Vedanta Resources plc Annual Report 2005

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Annual Report 2005

Diversified metals and mining

Delivery and Growth

Vedanta is a London listed metals and mining company with its principal operations throughout India and further operations in Zambia and Australia. The major metals produced are aluminium, copper, zinc and lead.

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

This year we have shown exceptional delivery in all areas of our strategy. Continuing to deliver on our unique growth profile is what drives our business forward.

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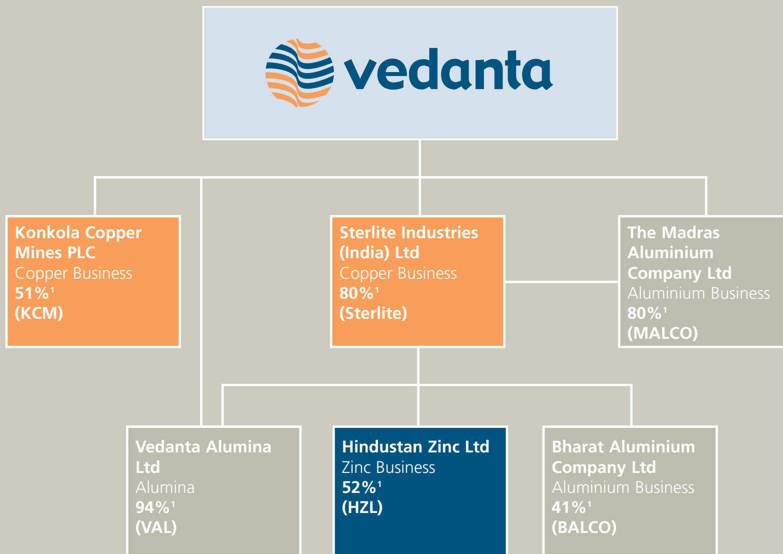
Vedanta at a Glance

About Vedanta



Vedanta listed on the London Stock Exchange in December 2003. It is in the FTSE 250, Metals and Mining sector. The principal operations are located in India, with further operations in Zambia and Australia. Vedanta has a unique profile of organic growth with an investment pipeline of $2.2 billion – expanding production in each of our metals. Vedanta offers access to the exceptional opportunities of India, which combines low metal consumption with world class but undeveloped mineral resources. The Group believes it has the skills and opportunities to deliver highly cost effective projects which will secure Vedanta's position as a world class, cost competitive producer.

[1]Economic Interest of Vedanta

Operations

Sterlite is principally a copper smelting and refining business in India with two small copper mines in Australia. The capacity at 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, with capacity for 250,000 tpa of finished copper.

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 35,000 tpa. The more substantial operations at BALCO, in Chhattisgarh, are close to major supplies of bauxite and coal. Capacity at BALCO is being expanded from 100,000 tpa to 350,000 tpa, with commissioning expected in March 2006. VAL, in Orissa, is a new project which will mine bauxite and refine alumina mainly for the new aluminium capacity at BALCO.

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 from 220,000 tpa to 390,000 tpa of finished zinc.

Delivering against our strategy

Optimise the performance of the existing assets

1

Vedanta's plans for its Businesses will de-bottleneck plants, improve efficiency, expand output and drive down unit costs. Major projects include a new power plant and zinc smelter at Chanderiya, expansion of the Rampura Agucha zinc mine and the expansion of the Tuticorin copper smelter.

Both of our new projects are now complete. In April 2005, a new copper smelter was commissioned at Tuticorin increasing capacity from 180,000 tpa to 300,000 tpa. In May 2005, the new power plant and zinc facilities at Chanderiya were commissioned, taking capacity from 220,000 tpa to 390,000 tpa.

Finance greenfield growth

2

Two large greenfield projects, the 250,000 tpa GAMI-based aluminium smelter at the Korba complex and the proposed 1.0 million tpa alumina refinery in Orissa, offer attractive economics and future growth.

The project at Korba is on track for commissioning in March 2006. The alumina for this expansion will come from the new bauxite mine and refinery now under construction at Orissa. Funding is fully in place for all projects.

Consolidate the Group structure

3

Vedanta will seek to increase its direct ownership in the underlying Businesses.

The Group has made significant progress increasing and raising our share of profits from 46% in the prior year to 52% in the second half of the year. An option over the Government's 49% holding in BALCO is currently in progress. There is an option over the Government's 30% holding in HZL exercisable in 2007 and the potential to take ownership in KCM from 51% to 80%. Opportunities to consolidate the Group structure will continue to be pursued, where they add value.

Leverage established skills

4

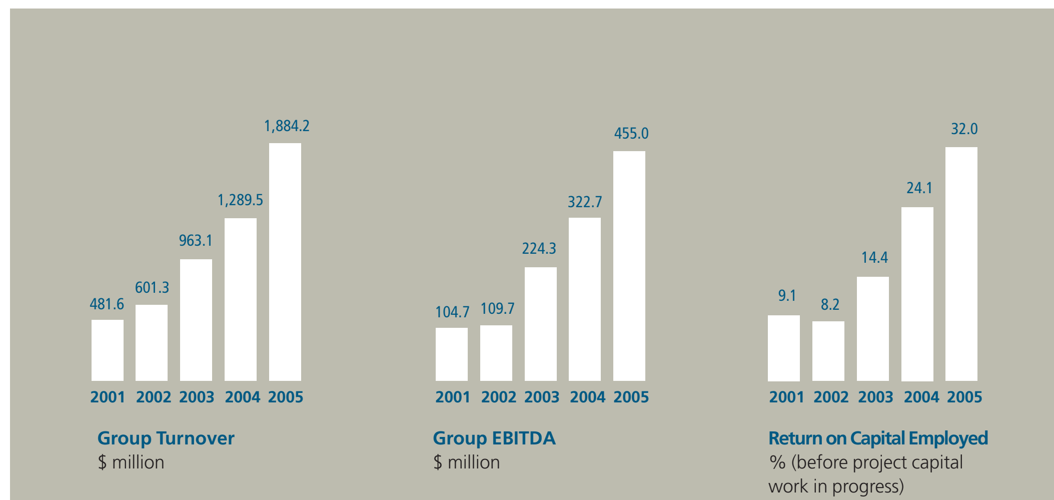
Vedanta will seek further growth opportunities in India, including the Government's privatisation programmes and also outside its traditional Indian base, in operations where its proven transactional, operating and turnaround skills can provide a competitive advantage.

The KCM operation in Zambia was acquired during the year, and expansion and improvement of this operation is anticipated using the experience developed at our existing operations. We will take advantage of further opportunities as they arise.

Highlights for 2005

- Group turnover[1] up by 46.1%
- Group EBITDA[2] up by 41.0%
- Group operating profit before exceptional items[1] up by 41.3%
- ROCE[2] up from 24.1% to 32.0%, excluding project capital work in progress
- EPS[2] based on Underlying Profit[2] up by 81% to 48.1 US cents per share
- Increased share of profits from 45.9% to 51.1%

- Expansion programme progressing well
  – Tuticorin copper smelter announced April 2005
  – Chanderiya zinc smelter announced May 2005
- Acquisition of Konkola Copper Mines in Zambia in November 2004



	2005	2004
Group turnover ($ million)	**1,884.2**	1,289.5
Group EBITDA ($ million)	**455.0**	322.7
Group EBITDA Margin[2]	**24.1%**	25.0%
Group operating profit before exceptional items ($ million)	**353.7**	250.4
Group operating profit before exceptional items margin	**18.8%**	19.4%
Earnings per Share (based on Underlying Profit) (US cents per share)	**48.1**	26.6
Return on Capital Employed	**13.7%**	16.9%
Return on Capital Employed (excluding project capital work in progress)	**32.0%**	24.1%

1 Refer to consolidated profit and loss account on page 68
2 Refer to Glossary and Definitions on page 123

All $ figures in this report refer to US dollars

Delivering performance...

Aluminium

Turnover	EBITDA	Production	Operating companies/ Economic Interest	Activity
$281.7 million	$75.6 million	135,926 tonnes	BALCO 41% MALCO 80%	Integrated aluminium producers

Copper

India/Australia

Turnover	EBITDA	Production	Operating companies/ Economic Interest	Activity
$765.5 million	$85.2 million	171,992 tonnes	Sterlite 80% CMT 80% TCM 80%	Copper smelter and refinery with our mines supplying approximately 20% of copper concentrate requirements

Zambia

Turnover	EBITDA	Production	Operating company/ Economic Interest	Activity
$249.2 million	$76.0 million	67,547 tonnes	KCM 51%	Integrated copper producer

Zinc

Turnover	EBITDA	Production	Operating company/ Economic Interest	Activity
$486.4 million	$218.8 million	212,445 tonnes	HZL 52%	Integrated zinc producer

2004/2005

May 2004
New Government elected in India.

September 2004
Economic Interest in Sterlite increased to 81% following Sterlite rights issue.

November 2004
Acquired 51% of Konkola Copper Mines PLC.

December 2004/ January 2005
Issue of $600 million 6.625% bonds due February 2010.

...in all areas of the business

Employees
5,300

Capacity
135,000 tpa

Capacity post expansion
385,000 tpa

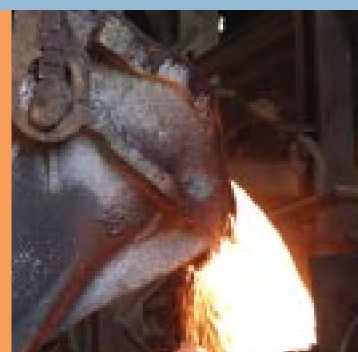
Commentary
The existing assets operated well through the year with production at full capacity for the period. Profits rose sharply, benefiting from rising metal prices. Considerable progress has been made on the major expansion at the Korba plant, BALCO with $562 million of the $900 million budget spent to date. The project is on track for commissioning in March 2006.

Employees
1,000

Capacity
180,000 tpa

Capacity post expansion
300,000 tpa

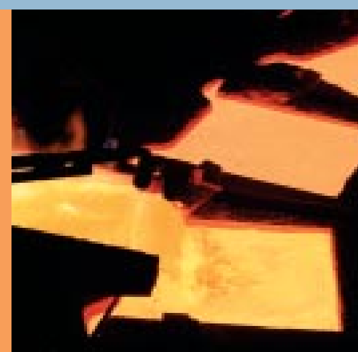
Commentary
The expansion at Tuticorin received permission in April 2005 which will take our production of finished copper from 180,000 tpa to 300,000 tpa. Costs have continued to be held under control, declining from 7.8 US cents per pound to 7.1 US cents per pound. With the expanded capacity we hope to reduce costs toward our target of 6.0 US cents per pound, which will reinforce our status as one of the lowest cost operators globally.



Employees
10,200

Capacity
250,000 tpa

Commentary
Vedanta acquired a 51% stake in Konkola Copper Mines of Zambia in November 2004. This transaction has been earnings enhancing in its first year. The immediate aim is to stabilise and raise production, and reduce unit costs. We are pursuing the development of the Konkola Ore Body Extension Project, which will dramatically change the output and life-of-mine at the operations.



Employees
6,000

Capacity
220,000 tpa

Capacity post expansion
390,000 tpa

Commentary
The financial performance of HZL was exceptional over the course of the year, benefiting from high zinc prices and strong sales. The expanded smelter was commissioned in May 2005 and raises the capacity from 220,000 tpa to 390,000 tpa. It was delivered on schedule and below budget.

April 2005
Discussions with Orissa State Government with a view to development of an iron ore mine in that State.

April 2005
Support from the President of Zambia for expansion at Konkola Copper Mines and Nkana smelter.

April 2005
Permission received to operate the Tuticorin copper smelter in the State of Tamil Nadu, increasing production of copper from 180,000 tpa to 300,000 tpa.

May 2005
Expanded smelter commissioned at HZL which raises capacity from 220,000 tpa to 390,000 tpa.

Chairman's Statement

Vedanta is a unique growth story and our profile of organic growth is unrivalled in the metals and mining industry. This has been an exciting year for Vedanta. We have made strong progress and have delivered on several of our development projects. We continue to focus on our growth strategy and have moved forward in all areas. We remain confident of continuing to deliver this growth in the year ahead.

At the time of our Listing we set out a four part strategy. The first pillar of our strategy is to optimise the performance of our existing assets, which includes the expansions in our copper and zinc operations. In April 2005, we started commissioning our copper smelter at Tuticorin and the new 300,000 tpa facility is producing metal. On 31 May 2005, we announced the commissioning of the new facilities at Chanderiya, supported by the expanded output at Rampura Agucha mine. This was completed around 15% below the forecast budget of $425 million and well below the benchmark costs for comparable international projects. We will continue to look for opportunities to optimise performance and lower costs in all aspects of our operations.

The second part of our strategy is to complete the two greenfield projects; the 250,000 tpa aluminium complex at BALCO, and the new 1 million tpa alumina plant at Orissa. The facilities at BALCO are proceeding on schedule, we are carrying out technology trials on some of the pots and are producing metal. The alumina refinery at Orissa is also on track and budget. As mentioned in our April 2005 production report, public interest submissions regarding environmental clearance are currently being addressed within a timetable set by the Supreme Court of India.

The third pillar of our strategy is the consolidation of our Group structure and further good progress has been made over the year. The most significant change came from the $434 million rights issue in Sterlite which allowed us to increase our Economic Interest in Sterlite to 81% and to inject funds into Sterlite for use in our expansion programme. The exercise of the option in BALCO continues to proceed with independent valuers having been appointed by the Government. We will continue to pursue opportunities to simplify the structure of the Group where possible.

In November 2004 we completed our acquisition of Konkola Copper Mines, at a gross cost of $49.2 million. This forms the fourth pillar of our strategy; leveraging our existing skills through investment opportunities. At current high copper prices Konkola is profitable, but the aim is to place the operations in a position where they are more profitable through the commodity cycle and to give KCM a more solid long-term outlook. Our immediate focus is to improve processes and stabilise production levels. There are considerable opportunities for future development at KCM, including the world class Konkola Ore Body with resources of 210 million tonnes containing copper at 3.8%.

During the year the Company received its first credit rating, Baa3/BB, since upgraded to BB+. This placed us at the Indian sovereign limit, which given the dominance of Indian assets was as high as could be expected. We raised $600 million in a bond issue and the Board believes that we have a well balanced mix of funding in place for our current expansion projects. Over the year we have spent $735 million on our $2.2 billion project pipeline. This brings total spending to date to $1,029 million. We are confident of remaining within our gearing target of under 45% of Capital Employed throughout our current spending programme.

We believe that there are several opportunities that will allow us to develop our growth strategy further and extend the expansion pipeline. This will take advantage of the strong cashflow that will be produced as the current projects come into production and reflects the many options that we have to continue to achieve volume growth in the long-term.

We are reviewing further aluminium smelting capacity, to take advantage of the production from VAL, with the possibility over time of an additional 500,000 tonnes of finished aluminium per annum. We also signed a memorandum of understanding with the State Government of Orissa regarding an iron ore project with related steel facilities. These are both at an early stage and any projects will be pursued on the basis of maintaining positive financial returns. There are opportunities for expansions elsewhere in our existing operations, and we are evaluating projects in both zinc and copper.

Chairman's Statement *continued*

This has been an exceptional period for metal prices driven by strong demand from China. This has also had an impact on several input prices, particularly energy related costs such as oil and coal. There has been much talk of a super cycle and the potential for a prolonged period of above average commodity prices. Our policy is to remain focused on delivering our new projects and lowering our costs, which will allow us to take advantage of the significant growth opportunities offered within India and to stay profitable regardless of the commodity market cycles.

A new Government, led by the Congress party, was elected in India in May 2004. The new Government has maintained a policy of growth and liberalisation. Metal use in India continues to grow above global levels and the long-term attractions of the Indian economy remain considerable. India has been much talked about as an attractive investment destination, attracting growing levels of foreign investment and the potential to become a major regional manufacturing hub. I believe we are well placed both to take advantage of this growth and also to contribute to the future development of India by providing vital basic resources.

In March 2005, I took over as Chairman of the Board and KK Kaura became Chief Executive. I would like to thank Michael Fowle, my predecessor as Chairman, and Jean-Pierre Rodier for their guidance and input during the past year. Sir David Gore-Booth sadly died during the year and his counsel will be greatly missed. I am pleased that we have appointed three new Non-executive Directors with complementary experience and we intend to appoint a further senior independent Non-executive Director in due course.

The Board is proposing a final dividend for the year of 11.55 US cents per Ordinary Share, an increase of 5% on last year's implied final dividend of 11.0 US cents. Last year we paid a single dividend of 5.5 US cents per Ordinary Share, for the four months for which we were listed, equivalent to an annual payment of 16.5 US cents per Ordinary Share. The total dividend for the year is 17.05 US cents per Ordinary Share. The increase in dividend at this early stage reflects the Board's confidence in continued successful delivery and we remain committed to a progressive dividend policy.

The delivery of our projects and the growth of our business could not have been achieved without the efforts of the Board, management and employees of Vedanta, who have shown great commitment to building this success.

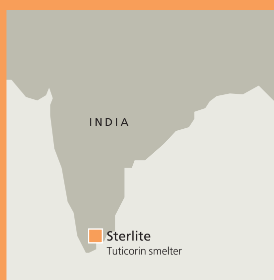
The success in all areas of our strategy over the past year has been encouraging and in the next twelve months we will see progressive benefit from the recently commissioned facilities at Chanderiya and Tuticorin and a full year's contribution from KCM. We remain focused on completing Korba and Orissa as well as evaluating opportunities to extend our unique growth pipeline. We are confident of showing good progress over the next twelve months and delivering value to all stakeholders.

Anil Agarwal
Chairman
1 June 2005

Delivering a $2bn expansion programme

Tuticorin copper smelter

Investment
$87m



The copper operations of Sterlite have now been significantly expanded taking total capacity from 180,000 tpa to 300,000 tpa. The project included new acid and oxygen plants and a 22.5 MW power plant. A new cathode refinery of 120,000 tpa and 100,000 tpa rod plant have also been built at Tuticorin.

The site is well placed for export from the nearby port of Tuticorin. Anode from Tuticorin will continue to be refined at the existing plant at Silvassa for the domestic market. Sterlite is already one of the lowest cost copper producers in the world and the new facilities should allow costs to be reduced further towards our target of 6.0 US cents per pound.

COMPLETED

Rampura Agucha zinc mine

Investment
$90m

At the heart of the operations at Hindustan Zinc is the Rampura Agucha mine, a world class ore body, highly regarded for its consistent and high grade ores and low cost of production.

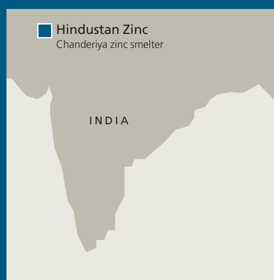
Expansion has taken place to increase the output from the Rampura Agucha mine from 2.0 million tpa to 3.75 million tpa. This will meet the requirements of the new smelting facility at Chanderiya.

Drilling work has also been undertaken around the mine which has taken reserves to 50.1 million tonnes. This has extended the life of the mine by three years at the expanded level of production. Further exploration is being undertaken.

COMPLETED

Chanderiya zinc smelter

Investment
$335m



HZL is India's only integrated zinc company, operating from mine to finished metal. The ore produced at the mines contains lead which is smelted alongside the zinc.

New facilities at Chanderiya were commissioned in May 2005, taking total zinc capacity from 220,000 tpa to 390,000 tpa. The project was delivered on time and significantly below our budget and the international benchmarks. HZL is already one of the lowest cost producers of zinc globally and the expansion will allow costs to be reduced further.

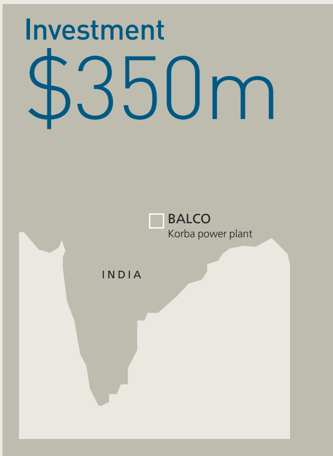
A new 50,000 tpa lead smelter is also being built, which will take total capacity to 85,000 tpa and should be commissioned by the end of the financial year.

COMPLETED

The delivery of this expansion programme is transforming our business, increasing production across all metals and further lowering costs.

Korba power plant

Investment
$350m



Aluminium is a significant user of power and the new facilities at Korba are being accompanied by a 540 MW power plant, to be powered with local coal.

The total expansion is due to be commissioned in March 2006, but we anticipate starting to use the power plant in July 2005.

The plant consists of four units which will be introduced in stages as production at the new smelter is ramped-up.

DUE FOR COMMISSIONING MARCH 2006

Korba aluminium smelter

Investment
$550m

The facilities at Korba are being expanded with a new 250,000 tpa aluminium smelter to take total production from 135,000 tpa to 385,000 tpa. This new plant uses the latest technology from GAMI in China.

The project is due to be commissioned in March 2006 and some of the 288 pots are already being tested and are producing metal.

The completion of the smelter and power plant will transform our Aluminium Business, increasing output and reducing costs.

DUE FOR COMMISSIONING MARCH 2006

Orissa alumina refinery

Investment
$800m

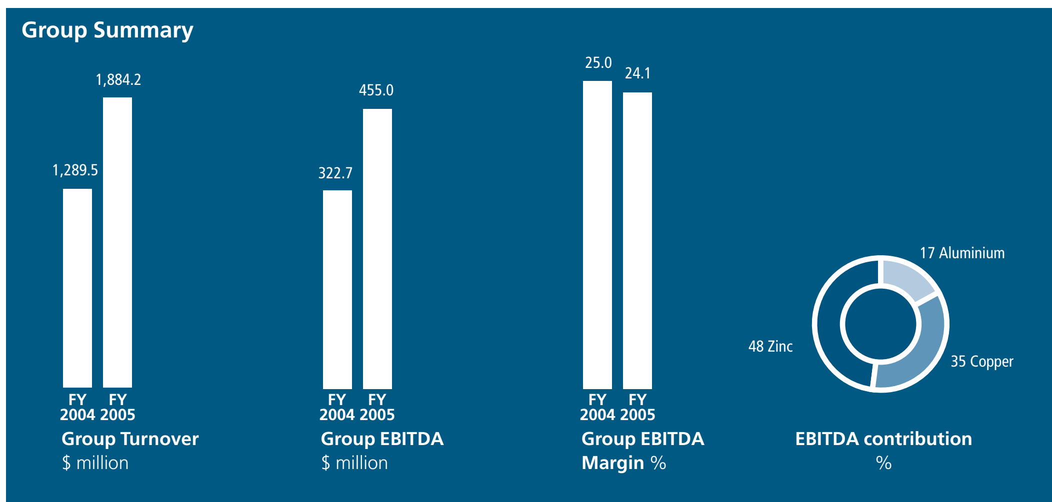
A new alumina refinery is currently under construction in the State of Orissa, to be accompanied by a new bauxite mine. The operation is being established with a capacity of 1.4 million tpa but will initially produce 1.0 million tpa.

