would be diluted if holders of the convertible bonds in Vedanta exercised their right to convert their bond holdings into Vedanta equity. The impact on profit for the year of this conversion would be the interest payable on the convertible bond.

The outstanding awards under the LTIP are reflected in the diluted EPS figure through an increased number of weighted average shares.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these Financial Statements.

(b) Earnings per Share on Underlying Profit for the Year

The Group's Underlying Profit is the profit for the year after adding back special items and their resultant tax and minority interest effects, as shown in the table below:

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Profit for the year attributable to equity holders of the parent	373.5	178.9
Administrative expenses – special items (note 4a)	–	22.3
Special item – release of surplus on acquisition (note 4b)	–	(56.5)
Tax effect of special items	–	(1.6)
Minority interest effect of special items	–	(3.0)
Underlying Profit for the year	**373.5**	**140.1**

Basic earnings per share on Underlying Profit for the year	Year ended 31 March 2006	Year ended 31 March 2005
Underlying Profit for the year ($ million)	373.5	140.1
Weighted average number of shares of the Company in issue (million)	286.8	286.4
Earnings per share on Underlying Profit for the year (US cents per share)	**130.2**	**48.9**

Diluted earnings per share on Underlying Profit for the year	Year ended 31 March 2006	Year ended 31 March 2005
Underlying Profit for the year ($ million)	373.5	140.1
Adjustment in respect of convertible bonds of Vedanta ($ million)	2.7	–
Adjustment in respect of convertible bonds of Sterlite ($ million)	–	(1.9)
Underlying Profit for the year after dilutive adjustment ($ million)	**376.2**	**138.2**
Adjusted weighted average number of shares of the Company of issue (million)	293.5	287.9
Diluted earnings per share on Underlying Profit for the year (US cents per share)	**128.2**	**48.0**

Notes to the Consolidated Financial Statements continued

12. Dividends

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Amounts recognised as distributions to equity holders:		
Equity dividends on ordinary shares:		
– Final dividend for 2004/05: 11.55 US cents per share (2003/04: 5.5 US cents per share)	33.1	15.8
– Interim dividend paid during the year: 5.7 US cents per share (2004/05: 5.5 US cents per share)	16.3	15.8
	49.4	**31.6**
Proposed for approval at AGM		
Equity dividends on ordinary shares:		
Final dividend for 2005/06: 14.3 US cents per share (2004/05: 11.55 US cents per share)	41.0	33.1

13. Goodwill

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
At 1 April		
Cost (gross carrying amount)	16.9	16.9
Accumulated impairment losses	(4.7)	(4.7)
Exchange difference	(0.1)	–
Net carrying amount at 31 March	**12.1**	**12.2**

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The Group has undertaken the impairment review for the outstanding goodwill of $12.1 million as on 31 March 2006. The carrying amount of goodwill was evaluated using the discounted future cash flows of the entity to which the goodwill pertains (Sterlite) and the carrying amount of goodwill does not require any impairment for the year ending 31 March 2006.

14. Property, Plant and Equipment

$ million	Mining property and leases	Leasehold land and buildings	Freehold land and buildings	Plant and equipment	Assets under construction	Other	Total
Cost							
At 1 April 2004	385.1	10.1	111.2	1,135.8	350.1	26.4	2,018.7
Additions	4.3	–	23.7	369.5	403.9	2.9	804.3
Acquisition of subsidiary	40.9	–	16.8	188.2	79.3	–	325.2
Disposals	–	–	(0.1)	(5.0)	(13.4)	(6.4)	(24.9)
Transfers	–	(0.8)	0.7	(21.4)	(5.0)	26.5	–
Exchange difference	(1.7)	(0.1)	(0.4)	0.7	9.6	(0.1)	8.0
At 1 April 2005	**428.6**	**9.2**	**151.9**	**1,667.8**	**824.5**	**49.3**	**3,131.3**
Additions	0.1	0.6	1.1	0.1	682.4	1.8	686.1
Transfers	25.6	–	121.5	683.3	(830.5)	0.1	–
Disposals	(0.2)	–	(0.1)	(5.1)	–	–	(5.4)
Exchange difference	(11.4)	(0.2)	(3.2)	(35.9)	(13.9)	(0.1)	(65.6)
At 31 March 2006	**442.7**	**9.6**	**271.2**	**2,310.2**	**662.5**	**50.2**	**3,746.4**
Accumulated depreciation							
At 1 April 2004	93.4	4.5	31.8	588.2	–	19.3	737.2
Charge for the year	4.6	0.6	2.8	94.3	–	1.4	103.7
Impairment	–	–	–	–	17.8	–	17.8
Disposals	–	–	–	(4.3)	–	(6.1)	(10.4)
Transfers	(10.2)	–	1.8	(13.0)	–	21.4	–
Exchange difference	0.6	–	(0.1)	(6.0)	–	(0.1)	(5.6)
At 1 April 2005	**88.4**	**5.1**	**36.3**	**659.2**	**17.8**	**35.9**	**842.7**
Charge for the year	11.3	0.5	7.8	148.4	–	1.1	169.1
Disposals	–	–	–	(5.1)	–	–	(5.1)
Exchange difference	(5.3)	(0.1)	(0.7)	(16.6)	–	(0.6)	(23.3)
At 31 March 2006	**94.4**	**5.5**	**43.4**	**785.9**	**17.8**	**36.4**	**983.4**
Net book value							
At 1 April 2004	**291.7**	**5.6**	**79.4**	**547.6**	**350.1**	**7.1**	**1,281.5**
At 1 April 2005	**340.2**	**4.1**	**115.6**	**1,008.6**	**806.7**	**13.4**	**2,288.6**
At 31 March 2006	**348.3**	**4.1**	**227.8**	**1,524.3**	**644.7**	**13.8**	**2,763.0**

14. Property, Plant and Equipment continued

At 31 March 2006, land having carrying value of $8.1 million (31 March 2005: $7.4 million) was not depreciated. During the year ended 31 March 2006 depreciation amounting to $11.4 million directly relating to the trial run of expansion projects was being capitalised.

At 31 March 2006, cumulative capitalised interest, borrowing costs and foreign exchange gains or losses included within the table above was $95.9 million (31 March 2005: $43.9 million).

Other property, plant and equipment includes office equipment and fixtures, and light vehicles.

15. Interest in Associate

The Group has a 38.8% interest in Indian Foils Limited ('IFL'), which is involved in the manufacture of aluminium foils and flexible packaging products. IFL's operations are located in West Bengal. IFL is listed on the National, Calcutta and Bombay Stock Exchanges.

Analysis of movements in investment in associate	2006 $ million	2005 $ million
At 1 April	**3.3**	**2.7**
Share of loss for the year	(1.4)	(5.6)
Operating profit/(loss)	0.1	(2.7)
Interest payable	(1.5)	(2.9)
Loans (repaid)/given (see below)	(0.1)	6.2
At 31 March	**1.8**	**3.3**
Market value	**2.9**	**3.8**

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Share of associate's balance sheet:		
Current assets	4.5	4.4
Non-current assets	14.2	15.9
Current liabilities	(10.6)	(14.1)
Non-current liabilities	(17.4)	(14.0)
Net liabilities	(9.3)	(7.8)
Group's share of associate's revenue and loss:		
Revenue	12.7	10.8
Loss	(1.4)	(5.6)

IFL's debt includes a loan of $28.5 million with ICICI Bank. There is an option for ICICI Bank to convert this debt to equity shares, at par value, at any time up to the maturity of the loan in 2011. If this option were exercised, MALCO's holding in IFL would reduce from 38.8% to 7.1%. As this option has not been exercised, the Group's interest in IFL has been accounted for using 38.8%.

During the year ended 31 March 2005, Sterlite advanced loans to IFL amounting to $6.2 million for working capital purposes. The loans were advanced during the period 2 April 2004 to 7 February 2005 and are repayable within two years. The loans bear interest at 7% per annum and interest accrued during the year ended 31 March 2006 amounted to $0.6 million (2005: $0.3 million). The loans have been classified as part of the investment in the associate.

During the year ended 31 March 2004, IFL issued preference shares to the value of $6.2 million (Sterlite: $5.4 million; MALCO: $0.8 million) for non-cash consideration in full settlement of its liabilities to these companies at that time.

Notes to the Consolidated Financial Statements continued

16. Financial Asset Investments

In accordance with IFRS 1, the Group has applied IAS 32 and IAS 39 prospectively from 1 April 2005. On adoption of the two standards, financial asset investments are required to be classified and accounted for as either as available-for-sale, fair value through profit or loss, held for trading or held to maturity. In accordance with the Group accounting policy set out in note 1, all financial asset investments were classified as available-for-sale.

Available-for-sale investments	As at 31 March 2006 $ million	As at 31 March 2005 $ million
At beginning of year	24.8	27.5
Adoption of IAS 32 and IAS 39	1.3	–
At 1 April	**26.1**	**27.5**
Disposals	–	(2.3)
Movements in fair value	1.5	–
Exchange difference	(0.5)	(0.4)
At 31 March	**27.1**	**24.8**

Analysis of financial asset investments	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Quoted	5.0	2.4
Unquoted	22.1	22.4

Quoted investments represent investments in equity securities that present the Group with opportunity for return through dividend income and gains in value. These securities are held at fair value based on market prices.

Unquoted investments represent an investment in the equity share capital of the Andhra Pradesh Gas Power Corporation Limited and are held at cost.

17. Other Non-Current Assets

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Deposits receivable after one year	27.3	34.6
	27.3	**34.6**

18. Inventories

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Raw materials and consumables	284.3	172.5
Work-in-progress	214.2	134.4
Finished goods	36.5	30.8
Total	**535.0**	**337.7**

Inventories with a carrying amount of $295.2 million (2005: $216.9 million) have been pledged as security against certain bank borrowings of the Group.

19. Trade and Other Receivables

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Trade receivables	403.5	183.6
Amounts due from associate	0.6	3.6
Amounts due from related parties (note 35b)	10.8	16.9
Other receivables	175.0	131.4
Prepayments	3.1	3.5
Accrued income	–	0.6
Total	**593.0**	**339.6**

The credit period given to customers generally ranges from zero to 90 days.

20. Liquid Investments

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Bank deposits	75.4	65.2
Other investments	169.0	196.8
Total	**244.4**	**262.0**

21. Cash and Cash Equivalents

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Cash at bank and in hand	68.3	61.6
Short-term deposits	1,779.0	1,124.0
Total	**1,847.3**	**1,185.6**

Short-term deposits are made for periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 31 March 2006, financial assets include $2.0 million (2005: $2.0 million) of cash held in short-term deposit accounts, that is restricted in use as it relates to unclaimed deposits, dividends, interest on debentures, share application monies and a $36.0 million (2005: $18.0 million) restricted cash reserve in KCM.

22. Borrowings

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Bank loans	700.7	815.6
Bonds	567.6	615.9
Other loans	207.5	66.7
Total	**1,475.8**	**1,498.2**
Borrowings are repayable as:		
On demand within one year (shown as current liabilities)	239.8	194.7
In the second year	257.9	145.2
In two to five years	949.6	1,004.4
After five years	28.5	153.9
Total borrowings	**1,475.8**	**1,498.2**
Less: payable within one year	(239.8)	(194.7)
Medium- and long-term borrowings	**1,236.0**	**1,303.5**

At 31 March 2006, the Group had available $443.7 million (2005: $307.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Notes to the Consolidated Financial Statements
continued

22. Borrowings continued

The Group's exposure to interest rate and currency is as follows:

					Fixed rate financial liabilities		Non-interest bearing financial liabilities
	Total $ million	Floating rate financial liabilities $ million	Fixed rate financial liabilities $ million	Non-interest bearing financial liabilities $ million	Weighted average interest rate (%)	Weighted average period for which the rate is fixed (years)	Weighted average period until maturity (years)
As at 31 March 2006							
INR	449.2	4.7	429.3	15.2	6.3	2.7	9.3
US $	1,596.6	979.9	616.4	0.3	6.1	19.6	–
Japanese Yen	30.4	30.4	–	–	–	–	–
	2,076.2	**1,015.0**	**1,045.7**	**15.5**			
Less: convertible bonds	(600.4)	–	(600.4)	–	6.1	20.0	
Borrowings – total	**1,475.8**	**1,015.0**	**445.3**	**15.5**			
As at 31 March 2005							
INR	359.3	14.4	329.4	15.5	7.4	4.1	7.9
US $	1,102.3	1,102.0	0.3	–	2.7	0.5	–
Japanese Yen	36.9	36.9	–	–	–	–	–
Australian $	23.4	–	23.4	–	6.0	0.5	–
	1,521.9	**1,153.3**	**353.1**	**15.5**			
Less: convertible bonds	(23.7)	–	(23.7)	–	3.5		
Borrowings – total	**1,498.2**	**1,153.3**	**329.4**	**15.5**			

The principal loans held by Group companies at 31 March 2006 were as follows:

Hindustan Zinc Limited ('HZL')

Foreign Currency Syndicated Loan

In September 2003, HZL secured a $125 million syndicated loan. The interest rate on the loan is approximately LIBOR plus 61 basis points. The loan is repayable in November 2006 ($30.0 million), November 2008 ($65.0 million) and November 2010 ($30.0 million).

Bharat Aluminium Company Limited ('BALCO')

Term Loans

At 31 March 2006, BALCO held two syndicated Indian rupee term loan facilities totalling $381.1 million at an average interest rate of 7.3% per annum, of which $356.5 million has been drawn down. These loans are secured by a first charge on the fixed assets of BALCO. The first loan of $224.2 million is repayable in 12 quarterly instalments, due to commence in January 2007; the second loan of $132.3 million is repayable in eight quarterly instalments, due to commence from May 2009.

Project Buyers' Credit

As at 31 March 2006, BALCO had extended credit terms relating to purchases of property, plant and equipment for its projects. The extended credit amounted to $97.3 million, of which $80.4 million is repayable after one year and the balance is repayable within six months of draw down.

Sterlite Industries (India) Limited (Sterlite)

Non-convertible Debentures

Sterlite had $22.4 million of Indian rupee non-convertible debentures in issue with various institutions at 31 March 2006. The debentures are repayable from April 2010 to April 2013 with interest rates varying from 7.9% to 8.0% These debentures are secured upon Sterlite's immoveable property at Lonavala, Tuticorin, Gujarat and Chinchpada.

Floating Rate Loan Note

At 31 March 2006, Sterlite had floating rate loan notes ('FRN's') in issue of $79.9 million. Interest currently accrues at 7.34% after taking into account currency and interest rate swaps. The FRN's mature for repayment in June 2007.

Foreign Currency Loans

Sterlite had foreign currency loans with various banks amounting to $82.6 million as at 31 March 2006. The loans mature between August 2006 and October 2008 and bear effective interest rates (after taking account of currency swaps, where applicable) of between 6.1% and 7.6% per annum.

22. Borrowings continued

Preference Shares

Sterlite has issued 1% cumulative redeemable preference shares for $39.2 million which are due for redemption in March 2007. These preference shares are classified as borrowings in accordance with IAS 32.

Konkola Copper Mines ('KCM')

Long-term Loans

As at 31 March 2006, KCM had loans amounting to $21.2 million (2005: $26.5 million) payable to ARH Limited S.A ('ARH'), a subsidiary of Anglo American plc ('AA plc'). The loans were advanced on 17 September 2002 when KCM and AA plc entered into the Exit Deed in which AA plc divested its interest in KCM. The loans bear interest at LIBOR.

The loans are secured on the proceeds, if any, receivable from KCM`s insurers in respect of the Nchanga open pit accident which occurred on 8 April 2001.

The loans are to be repaid:

i) immediately to the extent of any insurance proceeds in respect of the Nchanga open pit accident received by KCM; and
ii) from the third anniversary of the date of Exit Deed in which case the aggregate outstanding amount of the loan at the second anniversary shall be repaid together with interest accrued thereon in tranches of 20% of the aggregate of balance. Amounts and all interest accrued thereon as at the seventh anniversary will be repaid on the seventh anniversary.