The alumina from the refinery will be used to feed the new aluminium smelting facilities at Korba.

The construction work at the refinery is in progress and the project is due to be commissioned in March 2007.

DUE FOR COMMISSIONING MARCH 2007

Chief Executive's Review



Over the past twelve months, we have shown good operational delivery on our existing assets and made excellent progress on our expansion pipeline. The year was again weighted towards the second half with production, turnover and profitability rising through the year in all areas. Zinc and aluminium both enjoyed significant increases in profitability in comparison to the previous year. The acquisition of KCM, in November 2004, also contributed to our turnover and margin. Strong metals prices were a consistent factor, which more than offset high energy costs and the impact of tariff cuts.

Group turnover has increased 46% to $1,884 million, compared to last year, and EBITDA has increased by 41% to $455 million, of which $295 million was in the second half of the year, including $76 million from KCM. Operating profit has increased by 40% to $332 million. Strong metals prices have more than offset rises in some input costs, such as energy, and reductions in import tariffs by the Government. EBITDA Margin has remained consistent at around 24%. Underlying Profit has increased by 81% to $138 million from $76 million, and EPS, based on Underlying Profit, by 81% to 48.1 US cents per Ordinary Share. This reflects the benefit of the successful changes in the Group structure, which has increased the proportion of earnings retained within the Group.

The expansions at the Tuticorin copper plant and Chanderiya zinc plant were completed shortly after the year end and the aluminium expansion at BALCO is in its final phase before commissioning. There are many opportunities to develop KCM and we have a clear strategy on how to take these assets forward. These expansions should result in steadily building production over the coming year, with the ramp-ups of copper, zinc and aluminium contributing towards a rise in production in the second half of the current year.

Tariffs on metal imports into India were cut twice during the year, at a special post-election budget in July 2004 and at the annual budget in February 2005. Tariffs now stand at 10% on each of our major metals, around the level recommended in the report produced by the Kelkar Committee for the Government.

Growth in India has continued at a good pace and this has been reflected in demand for metals. The new Government has continued with policies to promote growth and development in India. Industrial production in India has risen by around 8% during 2004 and official Government forecasts anticipate similar levels for this financial year. Metals demand should also benefit from a targeted rise of 14% in infrastructure spend by the Government. India is well placed to play a growing role in the global metals and minerals markets, both from domestic demand and the development of resources and facilities.

Our organisation continues to develop and grow. The use of programmes such as TPM and Six Sigma, along with the assistance of external consultants and reviews, help to deliver operational improvements, utilise our assets better, develop and retain our staff and, importantly, to improve service to our customers.

Aluminium

The existing assets performed well over the year and the results benefited from the strong increase in the metal price. The expansion project at Korba is on track for commissioning in March 2006, taking our aluminium capacity to around 400,000 tpa and the new 1.0 million tpa alumina refinery at Orissa is making good progress.

The total production of finished aluminium in the financial year was 135,926 tonnes, an increase of 5% on last year, and in line with capacity. The

Chief Executive's Review *continued*

The two new pot rooms at Korba, each 1 kilometer long and containing 144 pots

introduction of a fifth boiler at BALCO allowed more stable power output with fewer interruptions in power supply, and better control of management processes at both companies also helped to increase output. We sold around 35,000 tonnes of rolled products from BALCO over the year.

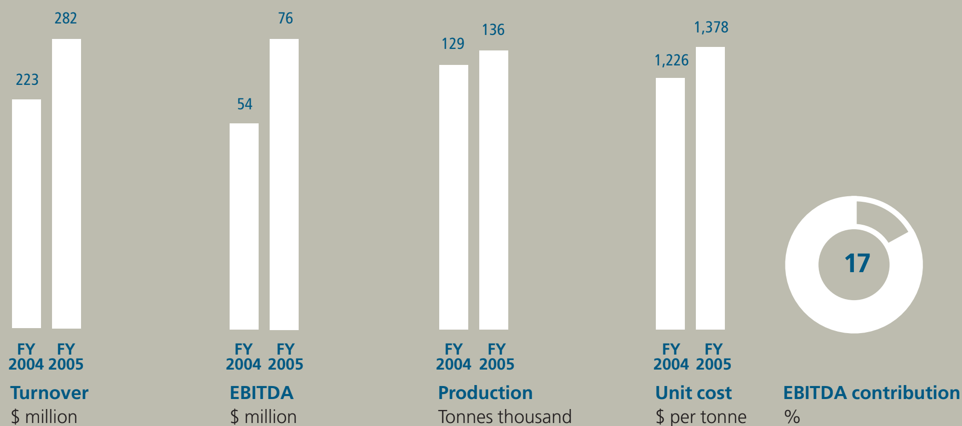
Turnover in the Aluminium Business increased by 26% to $282 million, with EBITDA increasing 41% to $76 million. The increase in turnover and profitability was principally due to the strength of the price for aluminium, with aluminium prices, as quoted on the LME, averaging $1,779 per tonne over the year, an increase of 24% over the previous year. Tariffs on the import of aluminium were reduced in February 2005 from 15% to 10% and thus the impact from tariff changes in the financial year was limited.

Unit costs rose to $1,378 per tonne, an increase of 12.5% from the previous financial year. This was primarily caused by the increase in all key input prices, notably petroleum products, coal and caustic soda. The expansion planned at BALCO will introduce more modern 320 KA pre-baked technology, giving the potential for a significant reduction in unit costs, mainly through lower power consumption and better heat rate from the new power plant.

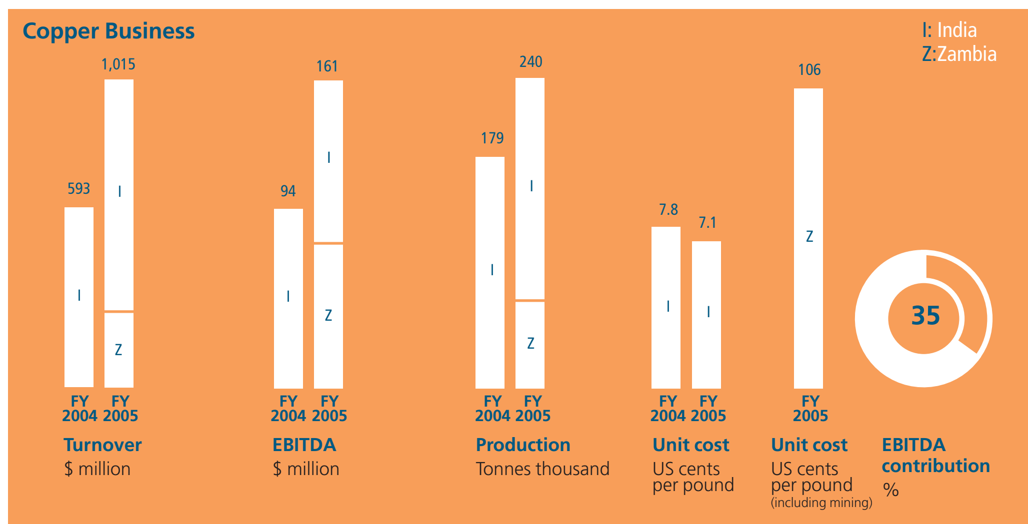
We estimate that demand for aluminium in India increased by around 10% over the year, driven by strong demand from the power, construction, automotive and packaging industries. Power transmission and electrical applications continue to be the single largest domestic user of aluminium.

The domestic market will see significant capacity expansion over the next three years. Consumption in the country is still less than 1 kilogram per capita and we believe that consumption growth over the next three years should average over 9 to 10% per annum with demand being driven by the construction, automotive and power industries.

Aluminium Business



Chief Executive's Review *continued*



The expansion project at Korba has made excellent progress over the past year. We have invested a further $431 million over the period, to bring our total spend to $562 million, against a budget of $900 million. The captive power plant is at an advanced stage and we anticipate being able to use the first of the four power units in July 2005. The pot rooms are complete and technology testing on the pots has been successfully undertaken. We will start bringing pots into production on a progressive basis as the power plants are introduced.

We should, therefore, see some increase in output towards the end of the year from these first pots and remain on track for our commissioning date of March 2006. I look forward to reporting next year on this expansion, which will transform the size, dynamics and cost of production of this Business.

Alumina

At our major alumina project in Orissa, we have made substantial progress on the alumina refinery with all of the civil works and construction well in hand and around halfway to completion. To date, approximately $101 million has been invested. There have been some public interest submissions to a Supreme Court of India sub-committee, regarding the environmental clearances for the bauxite mining and these are currently being addressed. As mentioned in last year's annual report, we have investigated the possibility of introducing a partner in this project and this option remains under consideration.

Copper

The assets in India made limited headway over the year, given flat TC/RCs and the impact of tariffs. The new smelter received permission to operate in April 2005 and will take our capacity to 300,000 tpa. In November 2004 we acquired KCM, making Vedanta one of the top five global copper producers.

Copper – India/Australia

Production of copper cathode in India declined by 4% from the previous year to 171,992 tonnes. Production was lower in the first quarter as a result of a planned shutdown of 20 days at the smelter, after a long campaign life of 24 months. In the second half of the year this was almost fully recovered, with the plant running above capacity through both the third and fourth quarters.

Turnover increased 29% to $766 million, though EBITDA declined by 10% to $85 million. The rise in turnover reflects the significant increase in the copper price over the period. The average price on the LME over the financial year was 136 US cents per pound, an increase of 68% on the previous year. Around 20% of our copper concentrate was supplied by our own mines in Australia and these operations benefited from this rise.

The average TC/RC we received in the year was 8.6 US cents per pound, similar to the levels of 2003/04. TC/RC's in the first half were 6.6 US cents per pound and were improving towards the end of the year. We anticipate that our TC/RC's should increase significantly in the current year. We have made good progress towards our strategy of obtaining around two-thirds of our concentrate on long term contract, having signed some frame contracts over the year.

Chief Executive's Review *continued*

The new copper plant at Tuticorin

The impact of tariffs was most significant in the Copper Business. Over the course of the year, tariffs on imports of finished copper were reduced from 20% to 10%. Duty assistance on exports of copper was also reduced during the year. On current prices of copper cathodes this export assistance broadly offsets the tariff of 5% paid on copper concentrate imports.

Cash costs were improved from 7.8 US cents per pound to 7.1 US cents per pound. This was driven by better recovery of metal and improved by-product management, notably sulphuric and phosphoric acids. Our copper operations in India are already in the first quartile of cash costs for copper producers globally, however we believe we can improve this further and are targeting a cost of 6.0 US cents per pound.

During the year, further drilling was undertaken at CMT and a further 13.0 million tonnes of ore has been added to reserves, reflecting an extension to the mine life of around five years. CMT produced around 27,600 tonnes of copper in concentrate over the year and the operation gained substantially from the increase in the copper price. Production at TCM was around 12,300 tpa. The operation at TCM is likely to be closed in the first quarter of the 2005/06 financial year and closure costs, as estimated, have been fully provided.

We estimate that growth in demand for copper in India has grown at around 7% per annum, over the past two years. This growth rate should benefit from growing power sector demand, construction, air conditioning and the automotive sector. At the end of 2002, India had power generation facilities of 105,000 MW; this is planned to double by 2012.

Shortly after the year end, we started commissioning the new copper smelter at Tuticorin. This will take our capacity to around 300,000 tpa of copper anode. A new refinery of 120,000 tpa and rod plant of 100,000 tpa has also been built at Tuticorin, so that the additional anode will be processed at Tuticorin. This will allow production of around 300,000 tpa of cathode and 240,000 tpa of rod. The expansion also included a new 22.5 MW power plant, and new acid and oxygen plants. The smelter is producing metal and we are moving through the ramp-up phase, towards full production in the second half of the year.

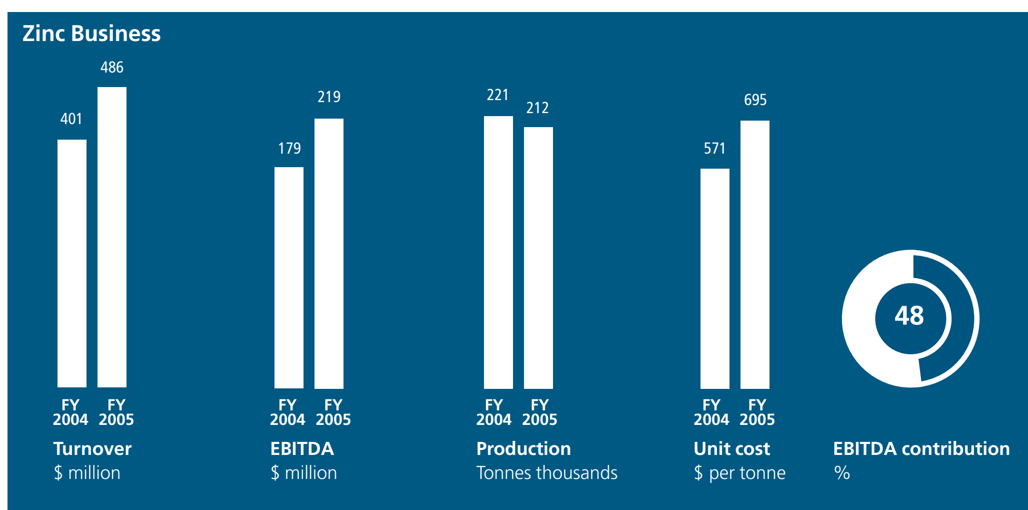
Copper – Zambia

In November 2004 we acquired a 51% holding in Konkola Copper Mines. KCM is the largest mining company in Zambia, contributing significantly to the nation's economy and export earnings. Over the five months from the date of acquisition, KCM produced 67,547 tonnes of copper cathode and contributed $76 million of EBITDA to the Group. The cash cost of production was 106 US cents per pound.

A new chief executive, Mr CV Krishnan, has been appointed to KCM. He has extensive experience in the Copper Business, having worked previously with the Group at Tuticorin. The immediate aim is for a substantial improvement in operations and processes. We are seeking to raise plant availability and deliver better process management. Training for staff is taking place along with the transfer of around 15 specialists from elsewhere in the Group.

There are several projects under way at KCM, all with the aim of enhancing production and reducing costs. A new 500 tonne per day acid plant is being built to improve the availability of sulphuric acid and reduce costs for the leaching plant. We are also moving to de-bottleneck the smelter and improve recovery in the smelters and concentrators.

Chief Executive's Review *continued*



The most significant project at Konkola is the Konkola Ore Body Extension Project. This involves mining the ore below the current depth at Konkola underground mine and expanding production from 2 million tpa to 6 million tpa. Our intention is to make full use of the existing infrastructure and thereby deliver the project at a lower cost and shorter timescale than had previously been thought possible. The project should also have several economic and environmental benefits for the surrounding area. It is intended that the additional production of concentrates from Konkola will be treated in the smelter at Nkana, producing copper cathodes for export.

Zinc

The Zinc Business performed exceptionally well over the period, assisted by strong sales and a firm zinc price. Our expansion at Chanderiya was completed and trial production commenced in May 2005 and this will increase our refined zinc output close to 400,000 tpa of finished metal.

Mine output has improved considerably and all the mines have performed well. Rampura Agucha in particular did better than the previous year due to de-bottlenecking. This is reflected in an increase in mined metal content of 7% over the year to 354,641 tonnes. Production of refined zinc declined by 4% to 212,445 tonnes due to inconsistent qualities of met coke, caused by short supply, which impacted the production process.

Sales of zinc metal at approximately 289,000 tonnes are about 12% higher than the prior year, using our own production of 212,445 tonnes along with additional tonnage from tolling activities and stocks.

Turnover rose 21% to $486 million and EBITDA rose 22% to $219 million. Both turnover and profitability were driven by the increase in finished metal sales and the strong rise in the zinc price. The average price for zinc over the period, quoted on the LME, rose 34% to $1,108 per tonne. This has more than offset rising costs and tariff reductions. Cash costs of production rose 22% to $695 per tonne. These were impacted by rising energy prices and the costs of met coke. Import tariffs on zinc were reduced in 5% stages, from 20% to 10% in July 2004 and February 2005.

Zinc demand in India grew at around 10% over the year. The growth is driven by galvanising, which protects steel from corrosion, and the end users of galvanised materials in construction, the automotive sector, housing and power transmission. About 50% of zinc demand is driven by sheet galvanising.

There have been focused efforts on expanding new zinc applications, notably galvanised reinforcement bars and structures used in construction. These should benefit from Government infrastructure spend.

Shortly after the year end, we commissioned the new facilities at Chanderiya zinc smelter. The final cost of the expansion is around 15% below the budget of $425 million set out at the time of Listing. First metal was poured in May 2005, and we will build up towards full capacity in the second half of the financial year, which will take our total zinc capacity close to 400,000 tpa. The new facilities should assist in reducing unit costs in the future towards our target of $500 per tonne, subject to variations in energy and coal prices. The operations are already in the first quartile of global costs and reaching our target will make us one of the lowest cost zinc producers in the world.

Chief Executive's Review *continued*

Rampura Agucha lead and zinc mine, known for its consistent and high grade ore

The lead smelting facilities are currently being increased by 50,000 tpa to take total output to 85,000 tpa. These new facilities should be commissioned by the end of the financial year. The cost of this will be around $35 million.

Exploration

The replacement and growth of our resource base is fundamental to our Businesses. During the year, we appointed a Head of Exploration who will lead a team responsible for exploration across the Group. The team is tasked with developing our competence in this area and producing a meaningful exploration programme.

The importance of exploration has already been demonstrated at our zinc operations. The reserves at Rampura Agucha have been increased to 50.1 million tonnes from 40.1 million tonnes. These contain zinc at 12.8% and lead at 1.9%. The life of the mine has increased to well over 15 years, even at the increased levels of production required by the expansion at the smelter. We will continue with further exploration work around the mines.

New Projects

The four projects set out at Listing are around 50% complete in terms of budget, with two already commissioned, zinc and copper, and the third, aluminium, on track for the end of the 2005/06 financial year. Costs are within budget, in spite of input cost pressures such as steel, through a combination of the timing of the initial contracts and sound project management.

We believe that there are some significant further opportunities to expand our production in the future and this coincides with a unique period in India's economic growth and development. There is also the potential to move our Zambian assets forward considerably. This will extend our pipeline of growth into the future and retain our profile of growth led through projects. We are undertaking a detailed feasibility study for the development of aluminium production in the State of Orissa. We are at a preliminary stage in evaluating the potential for iron development in the same State. We believe that there is potential for further additions in other areas, particularly aluminium and zinc, and these possibilities should develop over the year ahead.

Sustainable Development

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.

The acquisition of KCM brings our total workforce to around 22,500 and as the Group has grown, so have our responsibilities to our employees and the communities around us. We have made considerable progress over the past year with many initiatives undertaken. We have appointed Group managers for both HSE and CSR who will further develop tasks and performance indicators across the Group.

Chief Executive's Review *continued*

We seek to meet needs in the community by providing assistance in the three key areas of primary health, education and distress relief. It is our wish to assist those around us, far beyond their minimum needs. Across the Group we undertake considerable work ranging from funding schools and school meals, to skill training programmes for adults and the sponsorship of sports. There is a wide range of activity in health care, from providing centres and medicine to extensive treatment programmes. KCM has a strong track record in malaria and HIV programmes, the learning from which we can share across the Group.

Over the year we have undertaken several initiatives to ensure that we meet environmental requirements and the use of third party audits by international specialists has validated our belief in our practices. The selection of the new technology being introduced in our expansion programmes will assist our efforts by improving on energy efficiency and waste recycling. Investment has taken place to improve air quality well within current permissible standards, in anticipation of more stringent legislation that will inevitably be introduced in the future.

Outlook

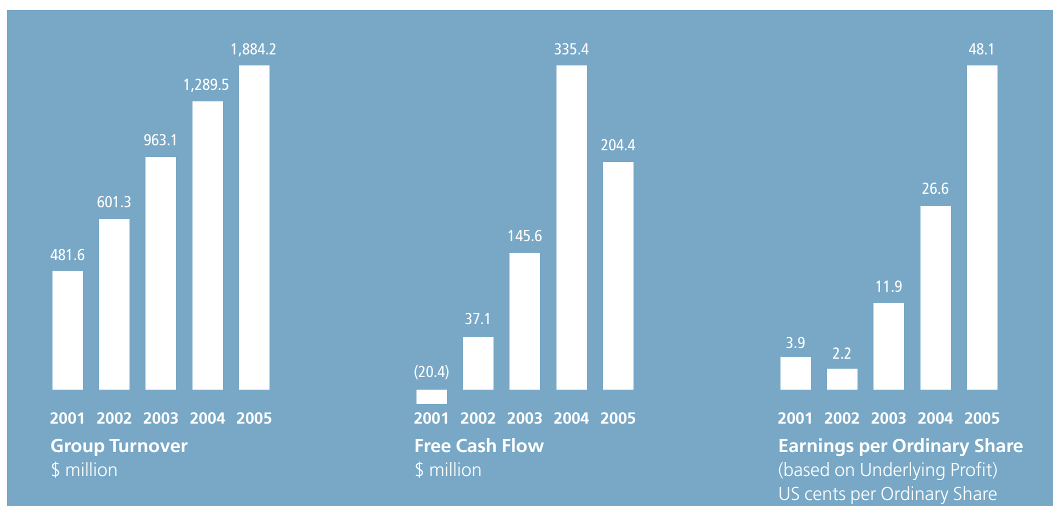
This year will see further delivery of the tasks we set out at Listing as new production ramps up from our copper and zinc expansions and our aluminium project is fully commissioned. I also anticipate improvements in production and costs at KCM. The delivery of our strategy will reduce our unit costs through the increase in volumes, new technology and greater productivity and take us towards our goal of being in the top decile of cost of production in all of our Businesses. Our growth strategy combined with growing demand for metals in India gives a positive outlook and I look forward to reporting on this over the year.