Subordinated Term Facility

The Government of the Republic of Zambia had extended a loan to KCM for an aggregate amount of $8.5 million of which $7.3 million was outstanding on 31 March 2006. The facility is secured under a second charge over all the KCM rights, title and interest, present and future, to, and in respect of, proceeds arising under the insurance claim described above. Interest is payable at LIBOR. The facility is repayable in five equal consecutive annual instalments commencing on 17 September 2005 the third anniversary of the date of the Exit Deed.

Vedanta Resources Plc

Long-term Bond

In December 2004 and January 2005, Vedanta issued a total of $600 million, 6.625% bonds due February 2010 in the United States of America ('USA') pursuant to Rule 144A of US Securities Act of 1933 ('Securities Act') and outside of the USA in reliance of Regulation S pursuant to the Securities Act. The bonds are unsecured and are rated BB by Standard and Poor's and Ba1 by Moody's. The proceeds from the bond had been substantially remitted to India by 31 March 2006 for the funding of the Group`s projects. The bond is carried at its fair value of $567.4 million.

In February 2006, Vedanta issued a 4.6% $725 million guaranteed convertible bond, the details of which are set out in note 25.

Non-equity Minority Interests

Non equity minority interests are represented by the deferred shares in KCM held by ZCI of $47.5 million and ZCM of $11.9 million. The deferred shares have no voting rights or rights to KCM's dividends, but are entitled on a winding up to a return of $0.99 per share on the face value of $0.99 per share once all of KCM's ordinary shares have received a distribution equal to their par value and any share premium created on their issues and which remains distributable to them.

23. Movement in Net Debt[1]

		Debt due within one year		Debt due after one year			
$ million	Cash and cash equivalents	Debt carrying value	Debt related derivatives[2]	Debt carrying value	Debt related derivatives[2]	Liquid investments	Total net debt
At 31 March 2005	1,185.6	(218.4)	–	(1,303.5)	–	262.0	(74.3)
IAS 32 and IAS 39 adjustments	1.0	5.4	(15.1)	15.8	(17.5)	–	(10.4)
Adjusted opening balance sheet at 1 April 2005	**1,186.6**	**(213.0)**	**(15.1)**	**(1,287.7)**	**(17.5)**	**262.0**	**(84.7)**
Cash flow	688.4	(28.4)	–	(704.1)	–	(12.8)	(56.9)
Other non-cash changes	(1.0)	(2.0)	17.9	135.2	(12.7)	–	137.4
Exchange difference	(26.7)	3.6	–	20.2	–	(4.8)	(7.7)
At 31 March 2006	**1,847.3**	**(239.8)**	**2.8**	**(1,836.4)**	**(30.2)**	**244.4**	**(11.9)**

1 Net debt being total debt after fair value adjustments under IAS 32 and IAS 39 as reduced by cash and cash equivalents and liquid investments.
2 Debt related derivatives exclude commodity related derivative financial assets and liabilities.

Notes to the Consolidated Financial Statements
continued

24. Trade and Other Payables
(a) Current Trade Payables

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Trade payables	319.1	215.8
Bills of exchange payable	310.5	287.1
Accruals and deferred income	151.6	66.0
Deferred consideration for KCM acquisition	5.2	4.9
Other trade payables	156.1	101.2
Total	**942.5**	**675.0**

(b) Non-current Trade Payables

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Deferred consideration for acquisition of KCM	9.5	12.9
Other trade payables	6.1	28.3
Total	**15.6**	**41.2**

Terms and conditions of the above financial liabilities:
- Trade payables are non-interest bearing and are normally settled on 60-90 day terms. Bills of exchange are interest bearing and are normally payable within 180 days
- The fair value of trade and other payables is not materially different from the carrying values presented.

25. Convertible Bonds
VFJL issued $725 million 4.6% guaranteed convertible bonds on 21 February 2006. The bonds are first convertible into exchangeable redeemable preference shares to be issued by VFJL, which will then be automatically exchanged for ordinary shares of Vedanta Resources plc represented by depository receipts. Depository receipts do not carry voting rights. The bondholders have the option to convert at any time from 3 May 2006 to 15 February 2026. The loan notes are convertible at a fixed price of £14.54 per share and exchange rate of USD:GBP of 1.7845.

If the notes have not been converted, they will be redeemed at the option of the issuer on or at any time after 14 March 2009 and on or prior to 15 February 2026, subject to the conditions as part of the issue. Additionally the bonds can be redeemed at the option of the bondholder on 21 February 2013, 21 February 2018 and 21 February 2022.

At issue, the net proceeds of the convertible bonds were split between a liability component and an embedded derivative component (representing the conversion option). Following changes to the contractual terms of the bond prior to the balance sheet date, the fair value of the embedded option to convert has been classified as equity on the grounds of meeting the required definition under IAS 32.

	$ million
Nominal value of convertible loan notes issued	725.0
Less: Issue costs	(5.3)
Net issue proceeds	719.7
Equity component	(123.3)
Liability component at date of issue	**596.4**
Add: Interest and amortisation of issue costs	4.0
Liability component at 31 March 2006	**600.4**

The interest charged for the year is calculated by applying an effective interest rate of 6.08%.

26. Derivative Financial Instruments

The Group adopted IAS 32 and IAS 39, prospectively from 1 April 2005. The fair values of all derivatives are separately recorded on the balance sheet within other financial assets (derivatives) and other financial liabilities (derivatives), current and non-current. Derivatives that are designated as hedges are classified as current or non-current depending on the maturity of the derivative.

Derivatives, Financial Instruments and Risk Management

The Group uses derivative instruments as part of its management of exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The use of derivatives can give rise to credit and market risk. The Group controls credit risk by only entering into contracts with first class banks. The use of derivative instruments is subject to limits, authorities and regular monitoring by appropriate levels of management. The limits, authorities and monitoring systems are periodically reviewed by management and the Board. The market risk on derivatives is mitigated by changes in the valuation of the underlying assets, liabilities or transactions, as derivatives are used only for risk management purposes.

Foreign Exchange Risk

The Group uses forward exchange contracts, currency swaps, options and other derivatives to hedge the effects of movements in exchange rates on foreign currency denominated assets and liabilities. The sources of foreign exchange risk are outstanding amounts payable for imported raw materials, capital goods and other supplies as well as financing transactions, loans and current asset investments denominated in foreign currencies. The Group is also exposed to foreign exchange risk on its exports. Most of these transactions are denominated in US dollars. The Group determines on a regular basis what portion of the foreign exchange risk on financing transactions, loans and current asset investments are to be hedged through forward exchange contracts and other instruments. There are systems in place for the review of open (i.e. unhedged) exposure limits and stop-loss levels by management. The foreign currency exposure of the Group's borrowings is set out in note 22.

Interest Rate Risk

The short-term debt of the Group is principally denominated in Indian rupees with fixed rates of interest. The long-term debt is principally denominated in US dollars and Indian rupees. The dollar debt is split between fixed and floating rates (linked to six month US dollar LIBOR) and the Indian rupee debt is principally at fixed interest rates. The Group has a policy of selectively using interest rate swaps, option contracts and other derivative instruments to manage its exposure to interest rate movements. These exposures are reviewed by appropriate levels of management on a monthly basis. The interest rate exposure of the Group's borrowings is set out in note 22.

Counterparty and Concentration of Credit Risk

The Group is exposed to credit risk in respect of receivables, liquid investments and derivative financial instruments. There is no concentration of credit risk among the receivables of the Group given the large number of receivables and the business diversity. Credit risk on receivables is very limited as almost all credit sales are against letters of credit of first-class banks. In respect of current asset investments, counterparty limits are in place to limit the amount of credit exposure to any one counterparty. For derivative and financial instruments, the credit risk is limited as the Group only deals with first class banks. These exposures are further reduced by having standard ISDA Master agreements including set-off provisions with each counterparty.

Commodity Price Risk

The Group is conservative in the use of derivatives for commodity hedging. As much as possible, the Group tries to mitigate price risk through favourable contractual terms. Moreover, hedging is used primarily as a risk management tool and, in some cases, to secure future cash flows in case of high volatility by entering into forward contracts or similar instruments.

Aluminium

The raw material is mined in India with sales prices linked to the London Metal Exchange ('LME') prices. Currently, we do not undertake any hedging activities in the Aluminium Business.

Copper

Copper smelting operations at Tuticorin benefit from a natural hedge created by matching quotational periods for concentrate purchases with timing of finished metal sales. The balance, the 'free metal' (being the difference between payable metal and recovery, and the previous metal content), are sometimes hedged through forward contracts or options. For the mining assets in Australia and Zambia, part of the production has been hedged to secure cash flows on a selective basis.

Zinc and Lead

Raw material is mined in India with sales prices linked to the LME prices. Currently a part of exports out of India is hedged through forward contracts or other instruments.

Embedded Derivatives

Derivatives embedded in other financial instruments or other contracts are treated as separate derivative contracts, when their risks and characteristics are not closely related to those of their host contracts.

Notes to the Consolidated Financial Statements continued

26. Derivative Financial Instruments continued

Cash Flow Hedges

The Group also enters into forward exchange and commodity price contracts for hedging highly probable forecast transactions and accounts for them as cash flow hedges and states them at fair value. Subsequent changes in fair value are recognised in equity until the hedged transactions occur, at which time the respective gains or losses are transferred to the income statement.

The fair value of the Group's open derivative positions at 31 March 2006 (excluding normal purchase and sale contracts), recorded within other financial assets (derivatives) and other financial liabilities (derivatives) is as follows:

	Liability $ million	Asset $ million
Current		
Cash flow hedges:		
– Commodity contracts	(75.0)	2.3
– Forward foreign currency contracts	(0.4)	0.1
– Interest rate swap (floating to fixed)	–	0.9
Fair value hedges:		
– Commodity contracts	(4.4)	9.7
– Forward foreign currency contracts	(0.8)	0.1
– Other	–	2.0
Non-qualifying hedges:		
– Commodity contracts	(22.4)	28.7
– Forward foreign currency contracts	(10.4)	2.3
– Interest rate swaps (fixed to floating)	–	2.9
– Other	(1.3)	–
Total	**(114.7)**	**49.0**
Non-current		
Fair value hedges	(30.2)	–
Other	(63.2)	63.2
Total	**(93.4)**	**63.2**
Total derivatives	**(208.1)**	**112.2**

Cash Flow Hedges

The majority of cash flow hedges taken by the Group during the year comprise strategic forward sales of copper by KCM to secure against the volatile movement in LME copper prices.

Non-qualifying Hedges

The majority of these derivatives comprise copper sale and purchase contracts at Sterlite which are economic hedges but which do not fulfil the requirements of IAS 39.

Non-current

The fair value hedges relate to the interest rate swaps (fixed to floating) taken out by the Group to hedge the interest rate risk on the $600 million bonds due in 2010.

Other relates to the fair value of US dollar: Japanese yen cross-currency swaps with a maturity of 2010. Equal and opposite swaps are held in two Group companies, such that no exposure to the Group arises.

Hedging Reserves Reconciliation

	Hedging reserves $ million	Minority* interests $ million	Total $ million
Opening adjustment on 1 April 2005 for adoption of IAS 39	(3.2)	(1.1)	(4.3)
Amounts deferred to equity	(46.7)	(42.5)	(89.2)
Amounts recycled to income statement	20.6	18.2	38.8
Exchange difference	0.2	–	0.2
At 31 March 2006	**(29.1)**	**(25.4)**	**(54.5)**

* Cash flow hedges attributable to minority interests.

27. Provisions

$ million	Restoration, rehabilitation and environmental	Other	Total
At 1 April 2005	**61.2**	**184.4**	**245.6**
Credited to income statement	(4.2)	(10.2)	(14.4)
Unwinding of discount	0.2	5.4	5.6
Amounts applied	–	(3.4)	(3.4)
Exchange difference	(0.4)	(0.3)	(0.7)
Other movements	0.3	1.7	2.0
At 31 March 2006	**57.1**	**177.6**	**234.7**
Current 2006	0.1	12.1	12.2
Non-current 2006	57.0	165.5	222.5
Total	**57.1**	**177.6**	**234.7**
Current 2005	1.3	35.7	37.0
Non-current 2005	59.9	148.7	208.6
Total	**61.2**	**184.4**	**245.6**

Restoration, Rehabilitation and Environmental

The provisions for restoration, rehabilitation and environmental liabilities represent the management's best estimate of the costs which will be incurred in the future to meet the Group's obligations under existing Indian, Australian and Zambian law and the terms of the Group's mining and other licences and contractual arrangements.

Other

Other provisions comprise the management's best estimate of the costs which may be incurred in the future to settle certain legal and tax claims outstanding against the Group, primarily in India, and also a provision in respect of the price participation agreement between KCM and ZCCM of $141.6 million (2005: $136.2 million).

28. Deferred Tax

The Group has accrued significant amounts of deferred tax. The majority of the deferred tax liability represents accelerated tax relief for the depreciation of capital expenditure and the depreciation on mining reserves, net of losses carried forward by BALCO and MALCO. The majority of the deferred tax asset represents tax losses and deferred tax arising on the fair value of cash flow hedges at KCM. No benefit has been recognised for tax losses of IFL, VRHL and the Company on the grounds that their successful application against future profits is not probable in the foreseeable future.

The amounts of deferred taxation and timing differences, provided and not provided, in the accounts are as follows:

Provided – liabilities/(assets)	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Accelerated capital allowances	300.0	239.7
Unutilised tax losses	(134.1)	(159.7)
Other timing differences	49.1	64.9
Total	**215.0**	**144.9**
Recognised as:		
Deferred tax liability provided	286.9	234.9
Deferred tax asset recognised	(71.9)	(90.0)

Not provided – liabilities/(assets)	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Unutilised tax losses	(5.1)	(2.6)
Total	**(5.1)**	**(2.6)**

Notes to the Consolidated Financial Statements continued

28. Deferred Tax continued

Deferred tax asset	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
At 1 April	**90.0**	**–**
Acquisition of subsidiary undertaking	–	101.4
Charged to income statement	(39.8)	(11.3)
Credited directly to equity	16.9	–
Other movements	5.6	–
Exchange difference	(0.8)	(0.1)
At 31 March	**71.9**	**90.0**

The Group has $424.5 million of unutilised tax losses at KCM (2005: $560.0 million) with expiry dates from 2017 to 2019 (2005: 2016 to 2019).

Deferred tax liability	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
At the beginning of year	234.9	223.5
Adoption of IAS 32 and IAS 39	(6.6)	–
At 1 April	**228.3**	**223.5**
Charged to income statement	54.6	10.3
Charged directly to equity	3.4	–
Other movements	5.6	2.5
Exchange difference	(5.0)	(1.4)
At 31 March	**286.9**	**234.9**

29. Share Based Payments

Employee Share Schemes

The Group aims to provide superior rewards for outstanding performance and a high proportion of 'at risk' remuneration for Executive Directors. Three employee share schemes were approved by shareholders on Listing. The Board has no present intention to introduce any further share schemes.

The Vedanta Resources Long-Term Incentive Plan (the 'LTIP')

The LTIP is the primary arrangement under which share-based incentives are provided to the Executive Directors and the wider management group. The maximum value of shares that can be conditionally awarded to an Executive Director in a year is 100% of annual salary. In respect of Messrs Navin Agarwal and Kuldip Kaura, salary means the aggregate of their salary payable by Vedanta and their Cost to Company payable by Sterlite. The maximum value of shares that can be awarded to members of the wider management group is calculated by reference to the balance of basic salary and share-based remuneration consistent with local market practice.

The performance condition attaching to outstanding awards under the LTIP is that the Company's performance, measured in terms of Total Shareholder Return ('TSR') (being the movement in a company's share price plus reinvested dividends), is compared over a three-year period with the performance of the companies as defined in the scheme from the date of grant. The extent to which an award vests will depend on the Company's TSR rank against the Adapted Comparator Group at the end of the three-year performance period. The vesting schedule is shown in the table below, with adjusted straight-line vesting in between the points shown and rounding down to the nearest whole share.

Vedanta's TSR Performance against Adapted Comparator Group

	% of Award Vesting
Below median	–
At median	40
At or above upper quartile	100

The performance condition will be measured by taking the Company's TSR over the four weeks immediately preceding the date of grant and over the four weeks immediately preceding the end of the three-year performance period, and comparing its performance with that of the comparator group described above. The information to enable this calculation to be carried out on behalf of the Remuneration Committee ('the Committee') will be provided by the Company's advisers. The Committee considers that this performance condition, which requires that the Company's total return has out performed the mining sector, provides a reasonable alignment of the interests of the Executive Directors and the wider management group with those of the shareholders.

29. Share Based Payments continued

Vedanta's TSR Performance against Adapted Comparator Group continued

No awards will vest unless the Committee is satisfied that the Company's TSR performance reasonably reflects the Company's underlying financial performance.

Initial awards under the LTIP were granted on 26 February 2004 with further awards being made on 11 June 2004, 23 November 2004 and 1 February 2006. The exercise price of the awards is 10 US cents per share and the performance period of each award is three years, with no re-testing being allowed. The exercise period is six months from the date of vesting. Further details on the LTIP are found in the Remuneration Report on pages 58 to 62.

Year of grant	Exercise date	Exercise price US cents per share	Options outstanding 1 April 2005	Options granted during the year	Options lapsed during the year	Options exercised during the year	**Options outstanding 31 March 2006**
2004	26 February 2007 to 26 August 2007	10	1,457,500	–	265,305	5,195	1,187,000
2004	11 June 2007 to 11 December 2007	10	22,500	–	12,500	–	10,000
2004	23 November 2007 to 23 May 2008	10	47,500	–	10,000	–	37,500
2006	1 February 2009 to 1 August 2009	10	–	2,506,350	56,250	–	2,450,100
			1,527,500	2,506,350	344,055	5,195	3,684,600

All share-based awards of the Group are equity-settled as defined by IFRS 2. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values were calculated using the Monte Carlo Simulation with suitable modifications to allow for specific performance conditions of the LTIP. The inputs to the model include the share price at date of grant, exercise price, expected volatility, expected dividends and risk free rate of interest. A progressive dividend growth policy is assumed in all fair value calculations. In the absence of sufficient historic data the expected volatility has been estimated from historic volatilities of other similar companies, together with the limited historical data of the Group.

The assumptions used in the calculations of the charge in respect of the LTIP awards granted during the year are set out below:

	LTIP February 2006
Date of grant	1 February 2006
Number of instruments	2,506,350
Exercise price	$0.1
Share price at the date of grant	£9.89
Contractual life	3 years
Expected volatility	32.1%
Expected option life	3.5 years
Risk free interest rate	4.3%
Expected departures	13.5%
Fair value per option granted	£4.828

The Vedanta Resources Reward Plan ('The Reward Plan')

The Reward Plan was adopted for the purpose of rewarding 43 employees (none of whom were Executive Directors at the time) of the Group who had contributed to the Company's development and growth over the period leading up to Listing. It was used solely to provide awards on Listing and no further awards will be granted under the Reward Plan.

Under the Reward Plan, awards were made in respect of 776,000 shares on 26 February 2004 and vested in two instalments. The first half of the award vested immediately and the shares were issued on 31 March 2004. The other half of the award, vested on the first anniversary of the date of award (subject generally to the employees' continued employment at that date). Consequently a total of 388,000 shares were issued on 18 March 2005 and 31 March 2005. Awards made under the Reward Plan are not subject to performance conditions as these were considered to be rewards for past service rather than incentives for future performance.

The Vedanta Resources Share Option Plan (the 'Share Option Plan')

The Share Option Plan was adopted to provide maximum flexibility in the design of incentive arrangements over the long term. However, at this stage, it is not intended that share options will be granted in the foreseeable future under the Share Option Plan.

Notes to the Consolidated Financial Statements
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30. Retirement Benefits
The Group operates pension schemes for the majority of its employees in India, Australia and Zambia.

(a) Defined Contribution Schemes
Indian Pension Schemes

Central Provident Fund

The Central Provident Fund relates to all full-time Indian employees of the Group. The amount contributed by the Group is calculated as 12% of basic salary less contributions made as part of the Pension Fund (see below), together with an additional contribution of 12% of basic salary made by the employee.

The benefit is paid to the employee on their retirement or resignation from the Group.

Superannuation

Superannuation, another pension scheme applicable in India, is applicable only to senior executives. Each relevant company holds a policy with the Life Insurance Corporation of India ('LIC'), to which each company contributes a fixed amount relating to superannuation, and the pension annuity is met by the LIC as required, taking into consideration the number of years of service of the executive, and the contributions made. Accordingly, this scheme has been accounted for on a defined contribution basis and contributions are charged directly to the income statement.

Pension Fund

The Pension Fund was established in 1998 and is managed by the Government. The employee makes no contribution to this fund but the employer makes a contribution of 8.33% of basic salary each month subject to a specified ceiling per employee. This must be provided for every permanent employee on the payroll.

At the age of superannuation, contributions cease and the individual receives a monthly payment based on the level of contributions through the years, and on their salary scale at the time they retire, subject to a maximum ceiling of salary level. The Government funds these payments, thus the Group has no additional liability beyond the contributions that it makes, regardless of whether the central fund is in surplus or deficit.

Australian Pension Schemes

The Group also operates defined contribution pension schemes in Australia. The contribution of a proportion of an employee's salary into a superannuation fund is a compulsory legal requirement in Australia. The employer contributes, into the employee's fund of choice, 9% of the employee's gross remuneration where the employee is covered by the industrial agreement and 12% of the basic remuneration for all other employees. All employees have the option to make additional voluntary contributions.

Zambian Pension Schemes

The KCM Pension Scheme is applicable to full-time permanent employees of KCM (subject to the fulfilment of certain eligibility criteria). The management of the scheme is vested in the trustees consisting of representatives of the employer and the members. The employer makes a monthly contribution to the KCM Pension Scheme of an amount equal to 11% of that month's pensionable salary and the member makes monthly contributions to the fund of an amount equal to 5% of that month's pensionable salary.

All contributions to the KCM Pension Scheme in respect of a member cease to be payable when the member attains normal retirement age of 55 years, or upon leaving the service of the employer, or when the member is permanently medically incapable of performing duties in the service of the employer. Upon such cessation of contribution on the grounds of normal retirement, or being rendered medically incapable of performing duties, or early voluntary retirement within five years to retirement, the member is entitled to receive an immediate annual pension equal to his accrued pension. The member is allowed to commute his/her accrued pension subject to certain rules and regulations. The trustees of the KCM Pension Scheme may also allow the purchase of an annuity for the benefit of members from a life assurance company or other providers of annuities, subject to statutory regulations.

The Group has no additional liability beyond the contributions that it makes, regardless of whether the KCM Pension Scheme is in surplus or deficit. Accordingly, this scheme has been accounted for on a defined contribution basis and contributions are charged directly to the income statement.

(b) Defined Benefit Schemes
India

The Gratuity schemes are defined benefit schemes which are open to all Group employees in India who have a minimum of five years of service with their employing company. These schemes are funded by the Group, either through cash contributions or provisions each year, based on actuarial valuations. Under these schemes, benefits are provided based on final pensionable pay.

The assets of the schemes are held in separate funds and a full actuarial valuation of the schemes is carried out on an annual basis.

30. Retirement Benefits continued

KCM

Specified permanent employees of KCM are entitled to receive medical and retirement severance benefits. This comprises two months' basic pay for every completed year of service with the earliest service start date being 1 July 2004. Under this scheme, benefits are provided based on final pensionable pay and the full actuarial valuation of the scheme is carried out on an annual basis. The accruals are not contributed to any fund and are in the form of provisions in KCM's accounts.

On the death of an employee during service, a lump sum amount is paid to his dependants. This amount is equal to 60 months basic pay for employees who joined before 1 April 2000 and 30 months basic pay for employees who joined on or after 1 April 2000. For fixed term contract employees the benefit payable on death is 30 months' basic pay.

These schemes are accounted for as a defined benefit scheme and the main assumptions used in the actuarial valuation were a discount rate of 25% per annum and an annual salary increase of 20%.

(c) Pension Schemes existing within Group Companies

As at 31 March 2006, membership of pension schemes across MALCO, BALCO, HZL, VAL and KCM stood at 21,950 employees (31 March 2005: 20,868). The deficits, principal actuarial assumptions and other aspects of these schemes are disclosed in further detail in notes (d) and (e) below.

MALCO

MALCO does not contribute to the LIC. Its Gratuity scheme is accounted for on a defined benefit basis. The latest actuarial valuation was performed as at 31 March 2006 using the projected unit actuarial method. At that date the fund was in deficit.

BALCO

At BALCO, all employees who are scheduled to retire on or before 31 March 2009 are covered by the LIC and their remaining contributions have been made and have been accounted for on a defined contribution basis. The scheme is accounted for as a defined benefit scheme for all employees scheduled to retire after 31 March 2009, who are not covered by the LIC. Provision is made in the books based on the latest actuarial valuation which was performed as at 31 March 2006 using the projected unit actuarial method. At that date the fund was in deficit.

HZL

HZL contributes to the LIC but the policy does not cover the full liability of the Gratuity scheme. HZL's Gratuity scheme is therefore accounted for on a defined benefit basis. The latest actuarial valuation was performed as at 31 March 2006 using the projected unit actuarial method. At that date the fund was in deficit.

VAL

VAL does not contribute to the LIC. Liabilities with regard to the Gratuity Scheme are determined by actuarial valuation as at the balance sheet date and as per gratuity regulations for the company. The latest actuarial valuation was performed as at 31 March 2006 using the projected unit actuarial method. At that date the fund was in deficit.

(d) Retirement Benefits Charge

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Defined contribution pension schemes	10.6	5.0
Defined benefit pension schemes	2.4	8.2
Total	**13.0**	**13.2**

There were no outstanding or prepaid contributions for either the defined contribution or the defined benefit schemes as at 31 March 2006 or 31 March 2005.

The latest full actuarial valuations of the Gratuity schemes for MALCO, BALCO and HZL as at 31 March 2006, were carried out by R Krishnaswamy, Watson Wyatt India Pvt Ltd and Charan Gupta Consultants Pvt Ltd, consulting actuaries to MALCO, BALCO and HZL, respectively. The actuarial valuation of the defined benefit scheme for KCM was carried out by R Krishnaswamy.

The results of these valuations have been used as the basis for assessing pension costs for the year ended 31 March 2006.

Notes to the Consolidated Financial Statements
continued

30. Retirement Benefits continued

(e) Principal Actuarial Assumptions

The principal actuarial assumptions used to calculate the Gratuity schemes' liabilities.

	MALCO		BALCO		HZL		KCM		VAL	
	31 March 2006	31 March 2005	**31 March 2006**	31 March 2005	**31 March 2006**	31 March 2005	**31 March 2006**	31 March 2005	**31 March 2006**	31 March 2005
Discount rate	8.0%	8.0%	7.5%	7.5%	7.5%	7.5%	25.0%	25.0%	7.5%	n/a
Salary increases	4.0%	5.0%	5% for office staff, 3% non-office	5% for office staff, 3% non-office	5.0%	5.0%	20.0%	25.0%	12% for first 5 yrs, 10% thereafter	n/a
Funding rate of return	–	–	–	–	8.0%	8.0%	25.0%	25.0%	–	–
Number of employees	754	789	4,553	4,159	6,020	5,933	10,454	9,987	169	n/a

(f) Balance Share Recognition

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes are as follows:

	31 March 2006						31 March 2005					
$ million	**MALCO**	**BALCO**	**HZL**	**KCM**	**VAL**	**Total**	MALCO	BALCO	HZL	KCM	VAL	Total
Fair value of pension scheme assets	–	–	14.0	–	–	**14.0**	–	–	12.0	–	–	**12.0**
Present value of pension scheme liabilities	(1.1)	(9.4)	(15.1)	(26.5)	(0.1)	**(52.2)**	(0.9)	(9.7)	(12.3)	(27.7)	–	**(50.6)**
Defecit in pension scheme recognised in balance sheet	(1.1)	(9.4)	(1.1)	(26.5)	(0.1)	**(38.2)**	(0.9)	(9.7)	(0.3)	(27.7)	–	**(38.6)**
Deferred tax	0.4	3.2	0.4	6.6	–	**10.6**	0.3	3.3	0.1	6.9	–	**10.6**
Net pension liability	**(0.7)**	**(6.2)**	**(0.7)**	**(19.9)**	**(0.1)**	**(27.6)**	**(0.6)**	**(6.4)**	**(0.2)**	**(20.8)**	**–**	**(28.0)**

(g) Amounts Recognised in the Income Statement in respect of Defined Retirement Benefit Schemes:

	31 March 2006						31 March 2005					
$ million	**MALCO**	**BALCO**	**HZL**	**KCM**	**VAL**	**Total**	MALCO	BALCO	HZL	KCM	VAL	Total
Current service cost	–	0.4	0.8	6.1	0.1	**7.4**	–	0.4	0.7	2.0	–	**3.1**
Actuarial (gains)/losses	–	(1.2)	0.2	(7.6)	–	**(8.6)**	–	0.2	0.9	2.1	–	**3.2**
Expected return on scheme assets	–	–	(1.1)	–	–	**(1.1)**	–	–	(0.9)	–	–	**(0.9)**
Interest cost of scheme liabilities	0.1	0.7	1.0	2.9	–	**4.7**	0.1	0.6	1.0	1.1	–	**2.8**
Total charge to income statement	**0.1**	**(0.1)**	**0.9**	**1.4**	**0.1**	**2.4**	**0.1**	**1.2**	**1.7**	**5.2**	**–**	**8.2**

(h) Movements in the Present Value of Defined Benefit Obligation

The movement during the year ended 31 March 2006 in the present value of the defined benefit obligation was as follows:

	31 March 2006						31 March 2005					
$ million	**MALCO**	**BALCO**	**HZL**	**KCM**	**VAL**	**Total**	MALCO	BALCO	HZL	KCM	VAL	Total
At 1 April	**(0.9)**	**(9.7)**	**(12.3)**	**(27.7)**	**–**	**(50.6)**	**(1.0)**	**(9.0)**	**(11.0)**	**–**	**–**	**(21.0)**
At acquisition	–	–	–	–	–	**–**	–	–	–	(22.8)	–	**(22.8)**
Current service cost	–	(0.4)	(0.8)	(6.1)	(0.1)	**(7.4)**	–	(0.4)	(0.7)	(2.0)	–	**(3.1)**
Reclassifications to/(from) other provisions	(0.2)	0.8	(0.6)	–	–	**–**	–	–	–	–	–	**–**
Gratuity benefits paid	0.1	0.1	0.3	2.6	–	**3.1**	0.2	0.4	1.1	0.3	–	**2.0**
Interest cost of scheme liabilities	(0.1)	(0.7)	(1.0)	(2.9)	–	**(4.7)**	(0.1)	(0.6)	(1.0)	(1.1)	–	**(2.8)**
Actuarial gains/(losses)	–	1.2	(0.2)	7.6	–	**8.6**	–	(0.2)	(0.9)	(2.1)	–	**(3.2)**
Exchange difference	–	(0.7)	(0.5)	–	–	**(1.2)**	–	0.1	0.2	–	–	**0.3**
At 31 March	**(1.1)**	**(9.4)**	**(15.1)**	**(26.5)**	**(0.1)**	**(52.2)**	**(0.9)**	**(9.7)**	**(12.3)**	**(27.7)**	**–**	**(50.6)**

30. Retirement Benefits continued

(i) Movements in the Fair Value of Scheme Assets

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
At 1 April	**12.0**	**10.7**
Contributions received	3.0	1.9
Benefits paid	(1.9)	(1.4)
Expected return on scheme assets	1.1	0.9
Exchange difference	(0.2)	(0.1)
At 31 March	**14.0**	**12.0**

31. Issued Share Capital and Reserves

	At 31 March 2006		At 31 March 2005	
	Number	$ million	Number	$ million
Authorised				
Ordinary shares of 10 US cents each	400,000,000	40.0	400,000,000	40.0
Deferred shares of £1 each	50,000	0.1	50,000	0.1
Total	**400,050,000**	**40.1**	**400,050,000**	**40.1**
Ordinary shares issued and fully paid				
Ordinary shares of 10 US cents each	286,781,195	28.7	286,776,000	28.7
Deferred shares of £1 each	50,000	–	50,000	–
Total	**286,831,195**	**28.7**	**286,826,000**	**28.7**

During the year ended 31 March 2006, the Company issued 5,195 shares to the employees pursuant to the LTIP scheme.