KK Kaura
Chief Executive
1 June 2005

A 51% holding in Konkola Copper Mines was acquired in November 2004. This is an integrated copper operation, comprising both open pit and underground mines and a leaching plant and smelter. Total capacity is around 250,000 tpa. KCM offers many opportunities to increase production and reduce costs, to make the operations more profitable through the cycle. The picture here shows the substantial Nchanga open pit mine.

A new aluminium smelter is being built at Korba, at a total cost of $900 million, with capacity of 250,000 tpa and including a new 540 MW power plant. The smelter has two pot rooms, each 1 kilometre in length and containing 144 pots. The pot rooms are complete and at the year end pots were being tested. The project is on track for commissioning in March 2006.

Financial Review



Background

These Financial Statements have been prepared in accordance with UK GAAP and the requirements of the Companies Act 1985. With effect from 1 April 2005, Vedanta will prepare its financial results in accordance with International Financial Reporting Standards ("IFRS"). The first set of IFRS-compliant results will be the first quarter results to be announced in July 2005, followed by our interim results in November 2005.

The consolidated accounts are presented in US dollars, being the presentational currency adopted by other international resource companies. Vedanta also determines and pays its dividends in US dollars, although shareholders may opt to receive payment in UK pounds sterling. Subsidiary operating companies maintain their accounts in local currencies, principally the Indian rupee, although KCM, acquired on 5 November 2004, uses the US dollar as its functional currency. The business segments are split between copper, aluminium and zinc (including lead); in due course alumina will be reported as a fourth segment.

The Group has significant equity partners in its various businesses, certain of which are listed. For BALCO, HZL and KCM, the Governments of India and Zambia have sizeable equity interests and representation on their respective boards. All significant operating companies are consolidated as subsidiaries, with turnover, EBITDA, operating profit and net debt all shown on a 100% basis. Minority interests have decreased in the past financial year as we seek to increase our Economic Interest, thereby resulting in higher Attributable Profit available for dividends. The initiatives taken in the past year to reduce minority interests are detailed on page 22.

The financial performance of the Group is measured using four key performance indicators. We judge the key measures as EBITDA (stated before operating exceptional items), EPS (stated before exceptional items), Free Cash Flow and Return on Capital Employed, net of tax and excluding project capital work in progress. Further details of these performance indicators are shown in the box below.

Financial Performance

- EBITDA. Our objective is to take advantage of our low cost base and achieve the best possible margins across the Businesses.
- EPS. This is stated before exceptional items and their attributable tax and minority interest impacts. By producing a rising stream of profits and EPS we will be able to pay a progressive dividend to our shareholders.
- Free Cash Flow. To ensure that the profit generated by our assets is reflected by cash flow in order to fund the future growth and development of the Group. This is measured after Sustaining Capital Expenditure, tax and interest.
- ROCE. The objective is to consistently earn a return (net of tax) above the weighted average cost of capital to ensure that capital is invested efficiently. ROCE excluding project capital work in progress measures the efficiency of our productive capital.

Financial Review *continued*

Financial Performance for the Year Ended 31 March 2005

Summary of the Year

This year we invested $734.6 million in Expansion Capital Expenditure for our major projects, acquired a 51% equity interest in KCM, substantially increased the Economic Interest in our subsidiary companies and successfully raised $600 million from our inaugural bond issue. The operations delivered an impressive profit before tax of $332.3 million, up 42.4% on the previous year, translating into an EPS of 41.9 US cents per Ordinary Share, a 66% improvement. The Directors recommend a final dividend of 11.55 US cents per share, a 5% increase from prior year on a like-for-like basis.

These results were driven by a strong performance from the Zinc Business, a maiden five month contribution from KCM and improved volumes across the Group. The results benefited from strong selling prices offset, in part, by higher energy related costs and reduced Indian tariff support. Total capital employed rose by almost 82% to $1.80 billion, including over $1 billion of project capital work in progress in our major projects. ROCE fell to 13.7%, but when excluding the capital work in progress, it remained comfortably above 30%. At the end of the year, the balance sheet remained well capitalised with net debt of only $74.3 million (2004: net cash of $422.3 million). The outstanding expenditure for our major projects at the year end was just over $1 billion, which was matched by available cash resources.

The share price ended the financial year at 471 pence, up 21% on our listing price in December 2003. The Total Shareholder Return ("TSR") of Vedanta in the period from Listing to the year end was 23%. The market capitalisation of the Group was $2.5 billion which resulted in Vedanta being listed at 144 in the FTSE All Share Index.

Earnings

A summary of the profit and loss account is set out below:

Summary profit and loss account	31 March 2005 $ million	31 March 2004 $ million	% change
EBITDA before operating exceptional items	**455.0**	**322.7**	*41.0*
EBITDA margin (%)	*24.1*	*25.0*	
Operating exceptional items	(21.9)	(13.3)	
Depreciation and amortisation	(101.3)	(72.3)	
Operating profit before non-operating exceptional items	**331.8**	**237.1**	*39.9*
Share of loss in associate	(2.7)	(1.2)	
Non-operating exceptional items	(0.4)	(1.2)	
Profit before interest and tax	**328.7**	**234.7**	*40.1*
Net interest payable	3.6	(1.3)	
Profit before tax	**332.3**	**233.4**	*42.4*
Tax rate (%)	*29.4*	*32.6*	
Minority interest rate (%)	*48.9*	*54.1*	
Attributable Profit	**120.0**	**72.3**	*66.0*

EBITDA increased 41.0% to $455.0 million, including a $76.0 million contribution from KCM. Depreciation rose to $101.7 million split $77.5 million from our existing Businesses and $24.2 million from KCM. Depreciation is forecast to rise next year with the commissioning of new plant in our Aluminium, Zinc and Copper Businesses and a full year of depreciation from KCM.

During the year, foreign exchange losses of $11.2 million in the first half were largely reversed in the second half resulting in a net foreign exchange loss of $1.6 million in the year. This compared to the $14.0 million gain arising during the prior year.

Group operating profit, after operating exceptional items, increased to $331.8 million, a 39.9% increase. Operating exceptional items were $21.9 million; these related to a $4.1 million charge arising from voluntary retirement schemes (2004: $13.3 million) and a $17.8 million impairment charge recognised against certain non-core assets identified in last year's annual report. Whilst these non-core assets have been substantially written down, we are pursuing a number of opportunities to maximise realisation over and above their net carrying value of $52 million (2004: $65 million).

Financial Review *continued*

Foreign Exchange and Net Interest

Net interest income was $3.6 million compared with a $1.3 million net interest charge in the prior year. This included a net foreign exchange loss of $7.6 million (2004: $14.1 million gain) arising on foreign currency funds and borrowings within the Group. Investment income totalled $41.3 million (2004: $39.7 million) and interest payable, $37.7 million (2004: $41.0 million); this excludes net interest capitalised on our growth projects of $24.2 million (2004: $4.6 million).

Taxation

The tax rate in the year was 29.4% (2004: 32.6%) split between current tax of 19.7% (being the cash rate for the Group) and deferred tax of 9.7%. The tax rate for the current year benefited from several factors including the acquisition of KCM with significant tax losses, a 3% reduction in Indian income tax rates and fiscal breaks arising from the extensive capital expenditure programme. These mostly occurred in the second half of the financial year reducing the full year tax rate compared to that estimated in the interim accounts. The tax rate is expected to be moderately higher in the future although the capital expenditure fiscal breaks will continue.

Minority Interests

Minority interests have been restated to reflect a new accounting policy, required by UITF Abstract 38 "Accounting for ESOP Trusts". The SEWT's holding of 3.2% in the issued share capital of Sterlite is reclassified from other investments and instead recorded as a reduction in shareholders' funds. From a Group perspective the shares are effectively treated as cancelled, which increases Vedanta's Economic Interest in Sterlite. As a consequence of this change in accounting policy, the minority interest reflected in the profit and loss account decreased from 57.7% to 54.1% for the year ended 31 March 2004.

After reflecting the change in accounting policy, our share of post-tax profit absorbed by minority interests decreased from the restated 54.1% for the prior year to 48.9% in the current year, split as to 50.6% in the first half of the year and then reduced further to 48.0% in the second half of the year (or 44.5% when excluding operating exceptional items). This reduction reflects the success in implementing our strategy to increase ownership in subsidiaries, principally arising from Sterlite's rights issue concluded in September 2004. Further details are shown on page 22.

Profit for the Year

The profit for the year was $120.0 million, against $72.3 million in the previous year, an increase of 66.0%. This increase was due to a combination of the improved results reported across our Businesses and the reduction in minority interests.

The Underlying Profit was $137.7 million, an improvement of 80.7% against the prior year. Underlying Profit excludes the effects of exceptional items and their tax and minority interest impact, and is a more informed measure of the recurring performance of the Group.

Reconciliation to Underlying Profit	31 March 2005 $ million	31 March 2004 $ million	% change
Profit for the year	**120.0**	**72.3**	***66.0***
Operating exceptional items	21.9	13.3	
Non-operating exceptional items	0.4	1.2	
Taxation effect	(1.6)	(5.2)	
Minority interest impact	(3.0)	(5.4)	
Underlying Profit	**137.7**	**76.2**	***80.7***
EPS on profit for the year (US cents)	41.9	25.3	*65.6*
EPS on Underlying Profit (US cents)	48.1	26.6	*80.8*

Earnings per Share and Dividends

EPS based on profit for the year rose by 65.6% to 41.9 US cents per Ordinary Share whilst EPS based on Underlying Profit rose by 80.8% to 48.1 US cents per Ordinary Share. There was no material difference between basic EPS and diluted EPS as the only effects on profit after dilutive adjustments are shares to be issued under the LTIP totalling $0.2 million, and an adjustment in respect of the convertible bond in Sterlite totalling $1.9 million.

The Board has proposed a final dividend of 11.55 US cents per Ordinary Share in respect of the year ended 31 March 2005 which, together with the interim dividend of 5.5 US cents per Ordinary Share paid in January 2005, gives a total for the year of 17.05 US cents per Ordinary Share. The final dividend is increased by an equivalent of 5% on the previous year when a final dividend of 5.5 US cents per Ordinary Share was paid for the four month period to 31 March 2004 following the Company's Listing in December 2003. The Company has a progressive dividend policy but recognises that in the year there was no benefit from the $2.2 billion growth projects.

Financial Review *continued*

Cash Flow

During the year, there was a decrease in net cash of $496.6 million reflected in a net cash position of $422.3 million, as at 31 March 2004, moving to a net debt position of $74.3 million, as at 31 March 2005. This movement arose from significant Expansion Capital Expenditure which more than offset Free Cash Flow.

Cash flows	31 March 2005 $ million	31 March 2004(*) $ million
EBITDA	**455.0**	**322.7**
Operating exceptional items	(21.9)	(13.3)
Working capital movements(#)	(180.2)	134.7
Changes in long term creditors and non-cash items	50.3	17.1
Sustaining Capital Expenditure	(67.1)	(64.5)
Sale of tangible fixed assets	14.1	2.8
Net interest paid	20.0	(6.6)
Tax paid	(65.8)	(57.5)
Free Cash Flow	**204.4**	**335.4**
Expansion Capital Expenditure	(734.6)	(284.5)
Purchase of fixed assets investment	–	(9.2)
Acquisitions	(30.6)	(81.1)
Dividends paid to equity shareholders	(15.8)	–
Dividends paid to minority shareholders	(7.7)	(10.1)
Listing proceeds	–	825.3
Foreign exchange	(9.9)	(33.1)
Other movements(#)	97.6	10.7
Movement in net (debt)/cash	**(496.6)**	**753.4**

$80.5 million (2004: $35.1 million) of non-cash project creditors has been re-classified from working capital movements into other movements shown below Free Cash Flow.
* Prior year figures have been re-classified for the change in treatment of project creditors.

The Free Cash Flow in the year of $204.4 million is lower than last year's figure of $335.4 million, which had benefited from extended trade credit received of over $200 million included within the working capital movement. This year there was a significant working capital outflow of $180.2 million due to a combination of a higher level of copper concentrate inventory compared to the previous year's unusually low level, and increased trade debtors arising from strong fourth quarter's sales volumes and selling prices. Sustaining Capital Expenditure was again tightly controlled, this year including KCM, increasing modestly to $67.1 million against $64.5 million in the previous year.

Tax paid was limited to $65.8 million, equivalent to 19.8% of profit before tax, benefiting from the advantageous fiscal breaks noted earlier and tax losses including five months of KCM ownership.

After the Group's expansion projects are commissioned it is anticipated that the cash tax rate will remain at these levels in future years.

The main feature of the year was progress with the $2.2 billion expansion projects with $734.6 million spent in the year, bringing the total spent at 31 March 2005 to $1.03 billion, approximately 47% of the planned $2.2 billion programme. A further $1.2 billion was outstanding at the year end, of which 40% has been committed.

Expansion projects	Estimated cost $ million	Spent $ million
Orissa (Alumina)	800.0	101.4
Korba smelter (Aluminium)	550.0	366.9
Korba power plant (Aluminium)	350.0	194.8
Tuticorin (Copper)	87.0	85.6
Chanderiya (Zinc-Lead)	335.0	235.0
Rampura Agucha (Zinc-Lead)	90.0	45.2
Total	**2,212.0**	**1,028.9**

The most significant acquisition expenditure in the year related to the purchase of a 51% equity interest in KCM on 5 November 2004 for $28.3 million.

This acquisition, at a total gross cost of $49.2 million (including acquisition expenses of $1.0 million), was implemented through a $25.0 million subscription for newly issued shares by KCM, which has been retained in the enlarged group, and agreement to pay $23.2 million to ZCI, a minority shareholder in KCM. Of this, an initial payment of $2.3 million was made at the date of acquisition, with the remaining $20.9 million payable in equal instalments over four years from 31 December 2005.

In accordance with the KCM acquisition agreement entered into by the Group, it has also agreed to fund capital expenditure up to a limit of $220 million as set out in the acquisition agreement, in the event that internally generated cash flows prove insufficient. Based on forecast production levels at KCM and a view of copper prices, it is not expected that Vedanta will be required to meet any of the shortfall funding commitment.

Financial Review *continued*

Minority Interests and Simplification of Ownership

	31 March 2005 Economic Interest%	31 March 2004 Economic Interest%	Key actions in year
Sterlite	79.9	70.8	*April 2004*: acquisition of 2.4% of issued share capital from SEWT (impact on Economic Interest: +0.8%) *September 2004*: completion of $434 million rights issue (impact on Economic Interest: +9.7%) *2004/05*: partial conversion of $50 million bond into Sterlite ordinary shares by bond holders (impact on Economic Interest: –1.4%)
BALCO	40.7(*)	36.1	*2004/05*: confirmation to Government that Group wishes to exercise option to acquire minority interest stake
MALCO	80.0	80.0	
HZL	51.9(*)	46.0	
VAL	94.1(*)	70.8	*September 2004*: $100 million equity subscription by Vedanta
KCM	51	nil	*November 2004*: acquired for gross consideration of $49.2 million
Group share of post tax profit for the year	**51.1**	**45.9**	

* Increased Economic Interest arising from the Group's increased ownership in Sterlite

A major element of the Group's strategy at the time of Listing was to consolidate the ownership interests in subsidiary companies where significant minority interests were present. During the last year the Group's Economic Interests in Sterlite, BALCO, HZL and VAL all showed significant increases as set out above.

Sterlite

During the year, substantial progress has been achieved against this strategic objective as shown below:

- in April 2004, 2.4% of Sterlite's issued share capital was purchased from the SEWT for $21.4 million. As the SEWT is consolidated, this transaction had no cash impact at a consolidated level, although cash within the SEWT is restricted. This purchase was in addition to the acquisition of 4.98% of Sterlite's issued share capital from the SEWT in January 2004 for $58.0 million; and

- in September 2004, the Group completed the Sterlite rights issue, which raised $434 million in aggregate. Of this, only $1 million was funded by minority shareholders with the balance of $433 million being funded by the Company through the investment of proceeds raised from the Listing. Subscribing to the rights issue in this way was a highly tax efficient manner of remitting funds to our projects in India, and also ensured the Company's Economic Interest in Sterlite increased substantially.

However, towards the end of the year, $25.8 million of Sterlite's convertible bonds issued with a face value of $50 million were converted into 2.13 million Sterlite ordinary shares, thereby reducing debt by $25.8 million, but diluting the Group's Economic Interest in Sterlite by 1.4%. Conversions in the period from 31 March 2005 to 1 June 2005 were minimal at $1.5 million.

These changes resulted in the Group's Economic Interest in Sterlite increasing by 9.1% from 1 April 2004 to 31 March 2005.

If the outstanding convertible bonds were converted into Sterlite's ordinary shares, the conversion would result in dilution of the Group's Economic Interest by a further 1.4%.

BALCO

Progress on the exercise of the option to acquire all or substantially most of the shares in BALCO held by the Government of India continues. The Group has confirmed to the Government that it wishes to exercise its option and consequently a valuation of the shares by an independent valuer, in accordance with the shareholder agreement, is in progress. Discussions with the Government continue on the matter of offering shares not exceeding 5% of the total to the employees.

MALCO

Whilst we were unsuccessful in our attempt to acquire the 20% interest in MALCO held by minority interests, market conditions will be continuously reviewed to ensure our options are kept open.

Financial Review *continued*

Future Initiatives

The Government of India did not exercise the "put" option of its 3.6% interest in HZL which expired on 11 April 2005. However, the Group has a "call" option over the Government's 29.5% interest in HZL which is exercisable with effect from 11 April 2007. The decision to proceed with the exercise of this option will be taken at that time.

The Group has an option to acquire ZCI's 28.5% interest in KCM; the option period commences on the earlier of the last day of four consecutive quarters during which ore is extracted at a rate of 3 million tpa or more, or an application to proceed with the development of the Konkola Ore Body Extension Project is approved by the Government of Zambia. The option period lasts 24 months. Prior to the exercise of this option, if at all, the Group will take cognisance of KCM's profitability, including the impact relating to the development of the "Deeps" project.

Balance Sheet

Capital employed increased in the year to $1.80 billion from $0.99 billion last year mostly due to $734.6 million of capital expenditure incurred for the major growth projects. For the year ended 31 March 2005, ROCE was 13.7% (2004: 16.9%) although $1.03 billion was attributable to the major projects on which no return was made during the year. Excluding this capital work in progress, ROCE increased in the year to 32.0% (2004: 24.1%).

Working capital movements have also had an upwards effect on capital employed as did the acquisition of KCM where net assets acquired of $201.4 million were offset in part by provisional negative goodwill on acquisition of $56.6 million.

Capital Employed/ROCE	31 March 2005 $ million	31 March 2004 $ million
Equity shareholders' funds	1,047.1	990.9
Minority interests	681.6	423.3
Net debt/(cash)	74.3	(422.3)
Capital employed	**1,803.0**	**991.9**
ROCE (net of tax)	**13.7%**	**16.9%**
Adjusted Capital Employed/ROCE		
Capital Employed	1,803.0	991.9
Less: Project capital work in progress	(1,028.9)	(294.3)
Adjusted Capital Employed	**774.1**	**697.6**
Adjusted ROCE (net of tax)	**32.0%**	**24.1%**

The balance sheet is funded by equity shareholders' funds totalling $1.05 billion (2004: $990.9 million), minority interests of $681.6 million (2004: $423.2 million) and net debt of $74.3 million (2004: net cash of $422.3 million). It is expected that based on current investment plans net debt will peak during the next two years after which it should decrease as the major projects become operational.

Provision for liabilities and charges increased to $424.2 million from $162.9 million from the prior year, which is largely attributable to the KCM acquisition. The major components within provisions are as follows:

- pension and similar obligations of $64.5 million of which $60.7 million is attributable to KCM. KCM's provisions consists of $32.5 million for terminal benefits payable to specified employees of KCM who transferred from ZCCM when KCM was privatised in 2000 and $28.2 million of other medical and retirement benefits. The fair value of KCM's provisions were determined using actuarial valuations obtained at the time of acquisition;

- environmental liabilities of $62.1 million which represent the estimated future restoration and rehabilitation obligations caused by mining operations. These costs are expected to be incurred over the useful lives of the assets. Environmental provisions include $51.6 million relating to KCM and have been determined with reference to the Development Agreement entered into at the time of acquisition. A detailed review of this provision will be performed in the next financial year as part of the fair value exercise; and

- other provisions of $151.3 million are mainly attributable to other fair value adjustments on the acquisition of KCM.

In December 2004, the Company obtained its first credit rating achieving the best rating for an Indian corporate during the 2004 calendar year. As at the date of this report, the Standard & Poor's and Moody's credit ratings for the Company and the India sovereign rating are as follows:

	Vedanta	India Sovereign
S&P	BB+	BB+
Moody's	Baa3	Baa3

As part of the policy to centralise debt, the Company issued a $600 million bond in December 2004 due in February 2010 with a 6.625% coupon rate. This bond was the largest issued to date by a group of Indian origin. The bond was subscribed by investors in the US under Rule 144A of the US Securities Act 1933, and Europe and Asia in reliance of Regulation S of the

Financial Review *continued*

US Securities Act 1933. Most of the proceeds raised from the bond had been remitted to India by 31 March 2005 for investment in the major projects. The covenants for the bond include a negative pledge relating to the assets and revenues, and limitations on subsidiary net borrowings and consolidated net borrowings with reference to EBITDA.

Earlier in the financial year, the Group re-financed facilities in Sterlite taking advantage of better pricing, and also obtained an extended five year loan in BALCO. Other funding facilities are arranged on a company by company basis. The funding facilities available to the Group as at 31 March 2005 analysed as drawn and undrawn are as follows:

Funding facilities	Drawn $ million	Undrawn $ million	Total $ million
Below 1 year	218.4	307.0	525.4
1-2 years	145.2	–	145.2
2-5 years and above	1,158.3	–	1,158.3
Total	**1,521.9**	**307.0**	**1,828.9**

These are a mixture of committed and uncommitted facilities.