The holders of deferred shares do not have the right to receive notice of any general meeting of the Company nor the right to attend, speak or vote at any such general meeting. The deferred shares have no rights to dividends and, on a winding-up or other return of capital, entitle the holder only to the payment of the amounts paid on such shares after repayment to the holders of ordinary shares of the nominal amount paid up on the ordinary shares plus the payment of £100,000 per ordinary share. Of the 50,000 deferred shares, one deferred share was issued at par and has been fully paid, and 49,999 deferred shares were each paid up as to one-quarter of their nominal value.

32. Business Combinations

(a) Konkola Copper Mines PLC

On 5 November 2004, the Group completed the acquisition of a 51% controlling interest in KCM, a company incorporated in the Republic of Zambia. On acquisition, the fair values of the assets and liabilities included in the Group's financial statements for the year ended 31 March 2005, were provisional and were to be finalised within 12 months of acquisition. During the current year, the Group has completed the fair valuation of the assets and liabilities, and no adjustments to the earlier valuation of net assets on acquisition have been considered necessary.

(b) Conversion of Sterlite Bonds

Sterlite had foreign currency convertible bonds in issue which became convertible on 4 December 2003. In the period from 4 December 2003 to 31 March 2006, the total bonds issued were converted into ordinary shares in Sterlite which diluted the Group's Economic Interest in Sterlite by 2.9%.

(c) Deconsolidation of the Sterlite Employee Welfare Trust

Until 28 March 2006, Sterlite operated the Sterlite Employee Welfare Trust ('SEWT'), a long term investment plan, the activities of which included granting share options in Sterlite for its senior management. The SEWT was previously consolidated into the Group accounts by virtue of its status as an ESOP Trust controlled by the Group. Until 31 March 2004, the SEWT's investments in ordinary shares of Sterlite were disclosed as fixed asset investments in the UK GAAP accounts. From 1 April 2004, under IFRS and UK GAAP, the ordinary shares of Sterlite were treated as cancelled, which had the effect of increasing Vedanta's economic interest in Sterlite.

On 28 March 2006, the trustees reviewed the objectives of the SEWT subsequent to the announcement of the LTIP and decided to amend its objectives to exclude share option plans for Sterlite employees and to include social and charitable activities.

Vedanta reviewed the treatment of the SEWT under IFRS and concluded that by virtue of the change in its objectives it ceased to represent an ESOP Trust. Moreover, the SEWT is no longer controlled by the Group and now represents an independent entity. It therefore does not qualify for consolidation in Vedanta's Group accounts.

Deconsolidation of the SEWT results in a reduction in the Group's effective shareholding in Sterlite by 2.49% to 75.93%.
At 28 March 2006, being the date of deconsolidation, the net assets of the Group reduced by US$58.7 million, comprising a decrease in cash and cash equivalents of $19.5 million and an increase in borrowings of $39.2 million. Equity shareholders' funds reduced by $88.2 million and minority interests increased by US$29.5 million.

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33. Operating Leases
The Group does not have any material operating lease commitments.

34. Commitments, Guarantees and Contingencies
The Group has a number of continuing operational and financial commitments in the normal course of business including:
- exploratory mining commitments;
- mining commitments arising under production sharing agreements; and
- completion of the construction of certain assets.

The principal capital commitments of the Group were as follows:

	As at 31 March 2006 $ million	As at 31 March 2005 $ million
Contracted but not provided	**1,233.4**	**538.3**

The commitments at 31 March 2006 primarily related to the expansion projects at HZL ($92.2 million), BALCO ($20.2 million), KCM ($108.7 million) and VAL ($951.4 million).

In addition, companies within the Group provide guarantees within the normal course of business. Guarantees have also been provided in respect of certain short-term and long-term borrowings.

A summary of the most significant guarantees is set out below:

Guarantees
As at 31 March 2006, the Group's assets were encumbered by $109.0 million (2005: $108.0 million) on account of guarantees advanced by banks on behalf of the Group. The Group has also entered into guarantees advanced to the customs authorities in India of $52.9 million (2005: $29.0 million) relating to payment of import duties on purchases of fixed assets.

Export Obligations
The Indian entities of the Group have export obligations of $1,635.7 million (2005: $922.5 million) over eight years, on account of concessional rates of import duty paid on capital goods under the Export Promotion Capital Goods Scheme laid down by the Government of India.

In the event of the Group's inability to meet its obligations, the Group's liability would be $196.7 million (2005: $115.2 million), reduced in proportion to actual exports.

Secured Loans
At 31 March 2006, the Group had $620.0 million of loans secured upon its assets (2005: $551.2 million). See note 22 for further details.

Guarantees to Banks – IFL
The Group has given corporate guarantees to certain banks and financial institutions in relation to IFL, an associate of the Group. The value of these guarantees was $40.8 million at 31 March 2006 (2005: $41.6 million) against an outstanding balance of $37.3 million (2005: $36.6 million).

Guarantees to Suppliers
The Group has given corporate guarantees to certain suppliers of concentrate. The value of these guarantees was $40.0 million at 31 March 2006.

Environmental and Terminal Benefits ('ETB') Cash Reserve Account – KCM
Pursuant to the terms of the shareholders' agreement between Vedanta and ZCI dated 5 November 2004, KCM is expected to contribute a minimum of $10 million (with a maximum of $18 million) in any financial year to ensure that the amount of ETB liabilities are covered by a cash reserve when the Konkola Ore Body life comes to an end. ETB liabilities mean, at any time, KCM's liabilities in relation to the environment and any terminal benefits payable to its employees. As at 31 March 2006, ETB liabilities were $80.7 million (2005: $84.1 million), although these liabilities are likely to fluctuate at each future reporting date.

Shortfall Funding Commitment – KCM
Pursuant to the KCM acquisition agreement, Vedanta has agreed to fund capital expenditure in the period from the date of acquisition to the earlier of 5 November 2013, the exercise of the primary or secondary call options held by ZCI and ZCCM (see note 36) and Vedanta's divestment of its interest in KCM (the earliest date of which is 1 January 2008), up to a limit of $220 million in the event that internally generated cash flows are insufficient to fund the capital expenditure programme set out in the acquisition agreement.

34. Commitments, Guarantees and Contingencies continued

Contingencies

The Group has the following material contingencies. With regard to the claims against Group companies included below, unless stated, no provision has been made in the Financial Statements as the Directors believe that it is more likely than not that the claims will not give rise to a material liability.

Convertible Bonds

Vedanta guaranteed the $725 million 4.6% convertible bonds issued by VFJL, which are convertible into equity shares of Vedanta on or after 17 April 2006, refer to note 25 for further details.

MALCO Claims with Tamil Nadu Electricity Board ('TNEB')

Under the terms of a financial aid package, MALCO was entitled to benefit from reduced tariff electricity for the period from 1995 to 1999. In 1997 MALCO became profitable and in 1999 the TNEB made a claim against MALCO for the difference in value between full price and reduced tariff electricity for the period from 1997 to 1999. The value of this claim was $71.5 million. The case was heard before the Madras High Court in November 1999 and it found in MALCO's favour. TNEB has appealed the decision and this appeal is under hearing.

TNEB is also claiming $21.4 million from MALCO for an electricity self-generation levy for the period from May 1999 to June 2003. This claim has arisen since the commissioning of MALCO's captive power plant in 1999. The company has sought an exemption from the application of this levy from the Government of India. The application is under consideration. Meanwhile, the Madras High Court has granted an interim ruling in favour of MALCO pending a final decision.

MALCO Claims with TECHMO Car SpA ('TECHMO')

In February 1999, MALCO entered into an agreement with TECHMO to modernise the smelter pot rooms at Mettur Dam. In February 2003, this contract was terminated by TECHMO following disputes over the project. In March 2003, MALCO issued a claim against TECHMO to recover expenditure incurred on the project, citing non-performance by TECHMO. The value of this claim was $5.8 million. The District Court had ordered TECHMO to provide the full amount of the claim to MALCO as security, which was subsequently reversed by the Madras High Court. MALCO has since filed a petition with the Supreme Court of India, which as an interim measure has directed both parties to arbitration and for each party to furnish security of $1 million.

Separately, in June 2003, TECHMO moved for arbitration, claiming a total of $2.8 million being the unpaid portion of the contract. During the year the final tranche of the hearing took place in which both parties submitted written submissions. The arbitral award is expected to be announced during the year ended 31 March 2007.

Ministry of Environment and Forest ('MOEF') Claim – VAL

In respect of the mines at Lanjigarh, Orissa, there have been public interest submissions filed by certain non-government organisations (NGOs) to the Honourable Supreme Court of India sub-committee regarding adverse environmental impact in 2004. After due process of investigation and deliberations, on 3 February 2006, the Honourable Supreme Court of India has passed an order that the MOEF should consider this matter and submit its report to Forest Advisory Committee. The hearing of this is expected to take place in July 2006.

Miscellaneous Disputes – Sterlite, HZL, MALCO and BALCO

The Indian excise and related indirect tax authorities have made several claims against the above companies for additional excise and indirect duties. The claims mostly relate either to the assessable values of sales and purchases or to incomplete documentation supporting the companies' returns.

The approximate value of claims against the companies total $117.0 million (2005: $31.9 million), of which $44.2 million (2005: $10.5 million) is included as a provision in the balance sheet as at 31 March 2006. In the view of the Directors, there are no significant unprovided liabilities arising from these claims.

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35. Related Party Transactions
The following are significant related party transactions entered into during the two years ended 31 March 2006:

(a) Transactions with Directors and Members of the Executive Committee and Their Connected Persons
Group-owned or leased residential buildings are made available to certain members of management as part of their remuneration packages in line with prevailing market practices. If accommodation is provided to an employee, individual components of a remuneration package are adjusted to reflect the provision of this benefit in kind.

As part of their remuneration packages, Messrs Navin Agarwal and Kuldip Kaura are entitled to accommodation in Group-owned and leased buildings respectively. The value of these benefits in kind are included within the Directors' benefits in kind in the Remuneration Report on pages 58 to 62. A residence is also made available to Mr Anil Agarwal for his frequent business trips to India.

As at 31 March 2005, the Group recognised a $350,000 housing loan receivable from the wife of Mr Tarun Jain, a director of Sterlite, HZL, BALCO and MALCO and a member of the Executive Committee. Such housing loans are provided to members of senior management in accordance with local market practice. The loan was repaid during the year ended 31 March 2006.

(b) Corporate Related Party Transactions
The table below sets out transactions and balances between the Group and various related parties during the two years ended 31 March 2006. These related parties include SOTL, Sterlite Gold Limited ('Sterlite Gold'), Volcan and Duratube Limited ('Duratube') which are related by virtue of having the same controlling party as the Group. As IFL is an associate of the Group, it is also regarded as a related party.

The tables below set out transactions with related parties that occurred in the normal course of trading.

SOTL

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Sales to SOTL	3.0	24.7
Acquisition of fixed assets	–	0.1
Amounts receivable at year end	**5.6**	**16.7**

Sterlite Gold

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Provision of commercial services and others	–	0.2
Amounts receivable at year end	**0.1**	**0.2**

Volcan

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Benefit of tax deduction gained by Vedanta	–	3.8
Reimbursement of bank charges	(0.5)	(0.5)
Amounts payable at year end	**0.1**	**–**

35. Related Party Transactions continued

Duratube

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Acquisition of fixed assets	**–**	**0.1**

IFL

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Sales to IFL	34.1	24.4
Net interest received	0.5	0.3
Trade receivables	0.6	3.6
Loan balance receivable	6.2	6.2
Amounts receivable at year end	**6.8**	**9.8**

In addition, a limited number of employees are seconded to Sterlite from IFL, SOTL and Sterlite Gold and similarly to IFL, SOTL and Sterlite Gold from Sterlite. The company which benefits from the seconded employee bears their employment costs.

During the year ended 31 March 2005, Sterlite advanced loans to IFL amounting to $6.2 million for working capital purposes. The loans were advanced from 2 April 2004 to 7 February 2005 and are repayable within two years. The loans bear interest at 7% per annum and interest accrued during the year ended 31 March 2006 amounted to $0.6 million (2005: $0.3 million). The loan has been classified as an investment in associate.

Transactions with Volcan

Vedanta Resources plc
Pursuant to the terms of the Tax Deed of Indemnity dated 1 December 2003 entered into by the Company, Volcan and its shareholders, Volcan was paid $3.8 million by the Company on 4 January 2005. The payment equated to the estimated tax deduction that was expected to be utilised by the Company in its tax computation for the period ended 31 March 2004, and related to the shares transferred to Mr BP Gilbertson, a former Chairman of the Company at the time of Listing.

To the extent the Company does not benefit from this tax deduction, including the circumstance where the deduction may be disallowed by the UK Inland Revenue, Volcan has agreed that it will reimburse the Company.

MALCO
In relation to the distraint of shares of Sterlite held by Twin Star, MALCO issued guarantees to the Income Tax Department of India, at the request of Volcan. The cost of bank charges borne by MALCO in respect of issuing these guarantees was $0.5 million. The amount payable as at 31 March 2006 was $0.1 million.

Transactions with Sterlite Gold and SOTL

Pursuant to the terms of the Shared Services Agreement dated 5 December 2003 entered into by the Company, Sterlite, SOTL and Sterlite Gold, the Company and Sterlite provide various commercial services in relation to SOTL's and Sterlite Gold's businesses on an arm's length basis and at normal commercial terms.

For the period from 1 April 2005 to 31 March 2006, the commercial services provided to SOTL and Sterlite Gold were performed by certain senior employees of the Group on terms set out in the Shared Services Agreement. The services provided to SOTL and Sterlite Gold during this period amounted to $20,895 and $16,700, respectively, and remain unpaid as at 31 March 2006.

Transactions with Duratube

On 1 December 2004, the Company purchased a motor vehicle from Duratube, a company controlled by relatives of Mr Navin Agarwal, for a consideration of $132,000. The purchase price was set with regard to open market valuations obtained by the Company, and the transaction was approved by the Board pursuant to the requirements of the Relationship Agreement.

Notes to the Consolidated Financial Statements continued

35. Related Party Transactions continued

Political and Public Awareness Trust

During the year, the Group contributed $0.1 million to the Political and Public Awareness Trust (2005: $1.3 million). This trust makes contributions to political parties and related causes. The trust is a related party as it is controlled by members of the Agarwal family.

Sterlite Foundation

During the year, $0.6 million was paid by HZL to the Sterlite Foundation (2005: $0.8 million paid by BALCO and HZL). The Sterlite Foundation is a registered not-for-profit entity engaged in computer education and other related social and charitable activities. The major activity of the Sterlite Foundation is providing computer education for disadvantaged students. The Sterlite Foundation is a related party as it is controlled by members of the Agarwal family.

Twin Star International Limited

During the year ended 31 March 2006, the Company advanced a loan of $5.0 million to Twin Star International Limited. The loan carries an interest rate of LIBOR plus 100 bonus points and the interest accrued was $32,688.

Vedanta Foundation

During the year, $0.1 million (2005: nil) was paid by Sterlite to the Vedanta Foundation.

Vedanta Foundation is a registered not-for-profit entity engaged in social and charitable activities. Vedanta Foundation is a related party as it is controlled by members of the Agarwal family.

All related party balances are unsecured and will be settled in cash.

Sterlite Energy Private Limited

During the year ended 31 March 2006, the Company advanced $0.4 million to Sterlite Energy Private Limited. Sterlite Energy is a related party as it is controlled by members of the Agarwal family.

(c) Remuneration of Key Management Personnel

The remuneration of the directors and the executive committee members of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million
Short-term employee benefits	4.6	2.8
Post employment benefits	0.1	0.1
Termination benefits	0.6	–
Share-based payments	0.3	0.2
Total	**5.6**	**3.1**

36. Share Transactions

Call Options – KCM

The Group purchased a 51% holding in KCM on 5 November 2004, with ZCI and ZCCM holding 28.4% and 20.6% interests, respectively. There are several call options over the KCM shares held by the Group, ZCI and ZCCM.

The Group has call options over ZCI's and ZCCM's holdings in KCM exercisable in certain circumstances. The option exercise period commences on the earlier of the date of approval by the Government of Zambia of any application by KCM to develop the Konkola Ore Body Extension Project, and the date immediately succeeding the last day of four consecutive quarters during which ore is extracted at a rate of 3 million tpa or more, provided that prior to such date, ZCI and ZCCM have not exercised their primary call options referred to below. In either case, the option exercise period terminates 24 months after the date on which the call option becomes exercisable or the date of any material amendment, cessation or abandonment of the Konkola Ore Body Extension Project other than in accordance with the provisions of the KCM shareholders' agreement.

36. Share Transactions continued

Call Options – KCM continued

ZCI and ZCCM each have a primary call option over the Group's interest in KCM in proportion to their own shareholdings in KCM, exercisable in certain circumstances. The option exercise periods are 24 month periods commencing on either:

- 31 December 2009, provided that prior to such date: KCM does not proceed with the development of the Konkola Ore Body Extension Project, the Group has not exercised its call option over the ZCI shares and sufficient evidence has not been provided to ZCCM and ZCI that the rate of ore extraction during the five year period from 1 January 2013 to 31 December 2017 is expected to be more than 175,000 tpa (the 'Production Condition'); or
- 31 December 2014, provided that prior to 31 December 2009 sufficient evidence has been provided that the Production Condition will be met, and that otherwise the same conditions above apply.

ZCI and ZCCM each have a secondary call option that vests either: where one party confirms to the other, and the Group, that it does not wish to exercise its primary option; or where the primary option is not exercised before the expiry of the relevant 24 month exercise period (the 'End Date'). The secondary call option is exercisable up to 15 days after the End Date and allows ZCI and ZCCM to acquire the shares held by the Group in KCM that are subject to the primary call option.

The exercise price for all options is at a value to be agreed by the Group and ZCI or ZCCM as applicable, or failing agreement, at fair market value determined by an independent valuer.

During the year, a notice was sent by the Group to ZCI to exercise the option to acquire its 28.4% stake in KCM. At the date of this report a valuer has yet to be appointed.

Call Option – HZL

With effect from 11 April 2007, SOVL has the right to purchase all of the Government's remaining shares in HZL at fair market value. As at 31 March 2006, the Government's holding in HZL was 29.5% (2005: 29.5%).

Call Option – BALCO

Sterlite purchased a 51% holding in BALCO from the Government on 2 March 2001. Under the terms of this purchase agreement for BALCO, Sterlite has a call option that allows it to purchase any remaining Government holding in BALCO at any point from 2 March 2004. The purchase price per share under this option would be the higher of fair market value and INR 49.01 (plus 14% interest per annum). During the year ended 31 March 2005, the Group confirmed to the Government that it wished to exercise the call option pursuant to the terms of the purchase agreement, subject to regulatory approvals. An independent valuer was appointed by the Government in March 2005 to determine the fair market value of the shares held by the Government, and the valuation report is currently being evaluated by the Government.

A letter was received from the Government of India wherein the Government offered to allow Sterlite to buy the Government's 49% stake in BALCO at a price to be specified by the Government. In response to this letter and following discussions held with Government officials, on 30 March 2006, Sterlite handed a cheque to the Government for $246.3 million and requested the transfer of shares. This amount is subject to final determination by an arbitrator in respect of the interest included in the consideration. As at the date of the Board's approval of the Group's financial statements, the Government had not encashed the cheque and therefore the issuance of the cheque has not been accounted for. In respect of this, no change of Sterlite's interest in BALCO has been reflected in these financial statements.

Convertible Debt – IFL

IFL has a loan of $28.5 million (2005: $23.3 million) with ICICI Bank. ICICI has an option to convert this debt to equity shares at par value at any time up to maturity of the loan in 2011. If this option is exercised, MALCO's holding in IFL will reduce from 38.8% to 7.1%.

Foreign Currency Convertible Bonds

In October 2003, Sterlite issued 50,000 1% $1,000 redeemable convertible bonds which are redeemable by Sterlite at a premium of $180 per bond on 27 October 2008. Of these bonds, 500 bonds were converted into Sterlite's ordinary shares during the year ended 31 March 2004, 25,800 bonds were converted into Sterlite's ordinary shares during the year ended 31 March 2005 and the balance of 23,700 bonds were converted into Sterlite's ordinary shares during the year ended 31 March 2006. These conversions have the overall effect of reducing the Group's Economic Interest in Sterlite by 2.9%.

Convertible Bond – Vedanta

In February 2006, VFJL issued 725,000 4.6% $1,000 guaranteed convertible bonds which are convertible into equity shares of Vedanta Resources plc and are detailed in note 25.

Notes to the Consolidated Financial Statements continued

37. Reconciliation between UK GAAP and IFRS

Transition to International Financial Standards ('IFRS')

To comply with European Union (EU) legislation, all EU listed companies are required to present financial statements prepared under IFRS for accounting periods beginning on or after 1 January 2006. Vedanta prepared its first IFRS compliant consolidated financial statements for the half-year ending 30 September 2005 with comparatives for the corresponding half year ending 30 September 2004 in accordance with IFRS. Full year IFRS compliant financial statements for the year ended 31 March 2006 are now presented, with comparatives for the year ended 31 March 2005.

Reconciliation of Equity

The Group published financial information in accordance with IFRS for the year ended 31 March 2005, as required by IFRS 1, on 27 September 2005 in its news release entitled 'Vedanta Resources plc Adoption of International Financial Reporting Standards'. The news release is published on the Company's website, www.vedantaresources.com, and includes explanations of the significant UK GAAP to IFRS differences and reconciliations for:

- total shareholders' equity as at 1 April 2004 (date of transition to IFRS), 30 September 2004 and 31 March 2005; and
- profit attributable to shareholders for the period ended 30 September 2004 and the year ended 31 March 2005

The news release also included detailed IFRS accounting policies and supplementary notes to provide more information for understanding the restatements. A summary of the detailed information presented in the news release is provided below:

(a) Reconciliation of Equity under UK GAAP to IFRS (excluding IAS 32/39)

$ million	31 March 2005	1 April 2004
Shareholders' equity under UK GAAP	**1,047.1**	**990.9**
Reversal of negative goodwill and amortisation	64.6	8.6
Post retirement benefits	(6.6)	(6.6)
Deferred tax	(88.6)	(100.3)
Interim dividend	(15.8)	–
Proposed dividend	48.9	15.8
Minority interest	45.3	56.3
Capitalisation of trial run expenses	12.8	12.9
Capitalisation of major overhaul expenses	0.5	0.6
Capitalisation of interest cost	0.8	0.3
Depreciation	(1.2)	(1.2)
Discounting of long-term provision	0.8	0.3
Dismantling cost	0.4	0.5
Inventory valuation	1.5	1.7
Equity attributable to equity holders of the parent under IFRS	**1,110.5**	**979.8**

(b) Reconciliation of Profit for the Year from UK GAAP to IFRS (excluding IAS 32/39)

Year ended 31 March 2005

$ million	Profit for the year
UK GAAP	**234.7**
Negative goodwill arising during the year	56.5
Deferred tax	10.6
Reversal of amortisation of goodwill	(0.4)
Share-based payments	(2.5)
Overhaul expenses	(0.1)
Capitalisation of interest income and expense related to projects	0.9
Inventory valuation	(0.4)
IFRS	**299.3**

37. Reconciliation between UK GAAP and IFRS continued

(b) Reconciliation of Profit for the Year from UK GAAP to IFRS (excluding IAS 32/39) continued

The major differences between UK GAAP and IFRS, as applicable to Vedanta, are described below.

IAS 1 – Reclassification of UK GAAP Minority Interests Within Equity

Minority interests were reclassified from long-term liabilities to equity in accordance with IAS 1. Although this increased reported net assets by $636.2 million at 31 March 2005 and $367.0 million at 1 April 2004, it has no impact on total shareholders' equity.

IFRS 1 – Negative Goodwill

Opening negative goodwill of $8.6 million has been credited to reserves and negative goodwill arising during the year 2004-05, amounting to $56.5 million on acquisition of Konkola Copper Mines, has been credited to the income statement.

IFRS 1 – Reversal of Goodwill Amortisation

The systematic amortisation of goodwill under UK GAAP, by an annual charge to the profit and loss account, has ceased under IFRS. It has been replaced by annual impairment reviews of the carrying value of goodwill. Impairment charges relating to goodwill may occur in future reporting periods, due to the finite life of the associated ore body and variation of commodity prices.

The impact on profit for the year in 2004-05 of the reversal of the goodwill amortisation charge under UK GAAP was $0.4 million. The reversal of negative goodwill has resulted in an adjustment to the UK GAAP balance sheet at 31 March 2005 of $8.5 million.

IFRS 2 – Share-Based Payments

Under UK GAAP, the estimated cost of employee share awards made by the Group is charged to the profit and loss account over the relevant performance period. IFRS requires the economic cost of share option plans to be recognised by reference to fair value on the grant date, and charged to the income statement over the expected vesting period. Under IFRS, the additional charge in 2004-05 was $2.5 million.

IAS 19 – Post-Retirement Benefits

Under UK GAAP, the Group applied SSAP 24, 'Accounting for Pension Costs' under which post retirement benefit surpluses and deficits were spread over the expected average remaining service lives of relevant, current employees. Under IAS 19 the basis of calculating the surplus or deficit differs from SSAP 24. In addition, IAS 19 permits three alternative ways in which the surplus or deficit can be recognised. The Group has chosen to recognise actuarial gains and losses directly in shareholders' equity via the Statement of Changes in Equity as at date of adoption of IFRS and going forward to expense the full annual cost as per the actuarial valuation of the Group's post-retirement benefit plans.

The impact on retained earnings on the date of adoption of IFRS i.e. as at 1 April 2004 was a $6.6 million reduction due to the charge for post-retirement benefits as per IAS 19.

IAS 12 – Deferred Tax

UK GAAP follows the income statement method of tax effect accounting where as IFRS requires deferred tax to be based on a balance sheet liability method. Temporary differences are recognised as the differences between the tax base of the asset or liability and its carrying amount in the balance sheet.

UK GAAP requires the recognition of deferred tax on all fair value adjustments to monetary items and on fair value adjustments which reduce the carrying value of non-monetary items. IFRS requires deferred tax to be recognised on all fair value adjustments, other than those recorded as goodwill. IFRS profit for the year will therefore benefit as the additional deferred tax provisions on upward revaluations of non-monetary items are released to the income statement in line with the amortisation of the related fair value adjustments.

Notes to the Consolidated Financial Statements continued

37. Reconciliation between UK GAAP and IFRS continued

(b) Reconciliation of Profit for the Year from UK GAAP to IFRS (excluding IAS 32/39) continued

For future acquisitions, these additional deferred tax provisions will be offset by increases to the value of goodwill or other acquired assets. For acquisitions prior to 1 April 2004, the increase in provisions has been reflected as a reduction in opening shareholders' equity.

The impact on IFRS Profit for the year for 2004-05 was a reduction of $10.6 million. At 31 March 2005, the IFRS balance sheet includes additional provisions of $88.6 million relating to deferred tax on fair value adjustments for prior year acquisitions.

IAS 10 – Dividends

Under IFRS, dividends that do not represent a present obligation at the reporting date are not included in the balance sheet. Hence, the Company's proposed dividends are not recognised in the Group accounts until the period in which they are declared by the Directors.

This has no effect on Profit for the year or Underlying Earnings, but increases shareholders' equity at 31 March 2005 by $33.1 million (31 March 2004: $15.8 million).

IAS 32 and IAS 39

The Group has elected to adopt IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 April 2005 with no restatement of comparative information. The financial information for 31 March 2005 does not therefore incorporate the effect of these Standards and is therefore presented under UK GAAP.

Investments

Under IFRS, all investments have been carried at market value and consequently any notional gain or loss has been taken to revenue reserve, until disposal; these investments were held at cost under UK GAAP. The net impact of this adjustment at 1 April 2005 is $1.3 million to the opening shareholders' equity (see note 38).

Mark-to-Market of Derivative Contracts

It remains the Group's policy generally to hedge the ongoing exposures, arising on account of fluctuations in exchange rates, prices or interest rates. All derivative contracts are marked-to-market and the mark-to-market difference for all hedges, which do not qualify for hedge accounting under IAS 39, are immediately recognised in the income statement. The mark-to market difference for all qualifying fair value hedges is taken to the income statement and the mark-to-market differences for all qualifying cash flow hedges are recognised in the balance sheet and released to the income statement upon the occurrence of the underlying transaction.

At 1 April 2005, the marked-to–market value of derivative contracts, under IFRS decreased shareholders' equity by $13.4 million (see note 38).

38. Adoption of IAS 32 and IAS 39

The Group elected not to restate its comparative information for IAS 32 and IAS 39 and adopted the Standards prospectively from 1 April 2005.

The consolidated balance sheet as at 31 March 2005 has been adjusted to apply IAS 32 and IAS 39 prospectively from 1 April 2005 as set out below:

	At 31 March 2005 $ million	IAS 32/39 adjustments $ million	At 1 April 2005 $ million
Assets			
Non-current assets			
Goodwill	12.2	–	12.2
Property, plant and equipment	2,288.6	–	2,288.6
Investment in associate	3.3	–	3.3
Financial asset investments	24.8	1.3	26.1
Other non-current assets	34.6	(12.4)	22.2
Other financial assets (derivatives)	–	12.4	12.4
Deferred tax asset	90.0	–	90.0
	2,453.5	**1.3**	**2,454.8**
Current assets			
Inventories	337.7	–	337.7
Trade and other receivables	339.6	–	339.6
Other current financial assets (derivatives)	–	2.5	2.5
Liquid investments	262.0	–	262.0
Cash and cash equivalents	1,185.6	1.0	1,186.6
	2,124.9	3.5	2,128.4
Total assets	**4,578.4**	**4.8**	**4,583.2**
Current liabilities			
Short-term borrowings	(194.7)	–	(194.7)
Convertible loan notes	(23.7)	5.4	(18.3)
Trade and other payables	(675.0)	3.2	(671.8)
Other current financial liabilities (derivatives)	–	(38.7)	(38.7)
Provisions	(37.0)	–	(37.0)
Current tax liabilities	(15.1)	–	(15.1)
	(945.5)	**(30.1)**	**(975.6)**
Net current assets/(liabilities)	1,179.4	(26.6)	1,152.8
Non-current liabilities			
Medium and long-term borrowings	(1,303.5)	15.8	(1,287.7)
Trade and other payables	(41.2)	18.6	(22.6)
Other financial liabilities (derivatives)	–	(29.9)	(29.9)
Deferred tax liabilities	(234.9)	6.6	(228.3)
Retirement benefits	(38.6)	–	(38.6)
Provisions	(208.6)	–	(208.6)
Non equity minority interests	(59.4)	–	(59.4)
	(1,886.2)	**11.1**	**(1,875.1)**
Total liabilities	(2,831.7)	(19.0)	(2,850.7)
Net assets	**1,746.7**	**(14.2)**	**1,732.5**
Equity			
Equity share capital	28.7	–	28.7
Share-based payment reserve	2.5	–	2.5
Share premium account	18.6	–	18.6
Other reserves	43.9	0.9	44.8
Hedging reserves	–	(3.2)	(3.2)
Retained earnings	1,016.8	(9.8)	1,007.0
Equity attributable to equity holders of the parent	**1,110.5**	**(12.1)**	**1,098.4**
Minority interest	636.2	(2.1)	634.1
Total equity	**1,746.7**	**(14.2)**	**1,732.5**

The IFRS news release issued on 27 September 2005 sets out the detailed accounting policies for the Group's financial instruments and reconciliation by adjustment type on adoption of IAS 32 and IAS 39.