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.

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. As at 31 March 2005 cash and current asset investments total $1.45 billion which should be sufficient to meet anticipated requirements. In addition, undrawn facilities amount to $307.0 million as set out above.

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 dollar 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 profit and the balance sheet (including non-US dollar denominated borrowings) into the consolidated accounts, where the functional currency is not the US dollar.

The new zinc facilities at Chanderiya were commissioned on 31 May 2005, just after the year end. They were completed on time and below budget, and significantly below international bench marks for comparable projects. It will produce 170,000 tpa raising our total capacity to 390,000 tpa. This shows the new cell rooms. The hydrometallurgical process is energy efficient and will reinforce Hindustan Zinc as one of the most cost competitive zinc producers in the world.

Financial Review *continued*

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

Foreign currency sensitivity	Average US dollar rate during year ended 31 March 2005	Average US dollar rate during year ended 31 March 2004	% movement	Impact of 10% movement on EBITDA $ million
Indian rupee	44.96	45.92	*(2.1)*	79.0
Australian dollar	1.357	1.445	*6.5*	10.0
Zambian Kwacha*	4,700	n/a	n/a	10.0
UK pounds sterling	0.542	0.591	*8.9*	n/a

*Average rate for five months ended 31 March 2005.

Foreign currency exposures into India are 100% hedged for raw material purchases and 50% hedged for committed capital expenditure. It is also policy to maintain a balance of US dollars and rupee net debt as a hedge against selling prices largely denominated in US dollars and assets mostly in Indian rupees. This policy will be reviewed periodically to manage foreign currency risk.

Interest risk: at 31 March 2005 the Group's net debt of $74.3 million was split between debt of $1.52 billion and cash and current asset investments of $1.45 billion. These extensive borrowings and cash are denominated in both US dollars and Indian rupees giving rise to interest rate exposures. Our policy is to maintain a balance of fixed and floating interest rate borrowings, with most US dollar denominated debt being carried at floating interest rates and Indian rupee denominated debt being carried at fixed interest rates. These positions are kept under review.

Analysis of net (debt)/cash	31 March 2005 $ million	31 March 2004 $ million
Cash	61.6	52.7
Current asset investments	1,386.0	1,188.5
Debt due less than one year	(218.4)	(295.3)
Debt due more than one year	(1,303.5)	(523.6)
Net (debt)/cash	**(74.3)**	**422.3**

Analysis of interest rates for debt and cash and current asset investments at 31 March 2005

	Interest paid		Interest income
	Floating %	Fixed %	Average yield %
Indian rupee	5.0	7.4	5.7*
Australian dollar	–	6.0	5.6
US dollar	4.7	2.7	–
Average	**4.6**	**5.3**	**5.1**

*Some of the investments above generate tax free return; therefore adjusted pre-tax comparative rate of return is 7.5%.

Counterparty risk: cash deposits are primarily invested in mutual funds, money market funds and banks with high credit ratings. Board approved limits are applied to counterparties. The deposits are carried at floating interest rates largely with maturities less than one year to provide a balance between liquidity and enhanced yield. The Group adheres to a policy of 100% capital projection although some investments have been structured to improve yield but with no risk to the principal.

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, where a hedging programme has been put in place covering a part of the estimated production volumes over the next two years.

The operations in India do not hedge their domestic commodity positions as this is not permitted under local regulations. As at 31 March 2005 the Group had hedged approximately one third of KCM's estimated production in the period up to 31 December 2006.

Set out below are the key commodity price sensitivities on EBITDA resulting from a 10% movement:

Commodity price sensitivity	Average LME rate during year ended 31 March 2005	Average LME rate during year ended 31 March 2004	% movement	Impact of 10% movement on EBITDA $ million
Copper	2,999	1,780	*68.5*	65.0
Aluminium	1,779	1,432	*24.2*	26.0
Zinc	1,108	828	*33.8*	38.0
Lead	921	613	*50.2*	2.0
TC/RC (2.5 US cents per pound)	189	195	*(3.1)*	7.5

Financial Review *continued*

Critical Accounting Policies

The Group's accounting policies are set out in the notes to the Financial Statements on pages 72 to 77. These include a number of policies which the Directors believe may impact the financial statements significantly:

Mining properties and leases: these tangible fixed assets total $340.2 million and consist of the cost of acquiring and developing mining properties and mineral rights. Excess purchase consideration arising on acquisition is generally attributed to mining properties and leases and amounts to $265.3 million as at 31 March 2005. Discounted cash flow models are used to support the carrying value of mining properties and leases, and contain a number of critical assumptions. In the event where the recoverable amount of mining properties and leases, as indicated by discounted cash flow models, is less than their carrying value, a formal impairment review will be undertaken. The properties are depreciated on a unit of production basis, which also involves subjectivity in the assessment of total production over the lifetime of the mining property.

Impairment: the Group's tangible fixed assets of $2.3 billion are subject to an impairment review where an indicator of impairment arises, or after the first full year of acquisition. During the year, the Directors identified a number of assets as non-core and following an impairment review of these assets, a write down of $17.8 million has been recognised. As part of the KCM fair value exercise, the book values of the acquired tangible fixed assets are being reviewed against their recoverable amounts at the date of acquisition and adjustments will be made if necessary.

Restoration, rehabilitation and environmental costs: these are costs typical to the extractive industry and total $62.1 million as at 31 March 2005, including $51.6 million attributable to KCM. The costs are capitalised when incurred and then charged to the profit and loss account over the life of the asset through depreciation and unwinding the discount on the provision. Our Indian operations under local legislation are largely exempt from these costs and the Group does not provide for restoration costs over and above the statutory requirement. The legal requirement for the Australian mines has been met and appropriate provision has been made. KCM's environmental obligations are by reference to the plan agreed with the Government of Zambia at the time of its privatisation in April 2000, and pursuant to the acquisition agreement, appropriate provision is made in KCM's accounts.

Contingencies: the accounts set out details of material contingencies arising from litigation and other claims. Provision is made where, in the opinion of Directors, a loss to the Group is likely to crystallise. For other litigation and claims, appropriate disclosure of the contingency is provided in the accounts.

Pensions: the Group's pension liability consists of defined contribution schemes and defined benefit schemes. The deficit in the Group's defined benefit scheme is limited to $6.6 million for the Indian operations. In respect of KCM, the defined benefit schemes have been fully provided in the balance sheet.

Fair value adjustments on acquisition: on the acquisition of KCM, a fair value exercise was undertaken resulting in adjustments to the book values of the balance sheet of $127.2 million. The Directors are of the opinion that the adjusted balance sheet reflects the fair value of the underlying assets and liabilities of the acquired company. The provisional fair values of the tangible fixed assets and the environmental liabilities are being reviewed and further adjustments, if any, will be carried out in next year's financial statements.

Transition to International Financial Reporting Standards

All companies listed in the European Union are required to present consolidated financial statements for accounting periods commencing from 1 January 2005 that comply with IFRS. Vedanta's first set of IFRS-compliant results will be the first quarter results to be announced in July 2005, followed by its interim results for the six months ending 30 September 2005, to be announced in November 2005. Vedanta will prepare its first full year IFRS-compliant consolidated financial statements for the year ending 31 March 2006. The IFRS transition project is well advanced and the Group is on course to meet its reporting deadlines.

Financial Review *continued*

Management of IFRS Implementation

The Group has established a formal project team for the transition to IFRS, which includes members of senior management. The project is broadly classified into four phases:

1. Impact assessment: the impact assessment phase was undertaken at all operating units within the Group. During this phase all material differences between the Group's current UK GAAP accounting policies and those likely to be required under IFRS were identified. Consequential changes to reporting and information systems and business processes were also highlighted. A training programme was held during the impact assessment phase for the Group's finance staff.

2. Evaluation and project planning: during this phase, policy options available for the first time adoption of IFRS required under IFRS 1 "First-time adoption of International Financial Reporting Standards" were evaluated by the project team. Thereafter, these choices were recommended to the Audit Committee for approval in February 2005. Concurrently, a detailed IFRS transition project was planned and scoped out with clear time lines, responsibilities and deliverables. The project was designed to be flexible in order to react to updates or developments arising during the implementation phase.

3. Implementation and review: a substantial part of this phase is nearing completion within the time frame as originally envisaged. During this phase, changes to the reporting and information systems were made in order to prepare IFRS-compliant information. This phase is expected to be completed before the Company announces its first quarter results in July 2005. It is also planned that a broad based training programme will be conducted across the Group for senior management and those people affected by IFRS reporting outside of the finance teams.

4. Group accounting manual: this phase runs in parallel to the implementation and review stage, and involves the preparation of an IFRS-compliant Group accounting manual, setting out the accounting policies of the Company. The purpose of the manual is to communicate a common understanding of Vedanta's accounting policies across the Group and to minimise possible conflict of views between units.

Key Differences in Accounting Policies

The major differences between UK GAAP and IFRS reporting which are likely to impact the Group's financial performance and position are summarised below. The summary should not be taken as an exhaustive list of all differences that may impact the Group.

1. Hedge accounting: IAS 39 "Financial Instruments: Recognition and Measurement" sets out rules that must be complied with in order for an entity to achieve hedge accounting. As part of its risk management programme, the Group enters into a number of derivatives that mitigate foreign exchange, interest rate and commodity price exposures. Under UK GAAP, such derivatives are accounted for as hedges, and gains and losses are deferred until the transaction to which the hedge is attached occurs. However, under IFRS these contracts have to be marked-to-market ("MTM") and MTM fluctuations may be recognised in the income statement or equity, depending upon the nature of the derivative.

2. Foreign exchange gain/losses: IAS 21 "The Effects of Changes in Foreign Exchange Rates" stipulates that certain exchange differences cannot be capitalised as part of tangible fixed assets and instead must be charged to the income statement when recognised.

Financial Review *continued*

3. **Property, plant and equipment – major overhauling expenses:** in accordance with IAS 16 "Property, Plant and Equipment", major overhauling expenses which are recurring in nature over a period of more than a year must be capitalised. These costs are then depreciated over the period until such time as the next overhaul is planned. These expenses are currently charged to the profit and loss account as repairs and maintenance expenses.

4. **Long term incentive plan:** in accordance with IFRS 2 "Share Based Payment", the fair value of awards granted under the LTIP need to be fair valued and recognised in the income statement over the vesting period of the award. Currently, the cost of LTIP awards is based on the cost of the Company's share price prevailing at the date of award, less the applicable option price. The LTIP charge in respect of the year ended 31 March 2005 amounted to $0.9 million, although only one year's worth of awards have been granted to date.

5. **Negative goodwill:** under IFRS "Business Combinations", negative goodwill is recognised within reserves whereas under UK GAAP it is credited to the profit and loss account over the depreciable period of the non-monetary assets to which the negative goodwill is attached.

6. **Dividends declared after reporting date:** under IFRS 10 "Contingencies and Events After the Balance Sheet Date", dividends are not accrued until they have been declared and approved by members in general meeting. Accordingly, proposed dividends will not be recognised in the Group accounts until the period in which they become payable.

7. **Deferred tax:** deferred tax under IFRS 12 "Income Taxes" is calculated using the balance sheet liability approach, which recognises deferred tax assets and liabilities by reference to differences between the carrying values for accounting and tax purposes, rather than accounting and tax values of items recognised in the profit and loss account. Also, differences exist between the UK GAAP and IFRS calculation of deferred tax arising on fair value adjustments, which may be significant for the KCM acquisition.

Financial Review *continued*

Major First Time Adoption Choices

The major first time adoption choices selected by the Group are as follows:

1. Property, plant and equipment – fair value as deemed cost: IFRS 1 permits the use of fair value measurement as at the date of transition on an item-by-item basis. The Group has opted to continue to carry assets at historical cost so that the financial results of prior years are comparable with results prepared in future years.

2. IAS 39: IFRS 1 does not permit retrospective designation of hedge relationships. The designation and documentation of a hedge relationship must be completed on or before the date of transition to IFRS if the hedge relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented. The Group will apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 with effect from 1 April 2005 and not at the date of transition to IFRS. The Group would not qualify for hedge accounting prior to this date as hedges were not designated and documented.

3. Employee benefits – full recognition of surplus/deficits at date of transition: the deficit prevailing in the Group's pension and related employee schemes will be fully provided in the opening balance sheet as at the date of transition, and the liability will be recognised in full in accordance with IAS 19 (revised) "Employee Benefits."

4. IAS 23 – Expense or capitalise certain borrowing costs: the Group will continue to capitalise interest and foreign exchange gains and losses where appropriate under IAS 23 "Borrowing Costs".

5. IFRS 6 – Date of adoption: IFRS 6 "Exploration and Evaluation of Mineral Resources", which was issued in December 2004, is applicable for accounting periods commencing on or after 1 January 2006. Although the impact of IFRS 6 is expected to be limited, the standard is relevant to the nature of the Group's operations. Consequently, the Group has opted to defer adoption of IFRS 6 until 1 April 2006.

Peter Sydney-Smith
Finance Director
1 June 2005

Sustainable Development Report

Our Approach to Sustainable Development

Vedanta aims to develop and manage a diverse portfolio of mining and metals businesses to provide attractive returns to our shareholders whilst carrying out our activities in a socially and environmentally responsible manner and creating value for the communities where we operate. Sustainable development principles are fundamental to our approach. These principles require us to monitor and reduce social and environmental risks, to improve efficiencies in the use of resources, to minimise pollution and to create partnerships with our local communities.

Governance Structure and Management Systems

The Group is committed to ensuring that the health, safety, environmental and social commitments of its Businesses are managed appropriately and to a high standard. To oversee this, an HSE Committee (the "Committee") was established in June 2004 comprising the Chief Executive of the Group, Mr KK Kaura, and the chief executives of the Zinc, Copper and Aluminum Businesses. A Non-executive Director, Dr SK Tamotia, is the Chairman of the Committee. The Committee monitors HSE performance of the Group's Businesses and provides advice and guidance to the Board and management in achieving continuous improvements in HSE. The Committee met three times during the year ended 31 March 2005.

A Group HSE manager was appointed during the year, reporting to the Chief Executive of Vedanta. The manager is responsible for convening the meetings of the Committee and providing a flow of information between the Board, the Committee and the operations, as well as ensuring the implementation of policy and the transfer of best practice across the Group.

The majority of the Group's operations have their own HSE policies appropriate to the characteristics of their business. However, the broad principles upon which Vedanta engages in HSE activities across units are similar. The Board has recently adopted the HSE Policy, as recommended by the Committee and shown on page 32, to provide a uniform basis for implementation of HSE policies across Group operations in the future.

It is the responsibility of operational managers throughout the Group to ensure implementation of the HSE policies and systems, and to monitor operational performance against these policies. All individual units have qualified and experienced HSE specialists to assist management in implementing HSE policies and management systems. They undertake compliance management, impact assessment, measurement and monitoring, and continuous improvement programmes. The operations are also guided by the regulatory framework in terms of HSE matters prevalent in that country and work closely with the authorities to identify and resolve any problems.

All significant Indian operations have their Environmental and Occupational Health & Safety Management Systems certified in accordance with the international standards ISO:14001 and OHSAS:18001, respectively (see table on page 33). The Korba complex at BALCO obtained its certification in accordance with ISO:14001 and OHSAS:18001 during the year, and the Visakhapatnam zinc smelter at HZL was also certified to OHSAS:18001. Regular surveillance audits are carried out and management plans are prepared and implemented to facilitate continuous improvement.

KCM plans to have all its operations certified in accordance with ISO:14001 and OHSAS:18001 by 31 March 2006. HZL, Sterlite and BALCO will also modify their systems appropriately to incorporate the changes and expansions. Certification for TCM and CMT will not be achieved given the short remaining life span of their mines. Certifications for the Mainpat mine of BALCO are expected to be received by the end of June 2005, and the Yercaud mine of MALCO is expected to obtain certification by 31 March 2006. Plans for certification of the Bodai-Daldali deposit of BALCO and the Kolli Hills mine of MALCO are under review and could be progressed next year.

HSE management performance and systems compliance throughout the Group is internally and externally audited, including periodic reviews by regulatory authorities.

A glossary of terms used in this report is found on page 44.

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.

This Health, Safety and Environment Policy was approved by the Board of Directors on 1 June 2005.

Sustainable Development Report *continued*

Status of certification of Vedanta operations to E & OHSAS Standards

Company	Unit	ISO14001: Certification	OHSAS18001: 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
	Debari smelter	Certified	Certified
	Vizag smelter	Certified	Certified
BALCO	Mainpat mine	Target June 2005	Target June 2005
	Bodai-Daldali deposit	To be reviewed	To be reviewed
	Korba complex	Certified	Certified
MALCO	Yercaud mine	Target March 2006	Target June 2006
	Kolli Hills mine	To be reviewed	To be reviewed
	Mettur Dam complex	Certified	Certified
KCM	Konkola mines	Target March 2006	Target March 2006
	Nchanga mines	Target March 2006	Target March 2006
	Nampundwe mines	Target March 2006	Target March 2006
	Nkana smelter	Target March 2006	Target March 2006

Awards and Recognitions

During the year, many of our operations received awards and commendations for their contribution to HSE management; these were received at local, regional and national levels. Some of the significant achievements include:

- safety awards by Greentech Foundation, India to the Chanderiya smelter and the Korba complex;
- award of the British Safety Council's national award to the Chanderiya smelter;
- environmental excellence award by Greentech Foundation to Zawar mines;
- best team and best member awards in recovery (metal sector) for Rajpura Dariba mines in the all-India mine rescue competition organised by the DGMS;
- awards in various categories at regional levels for Zawar, Rajpura Dariba, Rampura Agucha, Yercaud and Kolli mines in competition with other mines in the region;
- Rampura Agucha received the award for overall excellence in mine environment, awarded by the Indian Bureau of Mines;
- Rampura Agucha came first in the regional safety competition run by the DGMS, in addition to other prizes in various categories; and
- the Vizag zinc smelter received the State government's award for best management for its outstanding contribution in the maintenance of industrial relations, social welfare and productivity. The unit also received an award at the National Safety Day celebrations.

Health and Safety

Vedanta has a commitment to provide a safe and healthy workplace for its employees and contractors. We believe that we can minimise risks and train our employees and contractors to recognise this and act accordingly.

Vedanta's corporate safety and health initiatives focus on the following elements:

- leadership – ensuring that senior management and operational heads provide leadership in, and are committed to, health and safety;
- management systems – a majority of the Group's operations have adopted OHSAS:18001 certified management systems. Safety committees operate at various levels to ensure that employees are involved in decisions affecting their health and safety;

Sustainable Development Report *continued*

- training – safety flows from safe behaviours and attitudes. Regular training is provided to all employees and contractors to increase their awareness and to improve their behaviours and attitudes towards safe working practices; and

- risk management – risk assessments are carried out, particularly for hazardous operations, and significant risks are minimised by the application of engineering measures and the adoption of new technology and safe working practices.

Safety Committees

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

HSE Steward System

An HSE Steward System was introduced at Tuticorin (see box below) on an experimental basis to improve standards. This has yielded excellent results and, importantly, is motivating individuals and teams to integrate HSE actions into their routine activities and thinking. Given this success, other operations are planning to replicate this approach.

Audits

Many internal and external audits were undertaken through specialists, as well as relevant agencies, to look at the operations and identify risks and hazards, whilst also recommending preventive measures. These audits provide valuable input and feedback to the operating teams in reducing safety risks.

Training

Training operating personnel to adopt safe working practices is an important part of the Group's safety programme. It is a corporate policy to provide initial and periodic training to all employees and contractors. The training includes routine activities and safety precautions, and special focus is concentrated on identified risks and hazards in respect of operations and other employee activities. At some locations such as Korba, Tuticorin and Chanderiya, 5S training was provided to employees to integrate safety as a way of life, rather than as an add-on. The system and culture of recording all incidents, including first aid cases and near-misses, was strengthened during the year to improve understanding of incidents and provide opportunities for prevention.

Lost Time Injury Frequency Rate

LTIFR for the Group's operations marginally increased during the year ended 31 March 2005. There was, however, a trend of improvement in the latter half of the year. A target has been set of reducing the Group's LTIFR by 20% during the current financial year. It is intended to achieve this reduction through the sustained implementation of various elements of the Group's corporate safety initiatives.

Case Study

HSE Steward System at Tuticorin

The HSE Steward System, introduced at Tuticorin in October 2004, covers the areas of health, hygiene, housekeeping, safety and environment and encourages the participation of every individual in the unit.

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 its totality in his/her own area. In addition, five HSE representatives from the unit's HSE department work with these stewards to ensure the system is implemented effectively.

The HSE stewards regularly monitor their area to check hygiene, health, housekeeping, safety and environment. Boundary limits of the owned area include roads, drains, and greenbelt within the periphery. Based on this monitoring, cross-checked by HSE representatives, reports are produced and points are awarded to individuals and areas/stewards for good performance. These reports are regularly reviewed by the management to determine suitable rewards and penalties.

Experience so far: Over the past six months at Tuticorin, this HSE initiative has motivated and encouraged both individuals and teams to strive for a safe and clean workplace. The use of personal protective equipment has also improved significantly. With six audits completed so far, 760 suggestions for improvements in HSE have been received, of which about 650 have been acted upon. A few require significant expenditure and have been included in the current year's business plan. Further improvements in the system are being planned including quarterly rewards for employee safety.

Top: **A company funded school, forming part of a wide range of educational activities undertaken by the Group.**
Bottom: **The Group supports a variety of medical services for employees and local communities, such as the health clinic shown here.**

Sustainable Development Report *continued*

Lost Time Injury Frequency Rate

Company	2002/03	2003/04	2004/05
BALCO	5.46	5.63	7.19
MALCO	16.50	12.34	10.28
HZL	25.18	22.43	25.21
Sterlite	3.75	2.05	4.13
Australian operations	7.88	7.97	7.19
Vedanta	**13.79**	**11.38**	**13.13**

During the year to March 2005, two fatalities occurred at our managed operations. Our sincere condolences go out to the families of the deceased. Fatalities at the Group's operations are totally unacceptable and irreconcilable with the Group's commitment to achieve zero fatalities and serious injuries. It is the Group's intention to improve safety by developing strategies to avoid such incidents in future.

During the past two years several sites have seen major construction projects relating to our expansion programme. In order to ensure a safe working environment, the Group has placed considerable emphasis, from the planning stage of the projects, on observing safety systems and precautions. Dedicated safety teams were formed for the projects and adherence to rigorous safety systems and compliance was a condition of terms agreed with contractors. As a result, the LTIFR for the two year period of project activities at these four sites was 1.43. Regretfully, over the same period, ten fatalities occurred, all relating to contractors. These were generally due to material handling and working at heights. Appropriate guidelines and operating procedures have been introduced to prevent any recurrence of such incidents.

Occupational Health

Programmes for regular occupational health surveillance of all employees and contractors are continuing. This includes specific examinations such as tests for blood lead, audiometry, chest x-rays and pulmonary function tests. As part of the improvement programmes, Tuticorin plans to augment its occupational health surveillance facility during the coming year.

Environment

The Group is focusing on environmental initiatives for effective water management, waste minimisation and recycling, reducing air emissions, energy conservation and land stewardship, which it believes are the main challenges to sustainability. The Group is committed to efficient use of all resources. Many of the Group's Indian operations made significant progress in implementing their commitments to the charter on Corporate Responsibility for Environmental Protection, which includes significantly reducing sulphur dioxide and fluoride emissions, achieving zero discharge of waste water, improved handling and disposal of hazardous wastes, and improvements in housekeeping and on-site plantations.

Water Use

Water availability, consumption and contamination constitute important risks. These risks range from water scarcity at sites located in arid and dry regions (for example, HZL's sites in Rajasthan and the Tuticorin smelter in Tamil Nadu), to mine dewatering and its impact on regional ground water levels in Rajasthan and Zambia. The Group is committed to the efficient use of water and has taken steps to ensure that this commitment is translated into specific actions to reduce water consumption. These steps have resulted in the reduction of water consumption, despite increased levels of production at many of the operations. BALCO, MALCO, HZL's mines and Sterlite all recorded a reduction in specific water consumption during the year, while the marginal increase at HZL's smelters was primarily the result of a lower level of production, set against

Fresh water consumed in primary activities

	Total consumption (million cubic metres)				Specific consumption (cubic metre per tonne of product)			
Company	Year 02/03	Year 03/04	Year 04/05	Change (%) over 2 years	Year 02/03	Year 03/04	Year 04/05	Change (%) over 2 years
Sterlite	1.91	1.86	1.67	*(12.57)*	12.25	10.39	9.73	*(20.57)*
MALCO	4.91	4.25	4.31	*(12.22)*	159.20	131.90	120.90	*(24.06)*
BALCO	22.84	22.32	21.34	*(6.57)*	239.23	230.34	212.38	*(11.22)*
HZL smelters	3.67	3.56	3.56	*(3.00)*	15.89	14.40	15.27	*(3.90)*
HZL mines	4.14	3.65	3.79	*(8.45)*	7.63	5.51	5.05	*(33.81)*
Australian operations	4.56	5.81	5.43	*19.08*	34.29	29.01	39.32	*14.67*

Sustainable Development Report *continued*

constant water consumption at Chanderiya. The Group is targeting a further 5% reduction in water consumption in the year ending 31 March 2006.

The following cases illustrate the major efforts made to reduce water consumption and increase recycling:

- at the MALCO Mettur aluminum smelter, water consumption in the cooling towers was 11,465 cubic metres per day constituting 72.5% of the total fresh water consumption. Use of diagnostic and statistical tools pinpointed the evaporator, vacuum pump and foundry as areas requiring improvement. The problem included non-usage of recycled water for the evaporator vacuum pump and periodic overflow of the foundry cooling towers. Action plans were drawn up to implement improvement in these areas and were completed in March 2005. As a result, the overall water consumption in the cooling towers has now come down to 8,675 cubic metres per day, saving about 2,800 cubic metres per day of fresh water and a corresponding reduction in waste water discharge. The full impact of these improvements will be felt during the coming year;

- at Sterlite's Tuticorin copper smelter, all waste water streams are treated and recycled within the plant. A further reduction in fresh water consumption was achieved by introducing air coolers in the sulphuric acid plants in August 2003. The hot water generated in the process is cooled in air-cooled radiators so that closed loop cooling takes place and evaporation losses are avoided. This has resulted in a lower water consumption rate of 9.73 cubic metres per tonne of finished copper, compared to 10.34 cubic metres in the previous year;

- various initiatives in water conservation at HZL include the use of desliming hydrocyclones for increased recovery from tailings, the use of a reclaim water reservoir for tailing dam water at the Rampura Agucha mine, installing a reverse osmosis plant for desalination and recycling of water at the Chanderiya smelter; and

- the BALCO smelter reduced its effluent discharge by 3,500 cubic metres per day in the last two years by increased recycling at various places, including the main receiving step-down station, sheet rolling shop, alumina plant and anode paste plant.

Air Quality

In the last two years, many of Vedanta's operations have begun generating captive electricity on site to help reduce high power costs. This has led to increased sulphur dioxide emissions which are expected to increase further in the coming year as a result of the power plants currently being commissioned at Korba and Chanderiya. Fluoride emissions are also expected to increase following the commissioning of expanded smelter capacity at BALCO. However, plans have been made to reduce these emissions.

Plans are progressing at the HZL and Tuticorin smelters to reduce sulphur dioxide emissions from process areas by introducing tail gas scrubbers. Similar efforts are in progress to reduce fluoride emissions at the Korba and Mettur aluminum smelters, together with the adoption of pre-baked technology in the expanded capacity. The Mettur aluminium plant will be provided with a dry scrubber which will help reduce fluoride emissions.

Some of the efforts to exercise good control and minimise emissions are listed below:

Improvements

- adoption of highly efficient DCDA technology for the new sulphuric acid plants at Tuticorin and Chanderiya;

- adoption of state-of-the-art Cansolv technology for absorption of sulphur dioxide from the Ausmelt plant under construction;

- addition of conversion stage in the DCDA plant at Tuticorin and replacement of heat exchangers with superior types;

- plans for installing tail gas scrubbers at Tuticorin, Debari and Chanderiya are well under way. Tail gas scrubbers at Chanderiya and Debari will be based on calcine scrubbing which will use zinc oxide as the scrubbing medium. This will generate zinc sulphate solution which will be utilised in the downstream process. As a result, there will be no chemical consumed and no solid or liquid waste generation from the process;

- adoption of pre-baked technology for the new aluminum smelter at BALCO;

- installation of a dry scrubber at BALCO's old smelter to minimise fluoride emissions is in progress;

Sustainable Development Report *continued*

Monitoring

- on-line stack analysers are in use at all sulphuric acid plant stacks for continuous monitoring and improved control;
- monitoring of fluoride emissions has also been strengthened; and
- on-line SPM monitors provided for kiln and paste plant stacks at MALCO.

Waste Management

The Group is focused on proper identification, characterisation, quantification, segregation, storage and disposal of all solid wastes. Overburden and waste rock from mines are systematically stacked at earmarked areas while tailings are disposed of in tailing dams. Jarosite from hydrometallurgical zinc smelters is disposed of in secure, lined containments, whilst red mud from aluminum smelters is disposed off in earmarked ponds, including a poly-lined dyke facility at MALCO. A dry disposal system for red mud is in place at MALCO. BALCO is moving towards the dry disposal of red mud. A new secure landfill facility was constructed at MALCO and Chanderiya as part of the expansion programme. For safe jarosite disposal at Chanderiya's new hydrometallurgical smelter, technology has been adopted which involves stabilisation of jarosite with the addition of lime and portland cement to produce a hard, compact and inert mass known as jarofix. A secure, lined disposal facility has been constructed for jarofix even though dynamic leaching tests suggest the waste will remain stable for more than 500 years. A new HDPE-lined disposal facility has been constructed and commissioned at Tuticorin for disposal of gypsum resulting from phosphoric acid production.

Waste Utilisation

Opportunities to reuse and recycle waste are being explored. Research studies are being undertaken to reduce the hazardous characteristics of waste and to ensure the re-use of waste materials. Some of the significant successes in this area are listed below:

- overburden from bauxite mining at BALCO and MALCO is used for concurrent reclamation of the mined out areas;
- a portion of overburden and waste rock from zinc-lead mining at Rampura Agucha and Zawar mines at HZL is utilised for construction of tailing dam embankments;
- fly ash from coal-based power plants at BALCO, MALCO and HZL is utilised for producing cement;
- copper slag at Tuticorin is used in road construction and abrasives. Its use in cement is being explored;
- during the past year, about 46% of red mud generated at MALCO was used in the cement industry as a partial replacement for low-grade bauxite;
- a facility was commissioned at Debari smelter to recover lead and zinc from old stockpiled leach residues;
- studies and plant trials are under way to use zinc-lead slag in cement manufacturing at the Chanderiya smelter; and
- a research project has been undertaken to recover zinc and lead from Rampura Agucha mine tailings by bio-leaching.

Case Study

Energy Conservation at HZL Mines

Energy consumption at HZL mines is primarily electrical and is mainly consumed in the ore beneficiation process. During the past year, the specific electricity consumption at all HZL mines decreased by about 6%, following a 3% reduction in the previous year.

Much of this was achieved through optimum capacity utilisation, increasing the throughput rates, improving grinding mill efficiencies and working at optimal levels to minimise energy consumption in addition to reducing the consumption of chemicals and maximising metal recoveries.

Increased process automation and the use of energy efficient equipment contributed to the reduction in energy consumption per tonne of concentrates produced.

Significant saving of diesel fuel was achieved at the Rampura Agucha mine where better scheduling of dumper trucks improved refuelling practices and more efficient engines have reduced diesel consumption in dumpers by 7%.

Top: **A tailings dam at Rampura Agucha, used for the disposal of tailings.**
Bottom: **Tailoring classes empower women, enabling them to find employment and create small businesses.**

Sustainable Development Report *continued*

Energy Consumption

Total energy use (fuels and electricity) amounted to 19.6 million GJ during the year ended 31 March 2005. Excluding KCM, this represented an increase of 5% over the previous year. This higher energy use was primarily due to higher production levels. Electrical energy accounted for about 70% of the total energy used, an increasing proportion of which is now being generated through captive facilities.

Energy conservation efforts at Vedanta include energy audits and identifying energy efficiency projects such as the use of energy efficient equipment. Use of energy efficient practices, allocation of adequate resources for energy conservation projects and regular follow-ups reflect the Group's belief in energy conservation.

Total energy use will increase significantly over the next few years as a result of the Group's expansion projects. However, the Group is targeting a 5% reduction in specific electricity consumption through energy efficient projects.

Land Stewardship

The Group fully appreciates the importance of minimising the disturbance to land and of rehabilitating disturbed land. Vedanta's initiatives in this area include some significant successes:

- in all our bauxite mines at BALCO and MALCO, we follow the practice of concurrent reclamation of mined out areas by backfilling with overburden and tree planting with suitable species;
- an abandoned HZL zinc-lead tailing dam of about 38 hectares at Zawar was rehabilitated by planting, including an area with acid-producing tailing, using an integrated biotechnological approach with the help of the National Environmental Engineering Research Institute;
- the systematic closure of two HZL underground zinc-lead mines at Sargepali (Orissa) and Agnigundala (Andhra Pradesh), including mine and mill decommissioning, clean-up and plantation on the waste dump and tailing dam; and
- a significant proportion of land in use at various operations is under green cover. Tuticorin smelter has 25 hectares of greenbelt within its premises while Rampura Agucha mine has 230 hectares of greenbelt within its mining area, which constitute about 25% of their respective land areas. These are regularly maintained and augmented. Land outside the facilities is also planted with the permission and partnership of the local people.

Community

Operations undertake various activities based on an assessment of the needs and aspirations of the community. The major thrust of community initiatives are in the following areas:

- health care;
- education, sports and the disabled;
- female empowerment and rural livelihood;
- rural infrastructure and community development; and
- financial and organisational support to people in distress.

Health Care

Organised health care activities are only one part of the Group's community initiatives. KCM continues its pioneering initiatives in health care. Its rollback malaria programme has recorded great success with a 62% reduction in malaria cases and no fatalities from malaria since 2001. This has resulted in the KCM model being adopted by the Zambian government in its national programme.

Case Study

Reclamation Process at BALCO

The reclamation of mined out areas at BALCO is carried out in the following manner:

- removal and storage of topsoil;
- hard overburden and waste material are placed in the previously mined out area;
- after levelling and compaction of this backfilled material, the areas are covered with topsoil stacked separately in the earlier cycle of mining; and
- the reclaimed land is then afforested.

Ongoing care and maintenance is carried out to ensure a good survival rate for the plantation.

Sustainable Development Report *continued*

KCM has been central to Zambian mining industry workplace HIV/AIDS awareness and prevention, and community outreach programmes. The International Finance Corporation's HIV/AIDS guide for the mining sector was developed in partnership with KCM and launched at the Konkola mine on 1 December 2004, being World AIDS Day.

Our health centres at the operating locations in India routinely reach out to the needy by distributing primary medicines. Awareness camps are regularly organised by company doctors on reproductive health, child immunisation and health problems of specific target groups. The tribal populations around the Zawar mines of HZL and Kolli bauxite mines of MALCO have been the beneficiaries of such health camps.

The Vizag smelter organised two blood donation camps as part of an HIV/AIDS programme jointly with the District AIDS Control Society and Blood Bank Cell of King George Hospital, Visakhapatnam. The Yashad Hospital at the Vizag smelter works with PHC's in the villages of Mindi, Gajuwaka and Shriharipuram as part of our immunisation and family welfare outreach programmes. Three immunisation camps covered 1,485 children and 277 people were covered under four family welfare camps.

Comprehensive health check-ups and systemic examinations are being conducted for children in and around the Zawar mine on a regular basis with a follow-up including remedial measures. The Rajpura Dariba mine's health centre conducted check-ups on 360 children in the year ended 31 March 2005.

Support was extended to PHC's in three villages near Tuticorin by providing necessary medical equipment to enhance the quality of health care. Sterlite also operates five rural health clinics providing access to quality health care in twelve villages. Ten health and hygiene awareness camps were conducted during the year ended 31 March 2005.

At BALCO, doctors visit adopted villages regularly, with consultation and primary medicines provided free of charge. At MALCO, a health clinic caters for people below the poverty line and medical camps are organised for the neighbouring population.

VAL has organised mobile health units for efficient and quality health care, impacting 35 villages and 700 tribal families in the drought and famine stricken terrain of Kalahandi district in the State of Orissa. The PHC is being upgraded by adding 20 beds and other accessories. Emphasis is placed on malaria eradication by regular fume fogging.

There is also a vision of health care at the Group and company level which transcends the boundaries of the individual units. HZL sponsored a state-of-the-art cardiology centre at Udaipur in 2002, funding the entire capital cost itself. The centre is being run by the Government of Rajasthan and in a short time span has emerged as a leading centre benefiting mainly the poor and tribal population of southern Rajasthan.

HZL contributed INR 500,000 to Kalyan Arogya Sadan, Sikar and INR 4,100,000 to Vivekananda Memorial Research Society, Tamil Nadu to strengthen their infrastructure to promote the Indian system of medicine. Himjyoti Foundation, Dehradun received INR 1,100,000 for the promotion of herbal and medicinal plants and development of a plant-based health care system for rural areas. The Dr CT Mehta Rehabilitation Centre received INR 800,000 as a donation for the distribution of artificial limbs and "Jaipur Foot" to the poor and needy.

Education, Sports and the Disabled

Education

Education is an important part of the Group's community initiatives:

- HZL, BALCO and MALCO fully fund schools at their units, mainly catering for the children of employees but also allowing children from the neighbouring population to attend;
- HZL spent INR 2,180,000 this year on various educational activities including distribution of uniforms, books, stationery and teaching/learning aids;
- there are more than a dozen private schools operating in and around the townships of BALCO. BALCO provides these schools with land and building facilities, as well as providing grants-in-aid and subsidised school buses to encourage formal schooling amongst local children;
- MALCO assisted in renovating two "Anganwadi" centres to provide nursery facilities for local children and provided books, stationery and uniforms where required;

Sustainable Development Report *continued*

- the distribution of study material benefited over 1,400 children enrolled in the evening study centres being run in and around Tuticorin by Sterlite;

- VAL is creating a hostel facility at the Industrial Training Institute, Bhawanipatna for 50 students, renovating and constructing rooms in the existing Government school at Lanjigarh for tribal children and creating two child care centres at the resettlement village, Niyamgiri Vedanta Nagar, which will accommodate 200 underprivileged children; and

- HZL is contributing INR 100,000 per month to ISKCON Chowpatty for midday meals to children. During the year ended 31 March 2005, HZL also contributed INR 100,000 to Matrimangal Kanya Mahavidyalaya, Ringas, INR 750,000 to Rawal Mallinath ji Foundation, Jodhpur and INR 250,000 to Ramanandacharya Sanskrit Vishwavidyala, Jaipur for midday meals to children.

Sports

The Group provides support to local communities in a variety of sporting areas:

- in January 2005, KCM signed an agreement with the Football Association of Zambia to provide sponsorship for the KCM Premier League. This league was officially launched on 18 March 2005;

- the prestigious All India Hind Zinc Mohan Kumara Mangalam Football Tournament is organised each year by HZL at the Zawar mine, with teams participating from across the country;

- the Tuticorin operation organised a district level sports meet for children jointly with the sports authority of Tamil Nadu. Over 900 promising athletes from various parts of Tuticorin district attended the meet in August 2004;

- the Zawar mine hosted a national camp for 1,300 cadets during the year and hosted a state-level and district-level sports meet for school children; and

- the Vizag smelter hosted the Andhra Pradesh Welfare Board Sports and Culture Meet 2005, attracting 1,200 participants representing over 225 companies. The Vedanta Rolling Championship Cup was introduced for the best team of the event.

The Disabled

HZL has been extending assistance to physically and mentally challenged children. To support this, the Badhir Balkalyan Vikas Samiti, Bhilwara in Rajasthan and Viklang Kalyan Samiti in Udaipur are recipients of annual financial support for training and rehabilitation of disabled children, specifically aimed at strengthening educational programmes for them. Sterlite has signed a corporate membership agreement with Vidya Pragasam Special School in Sankaraperi Panchayat which has physiotherapy and vocational training facilities for children with cerebral palsy, autism and multiple disabilities. The school has 55 children coming from families living below the poverty line.

Female Empowerment and Rural Livelihood

The Group is conscious of the issues of rural livelihood and the important role that women can fulfil. The aim is to organise SHG's, in coordination with other agencies, and to provide support for vocational and skills training. The programme is at an early stage but holds great promise, in particular:

- Tuticorin has made a start this year by promoting and supporting a number of SHG's;

- HZL has donated INR 2,000,000 to local rural self-governance through an NGO, Seva Mandir, to create an endowment in February 2004 for the protection and conservation of village commons spread over six tribal blocks near Udaipur;

- VAL is providing regular employment to about 2,000 unskilled village youths in various project-related activities by constantly upgrading their skills. It has also facilitated the formation of eight SHG's in a resettlement village involving about 95 women to make them sustainable through small businesses;

- KCM's capacity building for small and medium entrepreneurs holds great promise and is likely to be extended to other units. KCM has a local business development plan, which seeks to:

  i) develop local business and contribute to poverty alleviation in the short term, and

  ii) diversify the economy of the copper belt in the long term;

Sustainable Development Report *continued*

- KCM has to date trained 23 SME's in capacity development under a partnership programme with the African Project Development Facility, financed by the International Finance Corporation. An evaluation revealed that turnover and employment for the participating SME's increased substantially; and

- the KCM Widows Cooperative was launched to give financial support to this vulnerable group. In addition, training and other support was given to farmers, mainly women, in beekeeping and honey production.

Rural Infrastructure and Community Development

The creation of durable assets and the renovation, repair and maintenance of the existing public utility infrastructure is a major part of the Group's community programme.

HZL, as part of ongoing community support to local needs at all units, has undertaken the digging of tube wells and the maintenance of hand pumps.

In partnership with the Government of Rajasthan, HZL is contributing INR 186 million towards the cost of constructing the Mansi-Wakal dam. This dam is due for completion in August 2005 and will augment the drinking water supply of Udaipur.

Tuticorin has contributed INR 716,000 to implement the Government's Sajaldhara Scheme which will provide drinking water to 43 villages around Tuticorin and benefit 20,000 people.

MALCO undertook desilting operations at Yercaud Lake by using local youths. This was an important task in revitalising local drinking water sources. School children have planted saplings around the lake for better recharge and the use of plastic in and around the lake has been banned.

Sterlite Foundation

The Group maintains close links and helps the Sterlite Foundation, although this is an independent charitable body.

The Sterlite Foundation was founded in September 1992, with the objective of assisting underprivileged youths to realise their aspirations. The Foundation focuses on three areas: education, child care and female empowerment.

Education

The education funding consists of three areas:

- Sterliteracy provides training for around 70,000 students in 230 centres across India;

- the prison programme, where there are 26 centres running education and vocational training in jails throughout India; and

- the municipal training programme, which has computer labs in 24 municipal schools, covering some 30,000 school students.

Child Care

There are 16 child care centres in Tamil Nadu and two in Orissa for children between three and six years of age. This was developed in response to research looking into the needs of families below the poverty line.

Female Empowerment

The Female Empowerment Scheme encourages women to complete their higher education through Reengus College, founded in 1995. The programme is driven by the belief that "if a woman in the family is educated then the entire family gets educated".

Financial and Organisational Support to People in Distress

Our deepest sympathies go out to all those who suffered in the unprecedented Tsunami disaster. The Group extended both financial and in-kind support. The Group contributed INR 15 million to the disaster relief funds in addition to one day's wages contributed by employees. Relief material in the form of clothes, blankets, stoves, food packets and utensils from the MALCO and Sterlite operations located in Tamil Nadu were distributed to the victims.

HZL has undertaken various activities as part of drought and famine relief in the villages around its units in Rajasthan. The activities primarily focus on providing fodder to livestock, drinking water to humans and livestock, and digging/deepening of wells. Immediate relief in terms of food packets and clothes were distributed to an area near Rampura Agucha mine which experienced flash floods.