Notes to the Consolidated Financial Statements
continued

38. Adoption of IAS 32 and IAS 39 continued

The key changes in accounting policy on adoption of IAS 32 and IAS 39 are:

- recognition and fair value of derivatives;
- fair value of investments that were previously accounted for at cost; and
- the separation of the equity conversion option within convertible debt instruments.

A summary of the more significant adjustments is set out below:

1. All outstanding derivatives are now recognised on the balance sheet at their mark-to-market value and are disclosed within 'Other financial assets (derivatives)' or 'Other financial liabilities (derivatives)'
2. The decrease in borrowings and liabilities i.e. $27 million is largely due to the separate presentation of derivatives within 'Other financial assets (derivatives)' and 'Other financial liabilities (derivatives)'
3. Derivative financial instruments that were designated and effective as hedges of future cash flows as at 1 April 2005 were fair valued through the 'hedging reserve' at that date. Derivatives not designated as cash flow hedges as at 1 April 2005 were fair valued through retained earnings
4. The conversion option within the convertible bond issued by Sterlite was fair valued at the date of issue and is included in equity, net of deferred tax.

39. Principal Subsidiaries

The consolidated financial statements comprise the financial statements of the following principal subsidiaries:

		The Company's economic* percentage holding			
Subsidiaries	Principal activities	31 March 2006	31 March 2005	Country of incorporation	Immediate holding company
Bharat Aluminium Company Limited ('BALCO')	Aluminium mining and smelting	38.7%	40.7%*	India	Sterlite
Copper Mines of Tasmania Pty Limited ('CMT')	Copper mining	75.9%	79.9%*	Australia	MCBV
Hindustan Zinc Limited ('HZL')	Zinc and lead mining and smelting	49.3%	51.9%*	India	SOVL
The Madras Aluminium Company Limited ('MALCO')	Aluminium mining and smelting	80.0%	80.0%	India	Twin Star
Monte Cello BV ('MCBV')	Holding company	75.9%	79.9%*	Netherlands	Sterlite
Monte Cello Corporation NV ('MCNV')	Holding company	100.0%	100.0%	Netherlands Antilles	Twin Star
Konkola Copper Mines PLC ('KCM')	Copper mining and smelting	51.0%	51.0%	Zambia	VRHL
Sterlite Employee Welfare Trust ('SEWT')*	Charitable trust	–	79.9%	India	Sterlite
Sterlite Industries (India) Limited ('Sterlite')	Copper smelting	75.9%	79.9%*	India	Twin Star
Sterlite Opportunities and Ventures Limited ('SOVL')	Holding company	75.9%	79.9%*	India	Sterlite
Sterlite Paper Limited ('SPL')	Non-trading	75.9%	79.9%*	India	Sterlite
Thalanga Copper Mines Pty Limited ('TCM')	Copper mining	75.9%	79.9%*	Australia	MCBV
Twin Star Holdings Limited ('Twin Star')	Holding company	100.0%	100.0%	Mauritius	VRHL
Vedanta Alumina Limited ('VAL')	Alumina mining, aluminium refining and smelting	92.9%	94.1%*	India	Twin Star
Vedanta Resources Holdings Limited ('VRHL')	Holding company	100.0%	100.0%	UK	VR plc
Vedanta Resources Finance Limited ('VRFL')	Financing company	100.0%	100.0%	UK	VRHL
Vedanta Resources Cyprus Limited ('VRCL')	Financing company	100.0%	100.0%	Cyprus	VRFL
Vedanta Finance (Jersey) Limited ('VFJL')	Financing company	100.0%	–	Jersey (CI)	VR plc

The Group owns directly or indirectly through subsidiaries, more than half of the voting power of all of its subsidiaries as mentioned in the list above, also the Group is able to govern its subsidiaries financial and operating policies so as to benefit from its activities.

* The Group's economic interest at 31 March 2005 included the effect of the consolidation of the SEWT (note 32c).

40. Ultimate Controlling Party

At 31 March 2006, the ultimate controlling party of the Group was Volcan, which is controlled by persons related to the Executive Chairman, Mr Anil Agarwal. Volcan, which is incorporated in the Bahamas, does not produce group accounts.

Financial Statements of the Parent Company

41. Company Balance Sheet

	Note	Year ended 31 March 2006 $ million	Year ended 31 March 2005 restated (note 42) $ million
Fixed assets			
Tangible assets	43	0.7	0.9
Investments in subsidiaries	44	637.6	632.4
		638.3	**633.3**
Current assets			
Debtors due within one year	45	21.4	22.3
Debtors due after one year	45	489.7	538.3
Derivative asset		63.2	–
Current asset investments	46	893.8	223.9
Cash at bank and in hand		2.1	3.8
		1,470.2	**788.3**
Creditors: amounts falling due within one year			
Trade and other creditors	47	(10.3)	(8.1)
Derivative liability		(0.3)	–
		(10.6)	(8.1)
Net current assets		**1,459.6**	**780.2**
Total assets less current liabilities		**2,097.9**	**1,413.5**
Creditors: amounts falling due after one year	48		
Amounts due to subsidiary undertakings		(600.4)	–
Bond		(567.4)	(592.2)
Derivative liability		(30.2)	–
		(1,198.0)	**(592.2)**
Net assets		**899.9**	**821.3**
Capital and reserves			
Called up equity share capital	49	28.7	28.7
Share premium account	49	18.6	18.6
Share-based payment reserve	49	4.1	2.5
Convertible bond reserve	49	123.3	–
Profit and loss account	49	725.2	771.5
Equity shareholders' funds	49	**899.9**	**821.3**

These financial statements were approved by the Board of Directors on 31 May 2006.

Signed on behalf of the Board of Directors

Anil Agarwal
Chairman

KK Kaura
Chief Executive

Financial Statements of the Parent Company
continued

42. Company Accounting Policies
The Vedanta Resources plc (the Company) balance sheet and related notes have been prepared in accordance with United Kingdom generally accepted accounting principles ('UK GAAP') and in accordance with UK company law. The financial information has been prepared on a historical cost basis. As permitted by section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these financial statements.

Changes in Accounting Policies
The following UK GAAP financial reporting standards were adopted during the year and have an impact on the Company financial statements:
- FRS 20 Share-based payments
- FRS 21 Events after the balance sheet date
- FRS 25 Financial instruments: Disclosure and presentation
- FRS 26 Financial instruments: Measurement.

The adoption of these Standards represents a change in accounting policy and the comparative information has been restated accordingly except where the exemption from restating comparative information under FRS 25 and FRS 26 has been taken. The effect of adoption of each of these Standards is summarised below.

FRS 20 Share-based Payments
The Standard requires options granted to be measured at fair value at the grant date using an option pricing model and charged to the profit and loss account over the vesting period of the options. This accounting change has reduced net profit for the Company for the year ended 31 March 2005 by $2.5 million. Had the previous accounting policy been applied in 2005, the net profit for the Company for the year ended 31 March 2006 would have been $1.6 million higher.

FRS 21 Events after the Balance Sheet Date
FRS 21 requires that dividends proposed are recognised in the period in which they are formally approved for payment. The change in timing of recognising proposed dividends and the related tax thereon has increased the net assets of the Company at 31 March 2005 by $33.1 million. Had the previous accounting policy been applied for the year ended 31 March 2006 net profit for the Company would have been $7.9 million lower.

FRS 25 Financial Instruments: Disclosure and Presentation
FRS 25 requires financial instrument disclosures and presentation identical to those required by IAS 32. The Company has elected to take the exemption provided in paragraph 3C(b) of FRS 25 in respect of these parent company financial statements. Full disclosures are provided in note 38 to the consolidated financial statements of the Group for the year ended 31 March 2006.

FRS 26 Financial Instruments: Measurement
FRS 26 aligns UK accounting for the measurement of financial instruments with the requirements of IAS 39. FRS 26 has been applied prospectively from 1 April 2005, as permitted by FRS 26, and as such restated comparative information presented excludes any adjustments required in respect of FRS 26. The Company has taken the policy option within FRS 26 of presenting its investments in joint ventures and associates at cost.

Significant Accounting Policies
Investments in Subsidiaries
Investments in subsidiaries represent equity holdings in subsidiaries valued at cost less any provision for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Currency Translation
Transactions in currencies other than the functional currency of the Company, being US dollars, are translated into US dollars at the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into US dollars at year end exchange rates, or at a contractual rate if applicable.

42. Company Accounting Policies continued

Tangible Fixed Assets
Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment.

Deferred Taxation
Deferred taxation is provided in full on all timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, subject to the recoverability of deferred tax assets. Deferred tax assets and liabilities are not discounted.

Share-based Payments
The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions are determined by an external valuer and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the current expectations. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

Borrowings
Interest bearing loans are recorded at the net proceeds received i.e. net of direct transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis and charged to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative Financial Instruments
Derivative financial instruments are initially recorded at their fair value on the date of the derivative transaction and are re-measured at their fair value at subsequent balance sheet dates.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account. The hedged item is recorded at fair value and any gain or loss is recorded in the profit and loss account and is offset by the gain or loss from the change in the fair value of the derivative.

Derivative financial instruments that do not qualify for hedge accounting are marked-to-market at the balance sheet date and gains or losses are recognised in the profit and loss account immediately.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

The disclosure requirements of FRS 25 do not apply to parent companies in respect of their separate financial statements where the company is included in publicly available consolidated financial statements which include disclosures that comply with IAS 32. The Group's disclosures in respect of IAS 32 are provided in note 26 to the consolidated financial statements and accordingly no disclosures in respect of FRS 25 are provided in the individual company financial statements.

Cash Flow Statement
The Company's individual financial statements are outside the scope of FRS 1 Cash Flow Statements because the Company prepares publicly available consolidated financial statements, which include a consolidated cash flow statement. Accordingly, the Company does not present an individual company cash flow statement.

Related Party Disclosures
The Company's individual financial statements are exempt from the requirements of FRS 8 Related Party Disclosures because its individual financial statements are presented together with its consolidated financial statements. Accordingly, the individual financial statements do not include related party disclosures.

Financial Statements of the Parent Company
continued

43. Company Tangible Fixed Assets

	$ million
Cost	
At 1 April 2005 and 31 March 2006	0.9
Accumulated depreciation	
At 1 April 2005	0.1
Charge for the year	0.1
At 31 March 2006	0.2
Net book value	
At 1 April 2005	**0.9**
At 31 March 2006	**0.7**

44. Investments in Subsidiaries

	$ million
Cost	
At 1 April 2005	632.4
Additions	5.2
At 31 March 2006	**637.6**

At 31 March 2006, the Company held 124,415,950 shares in VRHL (2005: 123,371,950 shares), being 100% of VRHL's issued equity share capital. The Company also held one deferred share in VRHL. The Company held two shares in VFJL being 100% of its issued equity share capital.

45. Company Debtors

	31 March 2006 $ million	31 March 2005 $ million
Amounts due from subsidiary undertakings	502.5	538.3
Deferred tax asset	0.7	1.6
Other debtors	6.7	18.7
Prepayments and accrued income	0.4	0.9
Corporation tax receivable	0.6	0.6
Other taxes	0.2	0.5
Total	**511.1**	**560.6**
Debtors due within one year	21.4	22.3
Debtors due after one year	489.7	538.3
Total	**511.1**	**560.6**

At 31 March 2006, the Company had loans due from Twin Star of $25.0 million (2005: $50.6 million). The loan bears interest at LIBOR plus 50 basis points. Included in the loan balance is accrued interest of $1.2 million (2005: $1.4 million).

At 31 March 2006, the Company had a loan due from VRHL totalling $463.0 million (2005: $487.6 million) which primarily represented the downstreaming of funds to the Indian operating subsidiaries. These funds were raised from the $600 million bond issue in December 2004 as disclosed in note 22. The loan bears interest at US dollar LIBOR six months plus 350 basis points. Accrued interest of $1.7million (2005: $3.1 million) is included in accruals.

46. Company Current Asset Investments

	31 March 2006 $ million	31 March 2005 $ million
Bank term deposits	251.0	–
Short-term unit trusts and liquidity funds	642.8	24.2
Unquoted quasi-equity securities	–	199.7
Total	**893.8**	**223.9**

The investment in unquoted equity securities represents a subcription to preference shares issued by a financial institution which carried an average annual pre-tax coupon rate of 5.97%. Preference shares are held as short-term investments.

47. Company Creditors: Amounts Falling Due Within One Year

	31 March 2006 $ million	31 March 2005 restated $ million
Amount due to subsidiaries	0.4	0.1
Trade creditors	1.8	2.8
Accruals and deferred income	8.1	5.2
Total	**10.3**	**8.1**

48. Company Creditors: Amounts Falling Due After One Year

	31 March 2006 $ million	31 March 2005 $ million
Loan from subsidiary	600.4	–
Bond	567.4	592.2
Derivative liability	30.2	–
Total	**1,198.0**	**592.2**

During the year ended 31 March 2006, VFJL issued $725 million 4.6% convertible bonds the proceeds of which were advanced to the Company. Further details of the convertible bonds are provided in note 25. During the year ended 31 March 2005, the Company issued a $600 million bond with a coupon rate of 6.625% which matures in February 2010. Further details are provided in notes 22 and 26.

49. Company Reconciliation of Movement In Equity Shareholders' Funds

$ million	Share capital	Share premium account	Share-based payment reserve	Convertible bond reserve	Profit and loss account	Total
Equity shareholders' funds at 31 March 2005	**28.7**	**18.6**	**0.9**	**–**	**740.0**	**788.2**
Adjustment for adoption of FRS 20 and FRS 21	–	–	1.6	–	31.5	33.1
Equity shareholders' funds at 31 March 2005 (restated)	28.7	18.6	2.5	–	771.5	821.3
Adjustment for adoption of FRS 25 and FRS 26	–	–	–	–	(0.8)	(0.8)
	28.7	18.6	2.5	–	770.7	820.5
Retained profit for the year	–	–	–	–	3.3	3.3
Dividend paid	–	–	–	–	(49.4)	(49.4)
Recognition of share-based payments	–	–	1.6	–	–	1.6
Issue of convertible bond	–	–	–	123.3	–	123.3
IPO related credit	–	–	–	–	0.6	0.6
Equity shareholders' funds at 31 March 2006	**28.7**	**18.6**	**4.1**	**123.3**	**725.2**	**899.9**

50. Company Contingent Liabilities

The Company has guaranteed $725 million convertible bonds issued by VFJL, which are convertible into equity shares of Vedanta on or after 17 April 2006 (see note 25 for details).

Independent Auditors' Report on the individual Company Financial Statements to the Members of Vedanta Resources Plc

We have audited the individual company financial statements of Vedanta Resources plc for the year ended 31 March 2006 which comprise the balance sheet (note 41) and the related notes 42 to 50. These individual company financial statements have been prepared under the accounting policies set out therein.

The Corporate Governance Report and the Remuneration Report are included in the group annual report of Vedanta Resources plc for the year ended 31 March 2006. We have reported separately on the Group financial statements of Vedanta Resources plc for the year ended 31 March 2006 and on the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the individual company financial statements in accordance with applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the individual company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Directors' Report is not consistent with the individual company financial statements. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual company financial statements.