Fire tenders, ambulance and medical aid are routinely offered in emergencies to assist in areas near to Group units.

Sustainable Development Report *continued*

Way Forward

Vedanta's work in the community will be greatly enhanced by the recent employment of a Group manager, along with site level managers, to provide thrust and focus in engaging with stakeholders, assessing their needs and aspirations, and putting in place appropriate plans and actions. The Group is systematically seeking NGO's who can act as partners in our development initiatives.

The Group commissioned the Institute of Rural Management, Anand, and Xavier Labour Research Institute, Bhubaneshwar, for NGO mapping in Rajasthan and Orissa, respectively. Similar exercises are being carried out in Tamil Nadu and Chhattisgarh. The Group envisages further improvements in community initiatives in the four Indian states in which it operates. GIVE International, a leading international NGO, is providing direction and supervision in planning, monitoring and evaluating these initiatives.

Substantial resources have been allocated to each Group subsidiary to allow them to provide support to their local communities on an ongoing long-term basis.

Scope and Basis of Sustainable Development Report

This report attempts to highlight our contribution to sustainable development by our managed operations, focusing on our performance in the areas of safety, health, environment and community development. Performance data for some of the key indicators has been included in the report for all current operations, except KCM, along with comparative data for the past two years. These have also been aggregated across the Group, except for KCM.

Reporting of data for current and past years, and their comparability, is influenced by a number of changes to the Group's operations, including new production capacity, brownfield expansion projects and adding captive electricity generation facilities at many of the Indian operations. These limitations have been appropriately explained in this report. Comparability of data is also affected by the different methodologies adopted for data collection systems. We are committed to continuous improvement and the achievement of uniformity and consistency in data collection and reporting systems, whilst also adding further performance indicators in the coming years.

Sustainable Development Report Glossary

AIDS: acquired immune deficiency syndrome
Cansolv: sulphur absorption technology patented by Cansolv of Canada
DCDA: double contact double absorption technology for sulphuric acid production
DGMS: Director General of Mine Safety in the Government of India
E&OHSMS: Environmental and Occupational Health & Safety Management Systems
Fatality: the death of an employee or contractor resulting from a work related injury
GJ: gigajoules
HDPE: high density poly-ethylene, a synthetic material used for providing an impervious lining in waste disposal facilities
HSE: health, safety and environment
HSEC: health, safety, environment and community
ISKCON: International Society for Krishna Consciousness
ISO: 14001: an international environmental management system standard published by the International Organisation for Standardisation
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 manhours worked
NGO: non-governmental organisation
OHSAS: 18001: Occupational Health and Safety Assessment Series (standards for occupational health and safety management systems)
PHC: primary health centre
Recycled Water: water released during mining or processing and then used in operational activities
SHG: self help group
SME: small and medium entrepreneurs
SPM: suspended particulate matter. Fine dust particles suspended in air
TPM: total productivity maintenance
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
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)

Sustainable Development Report *continued*

ASSURANCE STATEMENT

1. Background

At the request of Vedanta Resources plc (the "Group"), we have reviewed the contents of their Sustainable Development Report of the 2005 Annual Report found on pages 31 to 44 (the "Report") relating to performance on Health, Safety, Environmental and Community initiatives ("HSEC"). The Report is prepared by the Group, which is responsible for collection, compilation and presentation of information within it.

Our responsibility is to provide conclusions regarding the information presented in the Report with respect to HSEC performance of the Group. However, this Statement should not be taken as a basis for interpreting the Group's performance across the scope of issues covered in the Report.

2. Approach

There is currently no statutory requirement in India for preparation and publication, nor generally accepted international standard relating to verification, of HSEC reports.

Therefore, a review process was used employing a series of customised work steps to ensure consistency in our assessment. This involved challenging and substantiating the assertions and claims made in the Report, to the extent the Report relates to current year's performance, and also involved a review of processes for the collection, collation and internal reporting of HSEC data.

3. Limitation of scope

- The scope of our work was limited to making verification visits to the Group's units at HZL (Udaipur), BALCO (Korba), Sterlite (Tuticorin) and MALCO (Mettur). The Australian and Zambian operations are not covered by this assurance statement.
- Our review of the data reporting procedures was limited to sample checks of HSEC data for the year ended 31 March 2005.

4. Basis of our review

The following steps were carried out by us in order to form our conclusion:

- Interview of the Group Manager (HSE) and key personnel at units such as functional heads as well as personnel with responsibility for functions of HSEC.
- Review of selected documents which were used to capture and collate information relating to HSEC performance parameters as well as policy and system documents.
- Conducted visits to key units, to review data collection, reporting and internal assurance processes relating to HSEC performance.

5. Conclusions

The senior management of the Group has demonstrated commitment towards HSEC management and implementing an HSEC governance system, as evidenced by periodic Group level review of such matters. There is also the presence of Health, Safety and Environment and Corporate Social Responsibility functions at individual units as well as at Group level. We observed that the Group has developed internal procedures for HSEC data collection, compilation and analysis. Based on our review, the key conclusions are as follows:

- Our sample check of some of the significant data in the Report indicated that these have been correctly transposed from internal reporting, and the contents of the Report is consistent with documentary evidence obtained during the course of our work, with the exception of data related to water usage at units (other than Sterlite, Tuticorin), which rely partly on estimation and not on metering, and therefore there is scope for improving reliability.
- The Report provides few key performance indicators ("KPIs") on HSEC matters. Completeness of the Report could be improved if additional HSEC KPIs, relevant to the Group's processes and operations, were included.

Ernst & Young Pvt Ltd
Delhi
1 June 2005

Board of Directors and Senior Management

EXECUTIVE DIRECTORS

1 Anil Agarwal, Executive Chairman (N*)
Aged 52. Mr Agarwal is also Chairman of Sterlite and BALCO and is a director of HZL and VAL. Sterlite was formed by Mr Agarwal in 1976 and since then it has grown under his leadership. Mr Agarwal has over 30 years' experience as an industrialist.

2 Navin Agarwal, Deputy Executive Chairman
Aged 43. Mr Agarwal is also Executive Vice Chairman of Sterlite, Chairman of KCM and MALCO, and a director of BALCO, HZL and VAL. He joined Sterlite at its inception and joined the Board in November 2004. Mr Agarwal has over 20 years' experience in general management and commercial matters. Mr Agarwal has completed the Owner/President Management Programme at Harvard University and has a Bachelor of Commerce from Sydenham College, Mumbai. Mr Agarwal is the brother of the Executive Chairman, Mr Anil Agarwal.

3 KK Kaura, Chief Executive (H)
Aged 57. Mr Kaura is also Managing Director of Sterlite, Deputy Chairman of KCM and a director of VAL and HZL, the company he joined in 2002. Prior to joining the Group, Mr Kaura held various positions in operations and business management at ABB India. He 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 Bachelor of Engineering in Mechanical Engineering (Honours) from Birla Institute of Technology & Science, Pilani.

4 Peter Sydney-Smith, Finance Director
Aged 52. Mr Sydney-Smith is also a director of KCM. Mr Sydney-Smith joined the Group in 2003. Prior to joining the Group, Mr Sydney-Smith was Finance Director at BPB plc, an international building materials group. Mr Sydney-Smith joined BPB plc from British Gypsum Ltd in 1992, where he had been the Finance Director. Mr Sydney-Smith is a chartered accountant and a member of the Institute of Chartered Accountants of England and Wales and has an MA from the University of Cambridge.

NON-EXECUTIVE DIRECTORS

5 Naresh Chandra (A)(N)(R*)
Aged 70. 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 the USA from 1996 to 2001. He was Chairman of the Indian Government Committee on Corporate Governance from 2002 to 2003 and Chairman of the Committee on Civil Aviation Policy. He is a non-executive director of Tata Consulting Services, Bajaj Auto Limited and several other Indian industrial companies. Mr Chandra has an MSc in Mathematics from Allahabad University. He is also the Chairman of the Confederation of Indian Industries (CII).

6 Aman Mehta (A*)(R)
Aged 58. Mr Mehta joined the Board in November 2004. Throughout his career at HSBC, spanning more than 30 years, he held numerous positions, including Chairman and Chief Executive Officer of HSBC USA Inc. (the New York-based arm of HSBC Holdings plc), and 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 in December 2003. Mr Mehta is a non-executive director of several public companies and institutions in India, Hong Kong, Singapore and the UK. Mr Mehta has an economics degree from Delhi University.

7 Shailendra Kumar Tamotia (H*)(N)
Aged 65. Dr Tamotia joined the Board in November 2004. He started his career in 1962 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 Limited from 2000 until 2004. Dr Tamotia is an Executive Vice Chairman of VISA International Limited and a director of VISA Industries Limited. Dr Tamotia has a Bachelor of Engineering (Honours) in Civil Engineering, a Masters in Engineering in Soil Mechanics and Foundation Engineering, and a doctorate in mechanical engineering.

8 Euan Macdonald (A)(N)(R)
Aged 65. Mr Macdonald joined the Board in March 2005. He has over 40 years' experience in corporate finance, including ten years with Lazard Brothers in London, and eight years establishing IFA in Kuwait and Ifabanque in Paris. From 1982 to 1995 he was a director and Vice Chairman of SG Warburg, London, becoming Chairman of SBC Warburg in India and subsequently Chairman of Warburg Dillon Read, India until 1998. From 1999 to 2001, he was Executive Vice Chairman of HSBC Securities and Capital Markets, India and Head of the Corporate Finance Advisory Team of HSBC Republic in London from 2001 to 2002. Mr Macdonald has an MBA in Finance and International Business from the Graduate School of Business, Columbia University, New York and a BA in Economics from the University of Cambridge.

(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

Board of Directors and Senior Management *continued*

Tarun Jain

Aged 45. Director of Finance, Sterlite. Mr Jain is also a director of BALCO, MALCO, IFL and HZL. Mr Jain is responsible for all financial matters at Sterlite, as well as strategic planning and corporate communications. Mr Jain has been with Sterlite since 1984. Mr Jain is a member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India, and is also a graduate of the Institute of Cost and Works Accountants of India.

TL Palani Kumar

Aged 55. Managing Director of BALCO. Mr Palani Kumar is also a director of VAL. Mr Palani Kumar is responsible for the Aluminium Business and joined the Group in July 2003. Prior to joining the Group, Mr Palani Kumar was the Managing Director and Chief Executive of New Holland Tractors (India) Private Limited which is part of the Fiat group. Mr Palani Kumar has a chemical engineering degree from the Indian Institute of Technology, Madras and an MBA from the Indian Institute of Management, Ahmedabad.

Ramesh Venkat

Aged 40. Chief Financial Officer, Sterlite. Mr Venkat joined the Group in 2001 and is responsible for the corporate finance, treasury, accounting, reporting, taxation and related functions of the Group. He is closely involved in all financial planning and structuring initiatives of the Group. Mr Venkat started his career at Hindustan Lever (Unilever, India) and has over 15 years' experience with multinational companies and banks, in particular, in corporate finance, project finance, investment, treasury and related areas. Mr Venkat is a member of the Institute of Chartered Accountants of India and the Institute of Cost Accountants of India, and a graduate of the Institute of Company Secretaries of India.

Corporate Governance Report

Introduction

Vedanta's shares have been listed on the London Stock Exchange since December 2003. Most of the Group's assets and management are located in India. Three of the Group's subsidiary companies are currently listed on stock exchanges in India and maintain their own corporate governance arrangements in line with Indian regulations. In addition, BALCO and HZL, along with the Group's recently privatised Zambian business, KCM, have government appointees on their company boards who represent wider stakeholder interests.

The Group's Executive Chairman, Mr Anil Agarwal, is the Group's original promoter and founder having built the Group from its inception in 1976. Volcan Investments Limited, a company controlled by Mr Agarwal and his family, remains the Group's controlling shareholder with a 54% interest. The relationship between Volcan, Mr Agarwal and the Group is governed by a Relationship Agreement which was entered into by the Company and Volcan at the time of Listing in December 2003; it is designed to ensure the Company can operate independently of the controlling shareholder (described below in further detail).

Since Listing, the Board has moved towards compliance with the requirements of "The Combined Code on Corporate Governance" issued by the Financial Reporting Council (the "Code") in July 2003. The Board believes that in the interest of all shareholders, the application of corporate governance must reflect the nature and location of the Group's businesses, the ownership of the Company and its subsidiaries, the Group's development needs and ensuring that talents within the Group are utilised to their fullest potential.

Statement of Compliance

Throughout the year ended 31 March 2005, Vedanta has complied with Section 1 of the Code, save as set out below.

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, does not follow the process set out in the Code (Provision A.4.1).

Mr Agarwal did not meet the independence criteria set out in the Code at the time of his appointment as Executive Chairman on 23 March 2005. He had previously been Chief Executive of the Company and is the controlling shareholder of the Company (Provisions A.2.2 and A.3.1). The Board believes that India is changing rapidly and presents the Group with significant opportunities. The appointment of Mr Agarwal has allowed him to step back from operational management and to focus on turning these opportunities into value creating projects. Together with the appointment of Mr KK Kaura as Chief Executive, the Board considers that this allows best use of the talents within the management team.

Due to changes in Board membership during the year, no evaluation of the Board, its committees or individual Directors has been performed during the year (Principle A.6) and membership of the Board committees has not been maintained fully in compliance with the requirements of the Code (Provisions A.4.1, B.2.1 and C.3.1). However at the end of the year, membership of all Board committees complied with the Code.

The Company fully complies in all other respects with the Code, with the Listing Rules of the UK Listing Authority and with the UK Companies Acts, and the Board remains fully committed to conducting the Group's affairs in a transparent manner.

The Board

The Board is responsible for setting leadership standards for the Group, sponsoring and monitoring its principal businesses, securing financial and other resources to enable those businesses to pursue their strategic objectives, ensuring that the Group maintains appropriate internal control systems and ensuring effective relationships with shareholders are maintained.

Board Composition

The Board consists of an Executive Chairman, three Executive Directors and four independent Non-executive Directors. During the year, there have been seven appointments to the Board and five Directors have left the Board.

Independence

The Board considers that all of the Non-executive Directors are independent of the Company as defined by Code Provision A.3.1. 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 coordinator and bookrunner at the time of the Company's Listing in December 2003.

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

Corporate Governance Report *continued*

had no prior 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.

Mr Mehta left the HSBC Group within a month of the Company's Listing. Prior to Mr Mehta's appointment to the Board, different members of the Board met with Mr Mehta as a result of which they concluded that he would bring clarity of thought and an independent perspective to the Board's discussions, as well as valuable banking experience. This was felt to be especially pertinent in the light of the Group's bond issue and other corporate finance activity. Consequently, the Board does not consider that Mr Mehta's past involvement with the HSBC Group would be likely to affect his judgment as a Director.

Mr Macdonald left the HSBC Group in 2002, over a year before the Company listed on the London market. Similarly, the Board believes that Mr Macdonald's experience of international commercial banking will be of great value to the Company and that he will bring an independent perspective to the Board's discussions. Consequently, the Board does not consider that Mr Macdonald's past involvement with the HSBC Group would be likely to affect his judgment as a Director.

Relationship Agreement

At the time of Listing, Volcan and the Company entered into the Relationship Agreement to regulate the ongoing relationship between them. The principal purpose of the Relationship Agreement is to ensure that the Group is capable of carrying on its 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 comprise a majority of Directors who are independent of Volcan and the Agarwal Family, and the Remuneration and Audit Committees shall at all times consist only of Non-executive Directors. Volcan is entitled to nominate for appointment as Director such number of persons as is one less than the number of Directors who are independent of Volcan, the Agarwal Family and their associates.

Executive Chairman, Chief Executive and Senior Independent Director

On 23 March 2005, the Board appointed Mr Anil Agarwal as Executive Chairman and Mr Kaura, previously Chief Operating Officer, was appointed to the Board as Chief Executive. The Executive Chairman, as agreed by the Board, will be 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, will be primarily responsible for 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.

The Executive Chairman is also a director of Sterlite Gold Limited, which, by virtue of having the same controlling party as the Company, is regarded as a related party of the Group.

Mr Navin Agarwal was appointed Deputy Executive Chairman on 1 June 2005, to provide support to the Executive Chairman.

Mr Chandra is the Company's Senior Independent Director, having been appointed to that role on 24 November 2004. The principal duties of the Senior Independent Director are: to be available to shareholders to discuss any concerns they may have about the running of the Company, especially where the normal channels of communication would not seem appropriate; and to lead discussions at meetings of the independent Non-executive Directors.

Board Appointments

Over the course of the year, the Board has sought to improve the balance of the Board by appointing Non-executive Directors with a breadth of skills and experience to support the Executive Directors in implementing the Group's strategy. The composition of the Board combines specialist knowledge of the economic, political and market environments within which the Group operates with expertise of international mining. This has been achieved by the appointments of Messrs Naresh Chandra (who brings good knowledge of the Indian political and economic environment to the Board), Aman Mehta (banking and Asian capital markets), Dr Shailendra Kumar Tamotia (metals and mining expertise, especially in India) and Mr Euan Macdonald (international corporate banking experience). As previously announced on 24 March 2005, the Board intends to appoint a further UK-based senior independent Non-executive Director.

Mr Kaura was appointed to the Board as Chief Executive on 23 March 2005. In order to give a greater management presence on the Board and to improve communication with the Executive Committee, Mr Navin Agarwal was appointed as an Executive Director on 24 November 2004. Both appointments were made on the recommendation of Mr Anil Agarwal as the then Chief Executive and subsequently approved by the Nominations Committee. Mr Navin Agarwal's appointment as an Executive Director was by virtue of his responsibilities and experience since joining Sterlite at its inception, and not as an appointee of Volcan pursuant to the Relationship Agreement.

Corporate Governance Report *continued*

Board Attendance

During the year, the Board has met six times for full scheduled meetings, the Audit Committee has met three times, the Remuneration Committee, four times and the Nominations Committee, three times. Attendance of members at Board and committee meetings, of which they have been given notice, is set down in the following table:

	Changes during year	Board	Audit	Nominations	Remuneration
Current directors					
AK Agarwal	–	6/6	–	3/3	–
N Agarwal	Appointed 24/11/04	1/1	–	–	–
KK Kaura	Appointed 23/03/05	–	–	–	–
PE Sydney-Smith	–	6/6	–	–	–
N Chandra	Appointed 18/05/04	5/6	1/1	3/3	2/2
ER Macdonald	Appointed 23/03/05	–	–	–	–
A Mehta	Appointed 24/11/04	1/1	1/1	–	–
SK Tamotia	Appointed 24/11/04	2/2	–	1/1	–
Previous directors					
P Chidambaram	Resigned 22/05/04	0/1	–	–	0/1
BP Gilbertson	Resigned 06/07/04	2/2	1/1	–	–
Sir D Gore-Booth	Died 31/10/04	5/5	1/1	–	3/3
WMT Fowle	Resigned 23/03/05	6/6	2/2	2/2	4/4
J-P Rodier	Appointed 14/06/04 Resigned 23/03/05	6/6	2/2	3/3	–

Only members of a Board committee are entitled to attend the relevant committee's meetings, although other Directors may attend Board committees at the invitation of the relevant committee chairman.

During the year, separate meetings were held respectively involving the previous Chairmen meeting with the Non-executive Directors, and the Senior Independent Director meeting with the Non-executive Directors.

Board Development

The Board has established procedures for providing formal induction for the new Non-executive Directors, taking into account their existing qualifications and experience. These procedures include meetings with senior management and the Company's lawyers, brokers and external auditors.

Board Administration

The Board has an agreed schedule of matters reserved to it, which has been updated since Listing, and newly adopted terms of reference for Board committees. Most operational decisions are delegated to the Executive Committee and the boards of subsidiary companies.

The Executive Committee provides a conduit for keeping the Board informed of Group performance and developments. It consists of the Executive Directors and senior management who head up the Group's principal operations and functions. The Executive Committee meets monthly to consider corporate matters and has regular reviews with the executive teams from each of the principal subsidiaries. The biographies of the Directors and members of the Executive Committee appear on pages 46 and 47.

In view of the presence of a significant number of Board members at the monthly meetings of the Executive Committee and the existing subsidiary board infrastructure, routine meetings of the Board are now scheduled quarterly to coincide with the approval of the quarterly results, with additional meetings being set as and when required to deal with matters that fall outside this timetable. The Board has established procedures for the timely circulation of papers prior to Board meetings.

The Company Secretary is appointed and removed by the Board and provides administrative services to the Board.

Arrangements have been made for Directors to receive independent professional advice in the performance of their duties at the Company's expense, if they require it. Directors are entitled to have concerns raised about the running of the Company recorded in Board minutes. The Company has put suitable directors' and officers' liability insurance cover in place.

The Notice convening the forthcoming AGM is included within the accompanying Chairman's letter. This provides full details of the resolutions being proposed to re-appoint Directors appointed during the year and those retiring by rotation. The Board fully supports all of the re-appointment resolutions being put forward at the AGM.

Corporate Governance Report *continued*

Relations with Shareholders

The Board is responsible for ensuring an effective dialogue between the Company and its shareholders. Formal communication with shareholders is mainly through meetings with the Executive Directors, including the Chairman, Chief Executive and Finance Director. The Board is regularly briefed by the Head of Investor Relations, Mr John Smelt, on the Company's relationships with its shareholders.

The Company announces its results on a quarterly basis (in full for the preliminary and interim announcements and in abbreviated form in the intervening quarters). Analysts' presentations involving the Executive Directors are made following the release of the interim and year end results. Analyst and shareholder visits have been arranged in India and, following the KCM acquisition, Zambia.

The Chairmen and the Senior Independent Director have been available to discuss issues and concerns of major shareholders during the year and opportunities for such meetings are offered to major shareholders, through the Company's brokers. Contact with the Chairman and/or the Senior Independent Director may be made directly or through the Head of Investor Relations. The Non-executive Directors are also available to meet as and when such meetings are requested.

The interim and annual reports remain the primary means of communicating with the Company's shareholders. The Company's website (www.vedantaresources.com) was relaunched during the year to strengthen communications with investors and includes press releases, financial reports and other information of interest. The Company has considered the possibility of using electronic means of communicating with shareholders but has concluded that it does not have a sufficiently large share register to enable it to achieve major savings or efficiency by utilising electronic communications further, over and above those facilities already available for electronic communications within the CREST share trading system.