Opinion

In our opinion:

- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006;
- the individual company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the individual company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

31 May 2006

Production and Reserves Summary

Copper

Copper Production Summary

Facility	Product	Year ended 31 March 06 mt	Year ended 31 March 05 mt
Tuticorin	Copper anode	**273,049**	177,020
	Sulphuric acid	**844,122**	546,647
	Phosphoric acid	**171,892**	104,902
	Copper cathode	**98,796**	–
	Copper rods	**30,384**	–
Silvassa	Copper cathode	**174,252**	171,992
	Copper rods	**136,316**	125,406
KCM	Copper cathode	**163,779**	67,547

Copper Mining Summary

		Ore mined		Copper concentrate		Copper in concentrate	
Mine	Type of mine	31 March 2006 mt	31 March 2005 mt	31 March 2006 mt	31 March 2005 mt	31 March 2006 mt	31 March 2005 mt
Mt Lyell (CMT)	Underground	**2,605,969**	2,417,468	**105,690**	98,141	**29,770**	27,593
Highway Reward (TCM)	Underground	**147,917**	305,437	**21,506**	47,843	**5616**	12,272
Konkola (KCM)	Underground	**9,518,315**	3,452,341	**277,413**	108,029	**99,182**	43,504

Copper Mines Resource and Reserves Summary

	Resources[1]				Reserves	
Mine	Measured and Indicated million mt	Copper grade %	Inferred million mt	Copper grade %	Proved and probable reserves million mt	Copper grade %
Mt Lyell (CMT)	–	–	19.55	1.3	14.25	1.27
Konkola (KCM)	71.56	2.14	203.53	2.67	174.8	2.83

1 Resources are additional to the reserves.

Aluminium, Alumina and Bauxite

Aluminium Production Summary

Company	Year ended 31 March 2006 mt	Year ended 31 March 2005 mt
BALCO	173,732	100,277
MALCO	36,718	35,649

Alumina Production Summary

Company	Year ended 31 March 2006 mt	Year ended 31 March 2005 mt
BALCO	219,485	205,470
MALCO	76,787	73,129

Bauxite Production Summary

Company	Type of mine	Year ended 31 March 2006 mt	Year ended 31 March 2005 mt
BALCO – Mainpat	Opencut	**565,301**	493,422
BALCO – Bodai Daldali	Opencut	**65,821**	2,717
MALCO	Opencut	**300,304**	302,167

Production and Reserves Summary continued

Aluminium, Alumina and Bauxite continued
Bauxite Mines Resource and Reserves Summary
Bauxite Mines

Mine	Resources[1] Measured and Indicated million mt	Resources[1] Aluminium grade %	Resources[1] Inferred million mt	Resources[1] Aluminium grade %	Reserves Proved and probable reserves million mt	Reserves Aluminium grade %
BALCO						
Mainpat	–	–	5.0	48.1	4.7	48.1
Bodai – Daldali	–	–	2.0	48.0	7.0	48.0
Pandrapat	–	–	8.0	48.0	–	–
Jamirapat	–	–	15.7	50.5	–	–
Total BALCO	**–**	**–**	**30.7**	**49.3**	**11.7**	**48.1**
MALCO						
Yercaud	–	–	–	–	0.4	42.0
Kolli Hills	0.8	44.0	1.3	44.0	0.7	44.0
Poondi	–	–	1.6	44.0	–	–
Total MALCO	**0.8**	**44.0**	**2.9**	**44.0**	**1.1**	**43.0**
VAL						
Lanjigarh	–	–	–	–	77.7	46.5
Total Bauxite	**0.8**	**44.0**	**33.6**	**48.8**	**90.5**	**47.2**

1 Resources are additional to the reserves.

Zinc and Lead
Zinc and Lead Smelter Production Summary

Metal	Year ended 31 March 2006 mt	Year ended 31 March 2005 mt
HZL		
Zinc	283,698	212,445
Lead	23,869	15,727

Mine	Type of Mine	Ore mined Year ended 31 March 2006 mt	Ore mined Year ended 31 March 2005 mt	Zinc concentrate Year ended 31 March 2006 mt	Zinc concentrate Year ended 31 March 2005 mt	Lead concentrate Year ended 31 March 2006 mt	Lead concentrate Year ended 31 March 2005 mt
HZL							
Rampura Agucha	Opencut	3,496,000	2,451,725	790,050	549,785	65,194	47,266
Rajpura Dariba	Underground	491,624	538,715	45,982	55,556	9,245	10,546
Zawar	Underground	807,500	938,100	52,975	61,083	21,299	26,439
Total		**4,795,124**	**3,928,540**	**889,007**	**666,424**	**95,738**	**84,251**

Zinc and Lead Resource and Reserves Summary

	Resources[1] Measured and Indicated million mt	Resources[1] Zinc grade %	Resources[1] Lead grade %	Resources[1] Inferred million mt	Resources[1] Zinc grade %	Resources[1] Lead grade %	Reserves Proved and probable reserves million mt	Reserves Zinc grade %	Reserves Lead grade %
Rampura Agucha	19.07	13.94	2.12	14.56	12.2	1.92	48.58	12.47	1.97
Rajpura Dariba	11.68	7.46	2.55	24.65	5.98	2.42	9.95	5.93	1.76
Zawar	22.55	4.77	1.92	13.83	3.73	3.09	5.83	4.39	1.79
Kayar	0.80	13.34	2.17	4.52	10.97	1.54	–	–	–
Total	**54.10**	**8.71**	**2.13**	**57.56**	**7.40**	**2.39**	**64.36**	**10.73**	**1.92**

1 Resources are additional to the reserves.

Source of Information
In respect of all Businesses, the information has been certified by in-house geologists on behalf of Group management.

Basis of Preparation
Ore reserves and mineral resources reported herein comply with the 'Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves', other than those relating to Konkola Copper Mines plc ('KCM') which comply with the South African Code for Reporting of Mineral Reserves and Mineral Resources (the 'SAMREC Code'). The former code is prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists, and Minerals Council of Australia, and is commonly referred to as the 'JORC Code'. As at the date of this document, the editions of the JORC and SAMREC Codes in force are dated December 2004 and March 2000, respectively. The JORC and SAMREC Codes recognise a fundamental distinction between resources and reserves.

The terms and definitions in the SAMREC Code are consistent with those used in the JORC Code with minor differences in terminology – the JORC Code uses the term Ore Reserve whilst the SAMREC Code uses the term Mineral Reserve. For the purposes of ore and mineral resources reported herein, the term ore resources has been used throughout.

Mineral resources are based on mineral occurrences quantified on the basis of geological data and an assumed cut-off grade, and are divided into Measured, Indicated and Inferred categories reflecting decreasing confidence in geological and/or grade continuity. The reporting of resource estimates carries the implication that there are reasonable prospects for eventual economic exploitation. An Ore or Mineral Reserve is the economically mineable part of a Measured or Indicated Mineral Resource. It includes the effect of dilution and losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, need to have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors.

These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore Reserves are sub-divided in order of decreasing confidence into Proved Ore Reserves and Probable Ore Reserves.

The Measured and Indicated mineral resources have been reported as being inclusive of those mineral resources modified to produce the ore reserves, in addition to the ore reserves. The resource and reserve estimates provided herein comply with the resource and reserve definitions of the JORC Code, other than those relating to KCM which comply with the SAMREC Code.

Five Year Summary

Summary Consolidated Income Statement

	As per IFRS		As per UK GAAP		
	Year ended 31 March 2006 $ million	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million	Year ended 31 March 2003 $ million	Year ended 31 March 2002 $ million
Revenue	**3,701.8**	**1,884.2**	**1,289.5**	**963.1**	**601.3**
EBITDA	**1,101.5**	**454.0**	**322.7**	**224.3**	**109.7**
Depreciation	(157.7)	(103.7)	(71.8)	(59.2)	(46.1)
Goodwill amortisation/impairment	–	–	(0.5)	(0.4)	(0.4)
Exceptional/special items	–	(22.3)	(13.3)	(50.1)	(5.0)
Operating profit	**943.8**	**328.0**	**237.1**	**114.6**	**58.2**
Share of (loss)/profit in associate	(1.4)	(5.6)	(1.2)	(0.5)	0.3
Non-operating exceptional/special items	–	56.5	(1.2)	(0.7)	–
Profit before interest and taxation	**942.4**	**378.9**	**234.7**	**113.4**	**58.5**
Net finance (costs)/investment revenues	(7.7)	7.4	(1.3)	(35.0)	(35.3)
Profit before taxation	**934.7**	**386.3**	**233.4**	**78.4**	**23.2**
Taxation	(280.4)	(87.0)	(76.0)	(20.5)	(6.7)
Profit after taxation	**654.3**	**299.3**	**157.4**	**57.9**	**16.5**
Equity minority interests	(280.8)	(120.4)	(85.1)	(33.4)	(15.3)
Profit attributable to equity shareholders in parent	**373.5**	**178.9**	**72.3**	**24.5**	**1.2**
Dividends paid during the year	(49.4)	(31.6)	–*	–	–
Retained profit	**324.1**	**147.3**	**72.3**	**24.5**	**1.2**
Basic earnings per share (US cents per share)					
Profit for the financial year	130.2	62.5	25.3	8.6	0.4
Underlying profit for the financial year	130.2	48.9	26.6	11.9	2.2
Dividend paid during the year per share (US cents per share)	17.25	5.5	–	–	–

* The dividend declared in relation to year ended 31 March 2004 under UK GAAP of $15.8 million has been included in the year ended 31 March 2005 on a payment basis as required under IFRS.

The financial information for the years ended 31 March 2003 and 2002 has been derived from the Listing Particulars without material change. The information for the year ended 31 March 2004 has been restated for the effect of UITF Abstract 38 'Accounting for ESOP Trusts' as disclosed in note 1 to the accounts for that year. No restatement has been made for 2003 and 2002.

All numbers in the five year summary for the years ended 31 March 2005 and 31 March 2006 are stated under IFRS and numbers for the years ended 31 March 2004, 31 March 2003 and 31 March 2002 are stated under UK GAAP. The Group adopted IFRS with effect from 1 April 2004.

Five Year Summary continued

Summary Consolidated Balance Sheet

	As per IFRS		As per UK GAAP		
	31 March 2006 $ million	31 March 2005 $ million	31 March 2004 $ million	31 March 2003 $ million	31 March 2002 $ million
Goodwill	12.1	12.2	3.6	3.7	4.0
Property, plant and equipment	2,763.0	2,288.6	1,268.4	889.1	599.4
Fixed asset investments/associate	28.9	28.1	30.2	30.4	17.0
Total fixed assets	**2,804.0**	**2,328.9**	**1,302.2**	**923.2**	**620.4**
Stocks	535.0	337.7	199.9	170.1	96.6
Debtors	804.4	464.2	245.5	173.5	85.6
Cash and current financial asset investments	2,091.7	1,447.6	1,241.2	146.9	108.0
Total current assets	**3,431.1**	**2,249.5**	**1,686.6**	**490.5**	**290.2**
Short-term borrowings	(239.8)	(218.4)	(295.3)	(220.3)	(161.1)
Other current liabilities	(1,112.6)	(727.1)	(586.5)	(277.8)	(122.9)
Total current liabilities	**(1,352.4)**	**(945.5)**	**(881.8)**	**(498.1)**	**(284.0)**
Net current assets/(liabilities)	**2,078.7**	**1,304.0**	**804.8**	**(7.6)**	**6.2**
Total assets less current liabilities	**4,882.7**	**3,632.9**	**2,107.0**	**915.6**	**626.6**
Long-term borrowings	(1,836.4)	(1,303.5)	(523.6)	(257.7)	(177.8)
Other long-term liabilities	(100.5)	(41.2)	(6.3)	(3.7)	(1.8)
Provisions	(547.6)	(482.1)	(162.9)	(144.0)	(120.3)
Total long-term liabilities	**(2,484.5)**	**(1,826.8)**	**(692.8)**	**(405.4)**	**(299.9)**
Equity minority interests	(921.7)	(636.2)	(423.3)	(405.2)	(264.7)
Non equity minority interest	(59.4)	(59.4)	–	–	–
Net assets	**1,417.1**	**1,110.5**	**990.9**	**105.0**	**62.0**

Turnover	2006 $ million	2005 $ million	2004 $ million	2003 $ million	2002 $ million
Aluminium	453.0	281.7	223.4	220.7	168.5
Copper	2,241.3	1,014.7	592.8	406.7	379.0
India/Australia	1,537.9	765.5	592.8	406.7	379.0
Zambia	703.4	249.2	–	–	–
Zinc	875.5	486.4	401.1	291.1	–
Other	132.0	101.4	72.2	44.6	53.8
Group turnover	**3,701.8**	**1,884.2**	**1,289.5**	**963.1**	**601.3**

EBITDA	2006 $ million	2005 $ million	2004 $ million	2003 $ million	2002 $ million
Aluminium	135.3	75.6	53.6	38.3	10.4
Copper	425.3	163.0	94.1	101.0	101.4
India/Australia	219.0	87.0	94.1	101.0	101.4
Zambia	206.3	76.0	–	–	–
Zinc	532.9	218.5	179.3	87.1	–
Other	8.0	(3.1)	(4.3)	(2.1)	(2.1)
Group EBITDA	**1,101.5**	**454.0**	**322.7**	**224.3**	**109.7**

EBITDA Margin	2006 %	2005 %	2004 %	2003 %	2002 %
Aluminium	29.9	26.8	24.0	17.4	6.2
Copper	18.7	16.1	15.9	24.8	26.8
India/Australia	14.2	11.4	15.9	24.9	26.8
Zambia	29.3	30.5	–	–	–
Zinc	60.9	44.9	44.7	29.9	–
Group EBITDA margin	**29.8**	**24.1**	**25.0**	**23.3**	**18.2**

Five Year Summary continued

Production	2006 000's mt	2005 000's mt	2004 000's mt	2003 000's mt	2002 000's mt
Aluminium	211	136	129	127	98
BALCO	174	100	97	96	68
MALCO	37	36	32	31	30
Copper (cathode)	437	240	179	156	114
Sterlite	273	172	179	156	114*
KCM	164	68**	–	–	–
Zinc	284	212	221	207	–

* 9 months
** 5 months

Cash costs of production	2006 US cents/lb	2005 US cents/lb	2004 US cents/lb	2003 US cents/lb	2002 US cents/lb
Aluminium – BALCO*	67.9	61.1	56.2	56.8	71.5
Aluminium – MALCO	75.8	66.5	53.8	48.9	54.8
Copper – Sterlite**	6.1	7.1	7.8	9.1	10
Copper – KCM	127.9	106.2	–	–	–
Zinc	31.3	31.5	25.9	30.1	38.6

* Pertains to existing BALCO plant
** Conversion cost until refinery

Capital expenditure	2006 $ million	2005 $ million	2004 $ million	2003 $ million	2002 $ million
Sustaining	80.6	69.7	64.5	35.7	43.4
Expansion	605.5	734.6	284.5	9.8	–
Total capital expenditure	**686.1**	**804.3**	**349.0**	**45.5**	**43.4**

Net cash/(debt)	2006 $ million	2005 $ million	2004 $ million	2003 $ million	2002 $ million
Aluminium	(453.6)	(441.7)	(75.8)	(3.2)	(7.0)
Copper	248.9	127.6	(318.0)	(346.3)	(194.1)
India/Australia	132.4	84.7	(318.0)	(346.3)	(194.1)
Zambia	116.5	42.9	–	–	–
Zinc	255.8	26.6	43.9	32.7	–
Other	(63.0)	213.2	772.2	(14.3)	(29.8)
Group	**(11.9)**	**(74.3)**	**422.3**	**(331.1)**	**(230.9)**