The Board is happy to encourage the constructive use of the Company's annual general meeting for shareholder communication. At the forthcoming AGM, an update on trading will be given on the performance of the Group prior to the formal business of that meeting. Shareholders will be provided with the opportunity to ask questions of the Board and the chairmen of the various Board committees, and to present their views. Separate resolutions will be proposed on each substantially separate issue put before the meeting. At the 2004 AGM, the level of proxies cast for each resolution was communicated following approval of each resolution and a similar approach will be taken at the forthcoming AGM. Details of proxy voting will be placed on the Company website. The AGM will be convened giving at least 20 working days' notice.

Nominations Committee

The terms of reference of the Nominations Committee have been revised during the year to bring them in line with the recommendations of the Code. The terms of reference are available upon request from the Company Secretary.

In conjunction with the consultation of Volcan pursuant to the Relationship Agreement, the Nominations Committee has a role in reviewing the size and composition of the Board, particularly the balance between Executive and Non-executive Directors, and advising the Board on proposed appointments of new Non-executive Directors. It drew up a list of criteria to be used in assessing potential new appointments to the Board and this was used as part of the selection process for new Non-executive Directors appointed during the year. In view of the desire to recruit Non-executive Directors with appropriate skill sets and experience gained in India and/or in the international mining sector, the Nominations Committee felt that the Directors' contacts would be better placed to identify suitable candidates for appointment than by employing an external search consultancy or open advertising. In the process of appointment, a number of candidates were recommended by Directors, considered for appointment and selected based on the pre-agreed set of criteria.

The Chairman is also chairman of the Nominations Committee and consequently Mr Anil Agarwal was appointed Chairman of the Nominations Committee on 1 June 2005. During the year, Messrs Gilbertson and Fowle served as Chairmen of the Nominations Committee. Sir David Gore-Booth chaired the Board when it considered the appointment of Mr Fowle as Chairman and Mr Chandra chaired the Nominations Committee and the Board when it considered the appointment of Mr Agarwal as Chairman. The other members of the Nominations Committee are Messrs Chandra and Macdonald and Dr Tamotia.

The Executive Directors' service agreements and terms of appointment for the Non-executive Directors are available for inspection at the Company's registered office and head office.

Remuneration Committee

The Remuneration Report, providing a statement on the Company's policy on Directors' remuneration, benefits, share scheme entitlements and pension arrangements is set out on pages 55 to 61. A resolution to approve the Remuneration Report will be proposed at the forthcoming AGM.

Corporate Governance Report *continued*

The terms of reference of the Remuneration Committee have also been revised during the year and are available upon request from the Company Secretary. Following the death of Sir David Gore-Booth in October 2004, Mr Naresh Chandra was appointed Chairman of the Remuneration Committee on 24 November 2004, having previously been appointed to the Remuneration Committee on 14 June 2004. The other members of the Remuneration Committee are Messrs Macdonald and Mehta.

Audit Committee

The role of the Audit Committee has been reviewed during the year in the light of the Code and the Smith Guidance incorporated into the Code. The terms of reference of the Audit Committee have also been revised in the light of the Smith Guidance. The terms of reference are available upon request from the Company Secretary.

The primary role of the Audit Committee has been confirmed in the new terms of reference as principally being to oversee:

- the integrity of the financial reporting system of the Group;
- the Group's approach to risk and internal controls;
- the effectiveness of the Group's internal audit activity;
- the Group's relationship with its external auditors; and
- compliance with relevant statutory and required financial reporting standards, including corporate governance disclosures.

In addition to the requirements of the Code, the Group subsidiary companies, by virtue of their listings on Indian stock exchanges, have their own audit committees, which are established in accordance with Indian corporate governance requirements. This provides a second level of financial oversight below the Audit Committee, which also monitors the discussions and findings of the Group's subsidiary audit committees.

Mr Mehta is the chairman of the Audit Committee, having been appointed on 24 November 2004. The other members of the committee are Messrs Chandra and Macdonald. The Board considers that Mr Mehta has recent and relevant financial experience by virtue of his roles at HSBC Bank and his experience on the audit committees of other international companies. Mr Chandra brings a strong understanding of the Indian corporate governance environment to the Audit Committee (having chaired the Government of India's Committee on Corporate Governance). Three Audit Committee meetings have been held during the year, of which one meeting was dedicated to reviewing and approving policies and procedures to ensure that the Company can achieve full compliance with the financial reporting and internal control principles set out in Part C of Section 1 of the Code.

Financial Reporting and Going Concern

In presenting the annual and interim financial information, and similar significant publications, the Board aims to present a balanced and understandable assessment of the Group's position and prospects. The Audit Committee has adopted a procedure setting out responsibilities for the Group's financial reporting infrastructure. The procedure incorporates the review of the Financial Statements and related documents, and the process for recommending approval of the Financial Statements to the Board and their audit clearance by the external auditors. The Committee also reviews the external auditors' management letter (with a follow-up review of management responses). It also reviews the basis on which the Board makes its statement regarding going concern.

The Board has adopted the going concern basis in preparing the Financial Statements, as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This expectation is based on the most recently approved funding plan which reflected the 2005/06 budget and funding forecasts used to support the Group's recent credit ratings by Standard and Poor and Moody's; the use of the net proceeds of $825 million raised at the time of Listing and funds raised, in two tranches during the year, through the issue of the $600 million bond; and the requirements of the Group's $2.2 billion capital expansion programme. The funding plan also reflects the committed borrowing facilities available to the Group. The Board also took into account potential contingent liabilities and other risk factors.

Risk Management

Following the review of risks at the time of the Company's Listing, an ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been introduced which accords with the Turnbull Guidance incorporated into the Code. This involves a continual review and prioritisation of risks throughout the Group and the identification of risk mitigation control strategies. There is a clear accountability for the identified prioritised risks.

Corporate Governance Report *continued*

The Executive Committee has approved the risk management process and regularly reviews information on the Group's significant risks, along with relevant control and monitoring procedures, for completeness and accuracy. In addition, the Executive Committee also reviews strategic risks and opportunities arising from changes in the Group's business environment.

The Audit Committee, on behalf of the Board, annually reviews the effectiveness of the Group's system of internal control in the context of the Turnbull Guidance. Up to the date of approval of this Annual Report, the Directors are satisfied that the Group has an ongoing process for identifying, managing and evaluating risks which meets the Turnbull Guidance.

Internal Control

The Board acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. The principal aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders' investments and safeguarding the Group's assets. Due to the limitations inherent in any such system, this is designed to manage rather than eliminate risk. Accordingly, it provides reasonable, but not absolute, assurance against material misstatement or loss.

Regular Group-wide cross-discipline management reporting, which provides a balanced assessment of key risks and controls, is an important component of Board assurance on the internal control environment. In addition there is a dedicated committee focussing on the specific risks of health, safety and environment which provides assurance to the Board on these matters.

The Group operates a comprehensive annual planning, financial reporting and forecasting process. The Board formally approves a strategic plan and the annual budget. The Group's performance is monitored against the budget on a monthly basis by the Executive Committee, and on a quarterly basis by the Board, and significant variances are reviewed. The Audit Committee also receives a twice yearly review of all material tax exposures and material litigation undertaken by or against the Group, and considers the associated risks.

Each of the Group's principal subsidiaries has in place procedures to ensure that sufficient internal control is maintained. These procedures include monthly meetings of each subsidiary's management committee and a quarterly meeting of the audit committee of that subsidiary. The board of directors of the relevant subsidiary appoint these committees.

Internal Audit

The Group's internal audit activity is managed through a single Group-wide Management Assurance function, which is supported by the services of leading international accountancy firms, other than the Group's external auditors. Internal audit is an important element of the overall process by which the Board obtains the assurance it requires that the risks are being properly identified, managed and controlled. The responsibilities of the internal audit function include recommending improvements in the control environment and ensuring compliance with the Group's procedures and policies. Ordinarily, significant operational units are audited on a monthly basis and significant head office and administrative units are audited quarterly.

The Audit Committee approves the resourcing of the Management Assurance function, who have access to management and the Audit Committee. The scope of work and resources of the Management Assurance function are periodically reviewed by the Audit Committee to ensure that it is adequate in light of the key risks facing the Group and other monitoring functions in place. It also reviews the risk assessment and audit plan prepared by the Management Assurance function on an annual basis. Whilst the Audit Committee routinely meets with both the internal and external auditors to discuss matters of internal control, it also receives reports on the significant findings of internal audits that have been undertaken. Follow-up actions by management noted in internal audit reports and the external auditors' management letter are tracked by the Management Assurance function to ensure that they have been implemented.

The Head of Management Assurance, Mr Raajeev Batra, attends meetings of the Audit Committee and has reporting lines to the chairman of the Audit Committee and the Chairman, if necessary.

The Audit Committee has set down the criteria by which it will assess the effectiveness of internal audit activities on an annual basis.

External Audit

Assessment: The Audit Committee has established a procedure by which it will consider and make recommendations to the Board as appropriate concerning the appointment, re-appointment or removal of the external auditors. The Audit Committee annually assesses the qualification, expertise and effectiveness of the external auditors. It has also established criteria by which the independence and objectivity of the external auditors will be assessed. It proposes to use these criteria following the current audit.

Corporate Governance Report *continued*

Independence: The Audit Committee has considered potential risks to the independence of the external auditors, in particular:

- the Self-interest threat – the auditors could benefit from a financial interest in the client;
- the Self-review threat – the auditors may be reviewing their own work;
- the Advocacy threat – the auditors are involved in promoting the client's interests;
- the Familiarity threat – because of their relationship, the auditors may be too sympathetic to the client's interests; and
- the Intimidation threat – the auditors may be put in a situation where they are pressurised by the client.

The Audit Committee's criteria for assessing the independence and objectivity of the external auditors aim to minimise the possibility of these threats crystallising. To support this, policies concerning the employment of former employees of the external auditors and the use of the external auditors to perform non-audit services have been adopted.

In regard to the latter, the Audit Committee has distinguished between services relating to the statutory audit and related services that must be completed by the external auditors (for example, the bond issue assurance work); non-audit services that the external auditors could perform (for example, merger & acquisition due diligence work and tax advisory services); and non-audit services that the external auditors should not perform as they present a high risk of conflict based on advice issued by the UK Auditing Practices Board and the Institute of Chartered Accountants in England and Wales (for example, work on accounting records, internal audit and IT consultancy). The Audit Committee believes that there are certain non-audit services for which it is cost-effective for the external auditors to be used and which do not constitute any discernible threat to their independence. Any non-audit service assignments for fees in excess of $100,000 may only be awarded to the external auditors after competitive tender, and with the prior approval of the Finance Director. During the year, the only significant non-audit work undertaken by the external auditors was the due diligence work in connection with the KCM acquisition, the fees for which amounted to $200,000 and which was awarded to the external auditors after competitive tender.

A panel of accounting firms (which does not include the current external auditors) are invited to tender for non-audit work as and when necessary. This policy is consistent with the ethical standards recommended by the Auditing Practices Board.

The Audit Committee approves the scope of the year end audit, approves the terms of engagement and then reviews the findings of the auditors following the completion of each audit.

Other Audit Committee Activity

The Audit Committee has reviewed the arrangements by which staff of the Company or any Group subsidiary may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. A procedure had already been included in the code of ethics adopted by the Indian operating companies. The existing version was considered to provide a suitable set of guidelines and has been re-affirmed. This is being revised and upgraded to take account of issues raised by the Code and other relevant regulatory requirements in the UK.

Remuneration Report

Introduction

The Remuneration Report sets out the remuneration policies and practices adopted by the Company during the year ended 31 March 2005 in respect of members of the Board.

The Group's operations are primarily managed in India and the senior management team is largely based there. It is not possible, therefore, to gain a meaningful understanding of the Company's approach to Executive Directors' remuneration without putting it into the context of the wider management structure. This Remuneration Report therefore also sets out the remuneration policies and practices relating to the Executive Directors in this broader Group context.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the "Regulations"). Part II of this report contains the information on which the auditors are required to report to the Company's members.

PART I

Remuneration Committee (the "Committee")

The Chairman of the Committee is Mr Naresh Chandra, who was appointed to this role on 24 November 2004, having previously been appointed to the Committee on 14 June 2004. The other members of the Committee are Messrs Euan Macdonald and Aman Mehta.

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 Group ("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 KK Kaura, in his capacity as Chief Executive, attend meetings of the Committee by invitation. No Director plays a part in any discussions about his own remuneration. The Committee has involved Mr S Venkatesh (Head of Human Resources), in his capacity as Minutes Secretary to the Committee, in determining the remuneration and benefits offered to the Executive Directors during the year, and the Committee has also consulted Mr Anil Agarwal to a lesser degree in this regard.

During the year, the Committee sought independent advice from PricewaterhouseCoopers LLP ("PwC"), in their capacity as remuneration advisers to the Committee, concerning remuneration levels for certain of the Directors. PwC provided no other services to the Company in the UK during the year. The Indian associate firm of PwC provided internal assurance services to the Group during the year. The Australian associate firm of PwC are the external auditors to one of the Group's operating companies in Australia, Thalanga Copper Mines Pty Limited. PwC are no longer the remuneration advisers to the Committee.

The Committee's terms of reference have been reviewed during the year to ensure that they reflect the recommendations of the Code. A copy of the terms of reference of the Committee is available from the Company Secretary.

Remuneration Policy

Over the past few years, the Group has moved its emphasis away from developing the capability of its senior management team through active external recruitment, towards a policy of developing management from within the existing operations. Consequently, the remuneration policies adopted by the Group are less concerned about remuneration packages that support an aggressive approach to the recruitment of senior managers, seeking rather to ensure the continued retention and incentivisation of managers. This principle applies to the Executive Directors and Senior Management Group as a whole, most of whom are located in India, and who are critical to ensuring the successful management of the Group's activities and implementation of the strategy.

The policy of the Group, therefore, is to reward the management competitively, enabling the Group to motivate and retain high calibre executives. The Group is particularly concerned to ensure that managers are motivated and incentivised to continue to perform at the highest levels.

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 industrial sectors (in respect of operational management) and in all sectors (in respect of corporate and supporting functions).

Remuneration Report *continued*

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 personal Key Result Areas ("KRA's") and the financial performance of the Group;
- awards under the LTIP, referred to below, to incentivise long-term and strategic performance; and
- benefits in kind in accordance with local market practice.

Salaries, Pensions and Other Benefits

Salaries and Cost to Company

Salaries for the UK-based Executive Directors are established by reference to those prevailing in the employment market for company directors in the mining sector and comparable UK listed companies.

In India, salaries for Executive Directors and members of the Senior Management Group are set by reference to those positions of comparable status, skills and responsibility in the metals and mining industries, and in the manufacturing and engineering industries more generally. 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 which have been augmented by letters of appointment with the Company. On the dates of their respective appointments to the Board until 31 March 2005, Mr Navin Agarwal was entitled to CTC of INR 20,001,264 per annum and Mr Kaura was entitled to CTC of INR 12,500,000 per annum, pursuant to their Sterlite service agreements. Letters of appointment were also agreed with Vedanta, under which Messrs Navin Agarwal and Kaura are each to be paid fees of £50,000 per annum, to reflect the amount of time that they spend on Board business.

Messrs Navin Agarwal's and Kaura's remuneration have been set by reference to individuals with comparable roles and responsibilities in similar sized organisations in India.

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 1 June 2005, to take effect from 1 April 2005, are as follows:

	Designation	Vedanta salary level from 1 April 2005 (£)	Sterlite salary level from 1 April 2005 (INR)	Total (£ Equivalent*)
Anil Agarwal	Executive Chairman	467,500	–	467,500
Navin Agarwal	Deputy Executive Chairman	50,000	22,001,390	326,400
KK Kaura	Chief Executive	50,000	13,750,000	222,700
Peter Sydney-Smith	Finance Director	275,000	–	275,000

(*) Using an exchange rate of INR 79.61: £1

Pensions

The Company does not provide pension benefits to either Mr Anil Agarwal or Mr Sydney-Smith and this is reflected in the determination of their overall remuneration packages. The Indian-based Executive Directors are entitled to membership of the Central Provident Fund and a Superannuation Fund which provide pension benefits consistent with local market practice. These are defined contribution pension arrangements. Contributions to the Central Provident Fund and Superannuation Fund are included within the CTC payable to an individual in India.

Benefits in Kind

Benefits in kind provided to the UK-based Executive Directors are private medical insurance, life assurance and permanent health insurance. 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 Anil 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 practice, 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. Messrs Navin Agarwal and Kaura are provided with Company-owned and leased accommodation, respectively. Mr Kaura is also entitled to a mortgage subsidy, to reflect his move to Mumbai following his appointment as Chief Operating Officer in December 2003, although no such benefit in kind was received during the year ended 31 March 2005.
Mr Navin Agarwal was also reimbursed club membership fees.

Remuneration Report *continued*

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 demanding 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 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 all set by reference to personal KRA's and the financial performance of the Group. The majority of KRA targets relate to financial or operational measures, however certain KRA's monitor performance in respect of softer issues, or "enablers", for example, people management and environmental performance.

For the year ended 31 March 2005, the payment of the annual bonus was dependent on the achievement of a combination of individual and corporate objectives, which closely 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 KRA's, 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 an 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 LTIP

The Group intends that the LTIP will be the primary arrangement under which share-based incentives will be provided to the Executive Directors and Senior Management Group. The Committee has decided to change the timing of the main awards under the LTIP to bring them in line with the Group's financial reporting cycle. This will enable future grants to be awarded on the basis of performance during the previous financial year, as well as being subject to the performance conditions described below. During 2005, the Committee will grant the main awards under the LTIP following the announcement of the Group's results. A small number of awards were granted at the meetings in June 2004 and November 2004 for senior managers who joined the Group after the last main award in February 2004. After November 2004, the majority of awards are expected be made on an annual basis following the announcement of the Group's results.

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 Kaura salary means the aggregate of their salary payable by Vedanta and their CTC payable by Sterlite. The maximum value of shares that can be awarded to members of the Senior 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 constituting the FTSE Worldwide Mining Index (excluding precious metals) from the date of grant. The extent to which an award vests will depend on the Company's TSR rank against the 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 and rounding down to the nearest whole share.

Vedanta's TSR Performance against Index	% of Award Vesting
Below median	0
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 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 Senior Management Group with those of the shareholders.

No awards will vest unless the Committee is satisfied that the Company's TSR performance reasonably reflects the Company's underlying financial performance.

Details of the awards held by the Executive Directors at 31 March 2005 are shown in the table of "Directors' Long Term Incentive Awards" on page 61.

Remuneration Report *continued*

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.

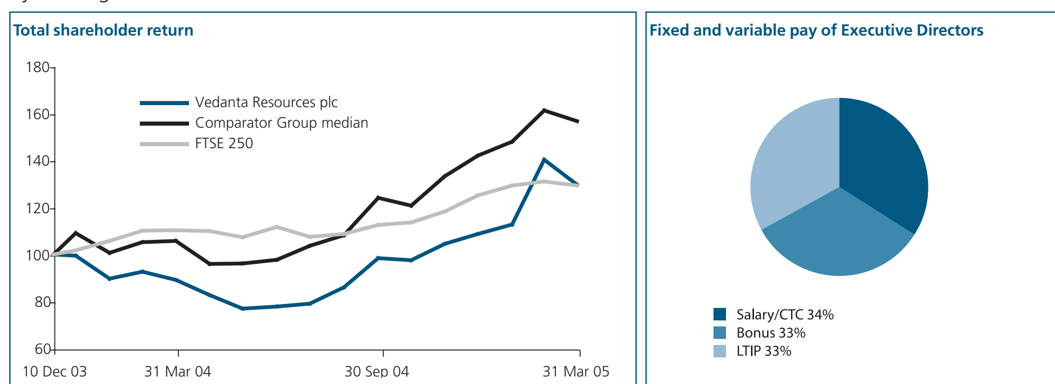
Under the Reward Plan, awards were made in respect of 776,000 shares on 26 February 2004 and vested in two instalments. The first half of the award vested immediately and the shares were issued on 31 March 2004. The other half of the award, vested on the first anniversary of the date of award (subject generally to the employees' continued employment at that date). Consequently a total of 388,000 shares were issued on 18 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. Two Executive Directors – Messrs Navin Agarwal and Kaura – received vested shares under the Reward Plan, although, in both cases, the initial awards were made prior to their appointments to the Board.

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.

Total Shareholder Return Performance Graph

The graph below shows the TSR performance of the Company in comparison with that of the FTSE 250 Index and the FTSE Worldwide Mining Index (excluding precious metals) for the period from 10 December 2003 (the date of Listing) to 31 March 2005. The FTSE 250 Index has been chosen as a suitable comparator index because it comprises UK listed companies of similar size and complexity to the Company. The FTSE Worldwide Mining Index (excluding precious metals) is presented as it is the comparator group for the LTIP. To provide more detail, the graph presents performance on a monthly basis rather than using year end dates as required by the Regulations.



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 above right demonstrates the balance of fixed and variable pay in these circumstances for the Executive Directors.

Executive Directors' Service Contracts

Mr Anil Agarwal and Mr Sydney-Smith are both employed under contracts of employment with the Company which may be terminated by not more than six months' and twelve months' notice, respectively. Provision is made in both their contracts for payments 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. For Mr Sydney-Smith this would equate to basic salary and bonus during the notice period or part thereof.

For both Messrs Navin Agarwal and Kaura, their letters of appointment with Vedanta may be terminated by giving six 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 the Company and Sterlite will automatically expire on 30 June 2006, being the expiry date specified in his Sterlite contract. 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 the Company is a rolling contract. The Sterlite contracts and the Vedanta letters of appointment may be renewed.

Remuneration Report *continued*

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 commitment 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 Fees
The Chairman's fees are approved by the Board (without the Chairman being present) on the recommendation of the Committee.

Mr Agarwal's salary as Chief Executive was not changed following his appointment as Executive Chairman.

On his appointment Mr Fowle's fees were increased to £250,000 per annum. The Committee took advice on market fee levels in comparable companies in setting Mr Fowle's fees. On his departure from office on 23 March 2005, Mr Fowle was paid 12 months' pay in lieu of notice.