	2006 %	2005 %	2004 %	2003 %	2002 %
Gearing	0.5	4.0	–	39.4	41.7

	2006 $ million	2005 $ million	2004 $ million	2003 $ million	2002 $ million
Group free cash flow	634.8	204.4	335.4	145.6	37.1

	2006 $ million	2005 $ million	2004 $ million	2003 $ million	2002 $ million
Capital employed	2,350.7	1,821.0	991.9	841.3	553.5

	2006 %	2005 %	2004 %	2003 %	2002 %
ROCE	28.1	13.9	16.9	14.4	8.2

Glossary and Definitions

5S
A Japanese concept laying emphasis on housekeeping and occupational safety in a sequential series of steps as Sort (Seiri); Set in Order (Seiton); Shine (Selso); Standardise (Seiketsu); and Sustain (Shitsuke)

Adapted Comparator Group
The new comparator group of companies used for the purpose of comparing TSR performance in relation to the LTIP, adopted by the Remuneration Committee on 1 February 2006 and replacing the previous comparator group comprising companies constituting the FTSE Worldwide Mining Index (excluding precious metals)

AGM or Annual General Meeting
The annual general meeting of the Company which is scheduled to be held on Wednesday 2 August 2006 at 3.00pm, UK time, at the Mayfair Conference Centre, 17 Connaught Place, London W2 2EL

AE
Anode effects

AIDS
Acquired immune deficiency syndrome

Aluminium Business
The aluminium business of the Group, comprising its fully-integrated bauxite mining, alumina refining and aluminium smelting operations in India, and trading through the Bharat Aluminium Company Limited and The Madras Aluminium Company Limited, companies incorporated in India

Articles of Association
The articles of association of Vedanta Resources plc

Attributable Profit
Profit for the financial year before dividends attributable to the equity shareholders of Vedanta Resources plc

BALCO
Bharat Aluminium Company Limited, a company incorporated in India

Board or Vedanta Board
The board of directors of the Company

Board Committees
The committees reporting to the Board: Audit, Remuneration, Nominations and Health, Safety and Environment, each with its own terms of reference

Businesses
The Aluminium Business, the Copper Business and the Zinc Business together

Capital Employed
Net assets before Net (Debt)/Cash

Capex
Capital expenditure

Cash Tax Rate
Current taxation as a percentage of profit before taxation

CEO
Chief executive officer

CII
Confederation of Indian Industries

CLZS
Chanderiya lead and zinc smelter

CO_2
Carbon dioxide

CMT
Copper Mines of Tasmania Pty Limited, a company incorporated in Australia

Combined Code or the Code
The Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003 and applying to listed companies for reporting years beginning on or after 1 November 2003

Company or Vedanta
Vedanta Resources plc

Company financial statements
The audited financial statements for the Company and the Group for the year ended 31 March 2006 as defined in the Independent Auditors' Report on the individual Company Financial Statements to the members of Vedanta Resources plc on page 120

Glossary and Definitions continued

Convertible Bonds
$725 million 4.60% guaranteed convertible bonds due 2026, issued by a wholly-owned subsidiary of the Company, Vedanta Finance (Jersey) Limited ('VFJL'), and guaranteed by the Company, the proceeds of which are to be applied towards re-financing subsidiary indebtedness, the Company's capital expenditure programme including the Jharasaguda aluminium smelter project and other general corporate purposes.

Copper Business
The copper business of the Group, comprising:
- a copper smelter, two refineries and two copper rod plants in India, trading through Sterlite Industries (India) Limited), a company incorporated in India;
- one copper mine in Australia, trading through Copper Mines of Tasmania Pty Limited, a company incorporated in Australia; and
- an integrated operation in Zambia consisting of three mines, a leaching plant and a smelter, trading through Konkola Copper Mines PLC, a company incorporated in Zambia.

CREP
Corporate responsibility for environmental protection

cents/lb
US cents per pound

CRRI
Central Road Research Institute

CSR
Corporate social responsibility

CTC
Cost to company, the basic remuneration of executives in India, which represents an aggregate figure encompassing basic pay, pension contributions and allowances

Deferred Shares
Deferred shares of £1.00 each in the Company

DGMS
Director General of Mine Safety in the Government of India

Directors
The directors of the Company

Dollar or $
United States dollars, the currency of the United States of America

DRs
Depositary receipts of 10 US cents, issuable in relation to the $725 million 4.6% guaranteed convertible bonds due 2026.

EBITDA
Earnings before interest, taxation, depreciation, goodwill amortisation/impairment and special items

EBITDA Margin
EBITDA as a percentage of turnover

Economic Holdings or Economic Interest
The economic holdings/interest are derived by combining the Group's direct and indirect shareholdings in the operating companies. The Group's Economic Holdings/Interest is the basis on which the Attributable Profit and net assets are determined in the consolidated accounts

E&OHSAS
Environment and occupational health and safety assessment standards

E&OHSMS
Environment and occupational health and safety management system

EPS
Earnings per Ordinary Share

ESOP
Employee share option plan

ESP
Electrostatic precipitator

Executive Committee
The executive committee to whom the Board delegates operational management and comprising the Executive Directors and the senior management within the Group

Executive Directors
The executive directors of the Company

Expansion Capital Expenditure
Capital expenditure that increases the Group's operating capacity

Financial Statements or Group financial statements
The consolidated financial statements for the Company and the Group for the year ended 31 March 2006 as defined in the Independent Auditors' Report to the members of Vedanta Resources plc on page 67

Free Cash Flow
Cash flow arising from EBITDA after net interest, taxation, Sustaining Capital Expenditure and working capital movements

GAAP, including UK GAAP and Indian GAAP
Generally Accepted Accounting Principles, the common set of accounting principles, standards and procedures that companies use to compile their financial statements in their respective local territories

GDP
Gross domestic product

Gearing
Net Debt as a percentage of Capital Employed

GJ
Giga joules

Government or Indian Government
The Government of the Republic of India

Gratuity
A defined contribution pension arrangement providing pension benefits consistent with Indian market practices

Group
The Company and its subsidiary undertakings and, where appropriate, its associate undertaking

HSE
Health, safety and environment

HZL
Hindustan Zinc Limited, a company incorporated in India

IAS
International Accounting Standards

ICMM
International Council on Mining and Metals

IFL
India Foils Limited, a company incorporated in India

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards

INR
Indian Rupees

Interest Cover
EBITDA divided by finance costs

ISO 9001
An international quality management system standard published by the International Organisation for Standardisation

ISO 14001
An international environmental management system standard published by the International Organisation for Standardisation

Glossary and Definitions continued

KCM or Konkola Copper Mines
Konkola Copper Mines PLC, a company incorporated in Zambia

KDMP
Konkola deep mining project

Key Result Areas or KRAs
For the purpose of the remuneration report, specific personal targets set as an incentive to achieve short-term goals for the purpose of awarding bonuses, thereby linking individual performance to corporate performance

KLD
Kilo litres per day

KPIs
Key performance indicators

Kwh
Kilo-watt hour

Kwh/d
Kilo-watt hour per day

LIBOR
London inter bank offered rate

Listing or IPO (Initial Public Offering)
The listing of the Company's Ordinary Shares on the London Stock Exchange on 10 December 2003

Listing Particulars
The listing particulars dated 5 December 2003 issued by the Company in connection with its Listing

Listing Rules
The listing rules of the Financial Services Authority, with which companies with securities that are listed in the UK must comply

LME
London Metals Exchange

London Stock Exchange
London Stock Exchange plc

Lost time injury
An accident/injury forcing the employee/contractor to remain away from his/her work beyond the day of the accident

LTIFR
Lost time injury frequency rate: the number of lost time injuries per million man hours worked

LTIP
The Vedanta Resources Long Term Incentive Plan or Long Term Incentive Plan

MALCO
The Madras Aluminium Company Limited, a company incorporated in India

Management Assurance Services
The function through which the Group's internal audit activities are managed

MAT
Minimum alternative tax

MIS
Management information system

MOEF
The Ministry of Environment & Forests of the Government of the Republic of India

mt or tonnes
Metric tonnes

MW
Megawatts of electrical power

NCCBM
National Council of Cement and Building Materials

Net (Debt)/Cash
Total debt after fair value adjustments under IAS 32 and 39, cash and cash equivalents and liquid investments

NGO
Non-governmental organisation

NIHL
Noise induced hearing loss

Non-executive Directors
The non-executive directors of the Company

OHSAS 18001
Occupational Health and Safety Assessment Series (standards for occupational health and safety management systems)

Ordinary Shares
Ordinary shares of 10 US cents each in the Company

PBT
Profit before tax

PFC
Per fluorocarbons

PHC
Primary health centre

PPE
Personal protective equipment

Provident Fund
A defined contribution pension arrangement providing pension benefits consistent with Indian market practices

Recycled water
Water released during mining or processing and then used in operational activities

Relationship Agreement
The agreement dated 5 December 2003 between the Company, Volcan Investments Limited and members of the Agarwal family that regulates the ongoing relationship between them, the principal purpose of which is to ensure that the Group is capable of carrying on business independently of Volcan, the Agarwal family and their associates

Return on Capital Employed or ROCE
Profit before interest, taxation, special items, tax effected at the Group's effective tax rate as a percentage of Capital Employed

The Reward Plan
The Vedanta Resources Share Reward Plan, a closed plan approved by shareholders on Listing in December 2003 and adopted for the purpose of rewarding employees who contributed to the Company's development and growth over the period leading up to Listing in December 2003

RO
Reverse osmosis

SA 8000
Standard for Social Accountability based on international workplace norms in the International Labour Organisation ('ILO') conventions and the UN's Universal Declaration of Human Rights and the Convention on Rights of the Child

Senior Management Group
For the purpose of the remuneration report, the key operational and functional heads within the Group

SEWT
Sterlite Employee Welfare Trust, a long-term investment plan for Sterlite senior management

The Share Option Plan
The Vedanta Resources Share Option Plan, a closed plan approved by shareholders on Listing in December 2003 and adopted to provide maximum flexibility in the design of incentive arrangements over the long term

SHGs
Self helf groups

SID
Senior Independent Director

SO_2
Sulphur dioxide

SBU
Strategic Business Unit

SOTL
Sterlite Optical Technologies Limited, a company incorporated in India

SOVL
Sterlite Opportunities and Ventures Limited, a company incorporated in India

Special items
Items which derive from events and transactions that need to be disclosed separately by virtue of their size or nature

SPM
Suspended particulate matter. Fine dust particles suspended in air

Sterling, GBP or £
The currency of the United Kingdom

Sterlite
Sterlite Industries (India) Limited, a company incorporated in India

Superannuation Fund
A defined contribution pension arrangement providing pension benefits consistent with Indian market practices

Sustaining Capital Expenditure
Capital expenditure to maintain the Group's operating capacity

Glossary and Definitions continued

TCM
Thalanga Copper Mines Pty Limited, a company incorporated in Australia

TC/RC
Treatment charge/refining charge being the terms used to set the smelting and refining costs

TGS
Tail gas scrubber

TGT
Tail gas treatment

tpa
Metric tonnes per annum

TPM
Tonne per month

TSR
Total shareholder return, being the movement in the Company's share price plus reinvested dividends

Turnbull Guidance
The revised guidance on internal control for directors on the Combined Code issued by the Turnbull Review Group in October 2005

Twin Star
Twin Star Holdings Limited, a company incorporated in Mauritius

Twin Star Holdings Group
Twin Star and its subsidiaries and associated undertaking

UITF
Urgent Issues Task Force

Underlying EPS
Underlying earnings per Ordinary Share

Underlying Profit
Profit for the year after adding back special items and their resultant tax and minority interest effects

US cents
United States cents

VAL
Vedanta Alumina Limited, a company incorporated in India

VFD
Variable frequency drive

VFJL
Vedanta Finance (Jersey) Limited, a company incorporated in Jersey

VFL
Visible felt leadership

Volcan
Volcan Investments Limited, a company incorporated in the Bahamas

VRCL
Vedanta Resources Cyprus Limited, a company incorporated in Cyprus

VRFL
Vedanta Resources Finance Limited, a company incorporated in the United Kingdom

VRHL
Vedanta Resources Holdings Limited, a company incorporated in the United Kingdom

VSS
Vertical Stud Söderberg

Water used for Primary Activities
Total new or make-up water entering the operation and used for the operation's primary activities; primary activities are those in which the operation engages to produce its product

WBCSD
World Business Council for Sustainable Development

ZCI
Zambia Copper Investment Limited, a company incorporated in Bermuda

ZCCM
ZCCM Investments Holdings plc, a company incorporated in Zambia

Zinc Business
The zinc-lead business of the Group, comprising its fully-integrated zinc-lead mining and smelting operations in India, and trading through the Hindustan Zinc Limited, a company incorporated in India

Shareholder Information

Shareholder interests as at 31 March 2006

Number of shareholders:	1,272 (2005: 723)
Number of shares in issue:	286,781,195 (2005: 286,776,000)

By size of holding

	Shareholders %		Shares %	
	2006	2005	**2006**	2005
500 and under	**29.72**	16.32	**0.04**	0.01
501 to 1,000	**14.39**	13.14	**0.05**	0.03
1,001 to 10,000	**24.06**	31.67	**0.42**	0.27
10,001 to 100,000	**19.88**	19.09	**3.27**	1.99
100,001 to 1,000,000	**9.12**	15.08	**13.80**	13.19
Over 1,000,000	**2.83**	4.70	**82.42**	84.51
	100.00	100.00	**100.00**	100.00

By Category of Shareholder

- 53.75% of shares, representing 0.16% of shareholders, are held by Volcan Investments Limited on behalf of the Agarwal family.
- 45.29% of shares, representing 72.95% of shareholders, are held by various institutional investors.
- 0.96% of shares, representing 26.89% of shareholders, are held by individual private investors.

Annual General Meeting

The AGM will be held on 2 August 2006 at 3.00pm at the Mayfair Conference Centre, 17 Connaught Place, Marble Arch, London W2 2EL. The Notice of Meeting and the Form of Proxy are enclosed with this Report.

Company Website

Vedanta Resources plc interim and annual reports and results announcements are available via the internet on our website at www.vedantaresources.com. Shareholders can also access the latest information about the Company and press announcements as they are released, together with details of future events and who to contact for further information.

Registrars

For information about the AGM, shareholdings, dividends and to report changes in personal details, shareholders should contact:

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
United Kingdom

Telephone: +44 (0)870 702 0003
Fax: +44 (0)870 703 6116
Email: web.queries@computershare.co.uk

Currency Option and Dividend Mandate

Shareholders wishing to receive their dividend in UK pounds sterling should complete and return to the registrar the enclosed Currency Election Form by 4 August 2006.

The registrar can also arrange for the dividend to be paid directly into a shareholder's UK bank account. To take advantage of this facility, you should complete and return to the registrar the enclosed Dividend Mandate Form by 4 August 2006. This arrangement is only available in respect of dividends paid in UK pounds sterling. Consequently, you may only take advantage of this arrangement if you have also completed a Currency Election Form and returned it to the registrar by 4 August 2006.

If you have already completed and returned a Currency Election Form and/or a Dividend Mandate Form, you need take no further action.

Shareholder Information continued

Investor Relations
For investor enquiries, please contact:

Mr Sumanth Cidambi
Associate Director – Investor Relations
Vedanta Resources plc
16 Berkeley Street
London W1J 8DZ

Telephone: +44 (0)20 7659 4732 (London)
+91 22 6646 1531 (Mumbai)
Email: sumanth.cidambi@vedanta.co.in

Financial Calendar
Dividend Payments

Ex dividend date	19 July 2006
Record date	17 July 2006
2005 final ordinary dividend payable	17 August 2006
2006 interim ordinary dividend payable	January 2007

Other Dates

Annual General Meeting	2 August 2006
2006 interim results announced	16 November 2006
2006 interim report circulated	4 December 2006

Registered Office
Vedanta Resources plc
Hill House
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London
EC4A 3TR

Company Secretary
Deepak Kumar

Head Office
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Registered Number
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Notes

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