Mr Gilbertson was paid £91,000 during the period from 1 April 2004 until his resignation on 5 July 2004. He was also paid compensation of £24,000 in lieu of notice as his letter of appointment expired at the time of the Company's first annual general meeting held on 29 July 2004.

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 20 days per year on Company business. There are no provisions in the Letters of Appointment of the Non-executive Directors for compensation to be paid in the event of early termination.

Individual Service Contract Details

	Date of Contract	Notice Period	Outstanding Term
AK Agarwal	27 Nov 2003	6 months	6 months
N Agarwal (Vedanta)	4 May 2005	6 months	6 months
N Agarwal (Sterlite)	1 August 2003	3 months	Until 31 July 2008
KK Kaura (Vedanta)	4 May 2005	6 months	Until 30 June 2006
KK Kaura (Sterlite)	20 October 2004	3 months	Until 30 June 2006
PE Sydney-Smith	27 Nov 2003	12 months	12 months
N Chandra	1 June 2005	3 months	Until 1 June 2006
ER Macdonald	23 March 2005	3 months	Until 22 March 2008
A Mehta	24 Nov 2004	3 months	Until 23 Nov 2007
SK Tamotia	24 Nov 2004	3 months	Until 23 Nov 2007

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 of Volcan in the cases 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 Mr Anil Agarwal's and Mr 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 adopted 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 ten years. Up to 5% of the Company's issued share capital may be used for the Company's discretionary schemes over a ten-year period. Shares issued or issuable pursuant to awards made under the Reward Plan are not counted for these purposes. Currently 0.53% of the Company's issued share capital is issuable in respect of outstanding awards under the LTIP.

Remuneration Report *continued*

PART II (Audited)
Directors' Remuneration
Year ended 31 March 2005

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 March 2005 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.

	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]	425	–	106	22	553
N Agarwal[2] [5]	102	–	60	10	172
KK Kaura[3] [5]	5	–	38	–	43
PE Sydney-Smith[4]	250	–	63	8	321
Non-executive Directors					
N Chandra	61	–	–	–	61
ER Macdonald	2	–	–	–	2
A Mehta	26	–	–	–	26
SK Tamotia	26	–	–	–	26
Previous Directors					
P Chidambaram[6]	–	–	–	–	–
BP Gilbertson	91	24	–	–	115
Sir D Gore-Booth	40	–	–	–	40
WMT Fowle[7]	200	250	–	3	453
J-P Rodier	56	–	–	–	56
Total	**1,284**	**274**	**267**	**43**	**1,868**

[1] Mr Anil Agarwal's benefits in kind include private health insurance, life assurance, permanent health insurance 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, reimbursement of club membership fees and provision in India of Company-owned accommodation and a car, driver and fuel for business and personal purposes.
[3] Mr Kaura's benefits in kind include private health insurance, accident insurance, and provision in India of Company-leased accommodation and a car, driver and fuel for business and personal purposes.
[4] Mr Sydney-Smith's benefits in kind include private health insurance, life assurance and permanent health insurance.
[5] The performance bonuses in respect of Messrs Navin Agarwal and Kaura relate to the year ended 31 March 2005, although their appointments as Directors were made part way during the financial year.
[6] Mr Chidambaram, a previous Non-executive Director, waived his entitlement to fees upon his resignation as a Director on 22 May 2004. His waiver related to fees for the period ended 31 March 2004 which amounted to £23,000 and fees for the year ended 31 March 2005 which amounted to £10,000. The fees for the previous year were accrued in the Company's prior year accounts, and accordingly, the accrual was reversed during the year ended 31 March 2005.
[7] Mr Fowle's benefits in kind includes the payment of legal advice by the Company, on his behalf, relating to agreeing his letter of appointment as Chairman of the Company.

Year ended 31 March 2004

The following table sets out the pre-tax remuneration of Directors during the year ended 31 March 2004 who held office in the Company after its Listing on 10 December 2003. The remuneration has been analysed between the periods pre and post-Listing as the Company's remuneration arrangements only took effect from 10 December 2003. Prior to this date, Mr Anil Agarwal had a service contract with Sterlite and received remuneration pursuant to this contract. Mr Sydney-Smith and Sir David Gore-Booth also received fees pursuant to consultancy arrangements in place prior to the Listing. Save as noted herein, no other emoluments were received by any other Director of the Company. All amounts are in UK pounds sterling.

	Period from 1 April 2003 to 9 December 2003 £'000	Period from 10 December 2003 to 31 March 2004 £'000
Executive Directors		
AK Agarwal	335	129
PE Sydney-Smith	82	110
Chairman		
BP Gilbertson	–	132
Non-Executive Directors		
Sir D Gore-Booth	10	20
WMT Fowle	–	25
Total	**427**	**416**

Remuneration Report *continued*

Directors' Long Term Incentive Awards

	Options					
	At 1 April 2004 (or date of appointment if later)	Granted	At 31 March 2005	Exercise Price $	Earliest exercise date	Latest exercise date
AK Agarwal	120,000	–	120,000	0.10	26 Feb 2007	26 Aug 2007
N Agarwal	50,000	–	50,000	0.10	26 Feb 2007	26 Aug 2007
KK Kaura	50,000	–	50,000	0.10	26 Feb 2007	26 Aug 2007
PE Sydney-Smith	50,000	–	50,000	0.10	26 Feb 2007	26 Aug 2007

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 company of the FTSE Worldwide Mining index (excluding precious metals) 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 2005 was 471 pence and from 1 April 2004 to 31 March 2005 the share price varied between 270 pence and 510 pence. No options to Directors were granted, lapsed or exercised in the year ended 31 March 2005.

Directors' Interests in Ordinary Shares

The interests of the Directors (which are beneficial unless otherwise stated) in Ordinary Shares as at 31 March 2005 were:

Number of Ordinary Shares held in the Company	At 31 March 2005	At 1 April 2004 (or date of appointment if later)
AK Agarwal[1]	154,157,911	154,157,911
N Agarwal[2]	200,000	100,000
KK Kaura	50,000	50,000
PE Sydney-Smith	13,000	13,000
N Chandra	–	–
ER Macdonald	–	–
A Mehta	–	–
SK Tamotia	–	–

[1] Mr Anil Agarwal has an interest in the 154,157,911 Ordinary Shares held by Volcan Investments Limited.
[2] At the date of his appointment, Mr Navin Agarwal was also interested in 100,000 Ordinary Shares, being the number of shares outstanding in respect of the second tranche of awards under the Reward Plan. These shares are now beneficially held by Mr Navin Agarwal.

The Executive Directors are also regarded as having an interest in shares to which awards are attached under the LTIP as set out above.

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 held one share in each of Sterlite Opportunities and Ventures Limited, Sterlite Paper Limited, Vedanta Alumina Limited and Sterlite Copper Limited as a nominee for Sterlite. Mr Navin Agarwal held one share in each of Sterlite Opportunities and Ventures Limited, Sterlite Paper Limited and Sterlite Copper Limited as a nominee for Sterlite. Mr Kaura held one share in Vedanta Alumina Limited as a nominee for Sterlite. These companies are indirect subsidiaries of the Company.

There have been no changes in the beneficial shareholdings of the Directors between the end of the financial year and 1 June 2005.

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

1 June 2005

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 2005.

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 mining, smelting and refining operations; and
- 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, acquired during the year, and two copper mines in Australia, the Group's operations are all located in India. The principal subsidiaries and associated undertakings of the Group are listed in note 42 to the Financial Statements.

Business Review and Future Developments

The Chairman's Statement on pages 4 and 5, the Chief Executive's Review on pages 8 to 14 and the Financial Review on pages 18 to 30 provide a review of the business during the year and likely future developments.

Financial Results

The audited Financial Statements are presented on pages 68 to 117. Group turnover and operating profit for the year ended 31 March 2005 amounted to $1,884.2 million (2004: $1,289.5 million) and $331.8 million (2004: $237.1 million), respectively. Attributable Profit was $120.0 million compared to $72.3 million in the prior year.

Dividend

The Directors recommend a final dividend for the year ended 31 March 2005 of 11.55 US cents per Ordinary Share (2004: 5.5 US cents per Ordinary Share). Subject to the approval of shareholders, the final dividend will be paid on 19 August 2005 to shareholders on the register of members as at 22 July 2005.

Taken together with the interim dividend of 5.5 US cents per Ordinary Share declared on 24 November 2004 and paid to shareholders on 14 January 2005, the total dividend for the year is 17.05 US cents per Ordinary Share (2004: 5.5 US cents per Ordinary Share).

The Board has decided to offer shareholders the option of receiving dividends in UK pounds sterling. A rate of £0.537 to the US dollar was applied to the interim dividend resulting in an equivalent interim dividend of 2.9535 pence per Ordinary Share. An exchange rate of £0.550 to the US dollar will be applied to the final dividend resulting in an equivalent final dividend of 6.325 pence per Ordinary Share, making a total UK pounds sterling equivalent for the year of 9.306 pence per Ordinary Share.

Share Capital

On 18 and 31 March 2005, 303,000 Ordinary Shares and 85,000 Ordinary Shares, respectively, were allotted to executives of the Group as fully paid following the exercise of awards under the Reward Plan. These allotments represented the second tranche of shares under the Reward Plan. No further allotments will be made under the Reward Plan.

The Company's authorised share capital as at 31 March 2005 was $40,000,000 and £50,000, comprising 400,000,000 Ordinary Shares and 50,000 Deferred Shares, 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 286,776,000 Ordinary Shares each credited as fully paid.

As at the date of this report, there has been no other change to the authorised and issued share capital since 31 March 2005.

The authorised and issued share capital of the Company as at 31 March 2005 are also set out in note 22 to the Financial Statements.

Directors' Report *continued*

Significant Changes to the Group's Capital Structure

In May 2004, the Company injected $100 million into Vedanta Alumina Limited to progress the development of the alumina project. This investment was followed by an independent valuation of the assets jointly commissioned by the Vedanta and Sterlite boards which increased the Company's Economic Interest to 94%, with approximately 70% of those shares being held through a wholly owned subsidiary of the Company and the balance held by Sterlite.

A one-for-two rights issue was launched by Sterlite on 12 August 2004 and closed on 24 September 2004. The total proceeds of the rights issue were $434 million of which the Company subscribed $433 million. As a result of this subscription, the Company's direct interest and Economic Interest in Sterlite increased to 75% and 81% respectively.

In November 2004, the acquisition of a 51% interest in KCM in Zambia was completed for an initial consideration of $27.3 million with the total consideration expected to be $48.2 million, before the effect of discounting deferred consideration of $20.9 million and excluding acquisition expenses of $1.0 million.

In December 2004 and January 2005, the Company issued a total of $600 million 6.625% bonds due February 2010. The proceeds of the bond issue had been substantially remitted to India by 31 March 2005 for the funding of Group projects.

Post Balance Sheet Events

Enviromental Clearance – Sterlite

On 25 April 2005, the Group obtained the necessary clearances from the Government authorities to commence production of copper cathode at its expansion project at Tuticorin. The expansion project will increase the smelting capacity of Sterlite from 180,000 tpa to 300,000 tpa.

Commissioning of Zinc Smelter – HZL

On 31 May 2005, it was announced that the expanded smelter of HZL had been commissioned. The expansion project will increase the Group's refined zinc capacity from 220,000 tpa to 390,000 tpa.

Directors and Directors' Interests

The names, specific responsibilities and biographical details of the current Board of Directors are shown on page 46. Under the Company's articles of association, any Director appointed by the Board must retire at the annual general meeting following his or her appointment. At the forthcoming AGM, Messrs Navin Agarwal, KK Kaura, Aman Mehta and Euan MacDonald and Dr Shailendra Kumar Tamotia, being Directors appointed by the Board during the year, are being put forward for re-appointment. As Mr Naresh Chandra has reached the age of 70 since the last annual general meeting, he is seeking re-appointment to the Board. 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 Peter Sydney-Smith will retire at the forthcoming AGM and offer himself for re-appointment to the Board.

The following Directors held office during the year ended 31 March 2005:

	Appointed	Left Office	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
PE Sydney-Smith	14 November 2003	–	Finance Director
N Chandra	18 May 2004	–	Senior Independent 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 Directors			
WMT Fowle	14 November 2003	23 March 2005	Chairman
BP Gilbertson	4 December 2003	5 July 2004	Chairman
P Chidambaram	14 November 2003	22 May 2004	Non-executive Director
Sir D Gore-Booth	14 November 2003	31 October 2004 (*)	Non-executive Director
J-P Rodier	14 June 2004	23 March 2005	Non-executive Director

* Regretfully Sir David Gore-Booth died on 31 October 2004

Directors' Report *continued*

Details of the Directors' service contracts, emoluments, the interests of the 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 55 to 61.

A third party provision, as defined in section 309 B(1) of the Companies Act 1985, is in force for the benefit of each of the Directors.

Sustainable Development

The Group is committed to maintaining high standards of health and safety in its operations and ensuring the environment and communities in which its operations are located benefit from the Group's support. Details of the Group's approach to sustainable development is set out in the report on pages 31 to 45.

Charitable Donations

During the year, the Group made charitable donations of $2.8 million. The most significant charitable donations were $340,000 to relief funds associated with the Tsumami disaster, $820,000 to the Sterlite Foundation and $1.1 million to the Kahan-Raj Sarvoday Trust. The Sterlite Foundation and the Kahan-Raj Sarvoday Trust are charitable organisations working with the disadvantaged in the community.

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 is one of the primary conduits 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.

Political Donations

During the year, Sterlite made a donation of $1.3 million to the Public and Political Awareness Trust in India ("the Trust"), a trust whose principle objective is the promotion of political awareness in India. Further details are set out in note 30 to the Financial Statements.

The Board recognises that making political donations is a sensitive issue amongst shareholders and during the year has approved a policy concerning the payment of political donations. Under this policy, the Trust or Group companies do not make donations or contributions to political organisations within the United Kingdom or European Union.

Substantial Shareholdings

As at 1 June 2005, the Company has 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
Volcan Investments Limited[1]	154,157,911	53.76
Wellington Management Company LLC	8,627,885	3.01

[1] The Company has also been notified that Agnivesh Agarwal and DP Agarwal are indirectly interested in 154,157,911 Ordinary Shares (representing 53.76% of the Company's issued share capital) by virtue of their beneficial interest in shares in Volcan.

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 account 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' usual payment terms. Payment is made in accordance with contractual and other legal obligations, and reflects local market practices.

The Company is a holding company and, as such, has few suppliers. Trade creditor days of the Company at 31 March 2005 were 20 days (2004: 15 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 one point in time since the market values depend on commodity prices which fluctuate on a day-to-day basis.

Directors' Report *continued*

Auditors

A resolution to re-appoint the auditors, Deloitte & Touche LLP, will be proposed at the forthcoming AGM 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 audit fee on behalf of the Board.

Annual General Meeting Business

The second annual general meeting of the Company will be held at the City Presentation Centre, 4 Chiswell Street, London, EC1Y 4UP on Wednesday 3 August 2005 at 3.00pm. The Notice convening the AGM is included within the accompanying Chairman's Letter, together with details of the business to be considered, and full explanations of each resolution that is being proposed.

By order of the Board

Matthew Hird
Company Secretary

1 June 2005

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

Registered in England No. 4740415

Statement of Directors' Responsibilities

United Kingdom company law requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those 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;
- state whether applicable accounting standards have been followed; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Vedanta Resources plc

We have audited the Financial Statements of Vedanta Resources plc for the year ended 31 March 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 43. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' 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

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the Financial Statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the Directors' Remuneration Report. Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the 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. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, 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 transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the July 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 statements on internal control cover 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 Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' 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 Financial Statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 Financial Statements and the part of the Directors' 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 Financial Statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the profit of the Group for the year then ended and the Financial Statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
1 June 2005

Consolidated Profit and Loss Account

	Note	Acquisition Year ended 31 March 2005 $ million	Continuing operations Year ended 31 March 2005 $ million	Total Year ended 31 March 2005 $ million	Year ended 31 March 2004 (restated – note 1) $ million
Group and share of associate's turnover		**249.2**	**1,645.8**	**1,895.0**	**1,300.6**
Less: associate's turnover		–	(10.8)	(10.8)	(11.1)
Group turnover	3	**249.2**	**1,635.0**	**1,884.2**	**1,289.5**
Cost of sales		(161.3)	(1,253.5)	(1,414.8)	(973.9)
Gross profit		**87.9**	**381.5**	**469.4**	**315.6**
Selling and distribution costs		(8.0)	(43.5)	(51.5)	(35.6)
Administrative expenses		(27.7)	(84.3)	(112.0)	(60.1)
– normal		(27.7)	(62.4)	(90.1)	(46.8)
– exceptional	6	–	(21.9)	(21.9)	(13.3)
Other operating income		0.5	25.4	25.9	17.2
Group operating profit	3, 4	**52.7**	**279.1**	**331.8**	**237.1**
Operating profit before operating exceptional items	3	52.7	301.0	353.7	250.4
Operating exceptional items	6	–	(21.9)	(21.9)	(13.3)
Share of operating loss in associate	14a	–	(2.7)	(2.7)	(1.2)
Loss on disposal of fixed assets	6	–	(0.4)	(0.4)	(1.2)
Profit on ordinary activities before interest and taxation		**52.7**	**276.0**	**328.7**	**234.7**
Investment income	7			41.3	39.7
Interest payable and similar charges	8			(37.7)	(41.0)
Profit on ordinary activities before taxation	3			**332.3**	**233.4**
Tax on profit on ordinary activities	9			(97.6)	(76.0)
Profit on ordinary activities after taxation				**234.7**	**157.4**
Equity minority interests	21b			(114.7)	(85.1)
Profit for the financial year				**120.0**	**72.3**
Dividends	11			(48.9)	(15.8)
Retained profit for the financial year	23			**71.1**	**56.5**
Basic earnings per share (US cents per share)					
Profit for the financial year	10			41.9	25.3
Underlying Profit for the financial year	10			48.1	26.6
Diluted earnings per share (US cents per share)					
Profit for the financial year	10			41.0	24.9
Underlying Profit for the financial year	10			47.2	26.2

There is no material difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

Consolidated Balance Sheet

	Note	31 March 2005 $ million	31 March 2004 (restated – note 1) $ million
Fixed assets			
Intangible assets	12	(52.6)	3.6
Positive goodwill	12	10.8	12.2
Negative goodwill	12	(63.4)	(8.6)
Tangible fixed assets	13	2,275.0	1,268.4
Investment in associate	14a	3.3	2.7
Other investments	14b	24.8	27.5
		2,250.5	**1,302.2**
Current assets			
Stocks	15	336.3	199.9
Debtors	16	464.2	245.5
Current asset investments	17	1,386.0	1,188.5
Cash at bank and in hand		61.6	52.7
		2,248.1	**1,686.6**
Creditors: amounts falling due within one year			
Short-term borrowings	19	(218.4)	(295.3)
Loans		(194.7)	(245.8)
Convertible bonds		(23.7)	(49.5)
Other current liabilities	18	(723.2)	(586.5)
		(941.6)	**(881.8)**
Net current assets		**1,306.5**	**804.8**
Total assets less current liabilities		**3,557.0**	**2,107.0**
Creditors: amounts falling due after more than one year	19	(1,344.7)	(529.9)
Provisions for liabilities and charges	20	(424.2)	(162.9)
Non equity minority interest	21a	(59.4)	–
Equity minority interests	21b	(681.6)	(423.3)
Net assets		**1,047.1**	**990.9**
Capital and reserves			
Called up equity share capital	22	28.7	28.6
Shares to be issued	22	0.9	–
Share premium account	23	18.6	18.6
Merger reserve	23	4.4	4.4
Other reserves	23	26.9	8.3
Profit and loss account	23	967.6	931.0
Equity shareholders' funds		**1,047.1**	**990.9**

These Financial Statements were approved by the Board of Directors on 1 June 2005.

Signed on behalf of the Board of Directors

Anil Agarwal
Executive Chairman

Peter Sydney-Smith
Finance Director

Consolidated Cash Flow Statement

	Note	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Net cash inflow from operating activities	24	**303.2**	**496.3**
Returns on investments and servicing of finance			
Interest received and other income		57.8	34.6
Interest paid		(64.1)	(42.0)
Dividend received from fixed asset investments		2.8	0.8
Dividend paid to equity shareholders		(15.8)	–
Dividend paid to minority shareholders	21b	(7.7)	(10.1)
		(27.0)	**(16.7)**
Taxation		**(65.8)**	**(57.5)**
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(535.3)	(349.0)
Proceeds from the sale of tangible fixed assets		14.1	2.8
Purchase of fixed asset investments		–	(9.2)
Proceeds from sale of fixed asset investments		–	1.8
		(521.2)	**(353.6)**
Acquisitions			
Purchase of interest in subsidiary undertakings	26	(28.3)	(81.1)
Net cash acquired with subsidiaries	26	41.2	–
Investment in associate		(6.2)	–
Buy back of shares from minorities		(2.3)	
		4.4	**(81.1)**
Cash outflow before use of liquid resources and financing		**(306.4)**	**(12.6)**
Management of liquid resources			
Purchase of current asset investments	25	(193.4)	(1,065.0)
		(193.4)	**(1,065.0)**
Financing			
Issue of ordinary shares (net of share issue expenses)	23	0.1	825.3
Repayment of share application money pending allotment	23	–	(26.2)
(Decrease)/increase in short term borrowings	25	(96.6)	141.7
Increase in long term borrowings	25	607.0	120.8
Issue of shares of subsidiary undertakings to minority interests		1.7	–
		512.2	**1,061.6**
Increase/(decrease) in cash in the year		**12.4**	**(16.0)**

Reconciliation of Net Cash Flow to Movement in Net (Debt)/Cash

	Note	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Increase/(decrease) in cash in the year	25	12.4	(16.0)
Increase in debt	25	(510.4)	(262.5)
Cash inflow from management of liquid resources	25	193.4	1,065.0
Increase/(decrease) in net (debt)/cash resulting from cash flows		**(304.6)**	**786.5**
Non-cash movements in debt	25	(138.5)	–
Current asset investments, loans and finance leases acquired with subsidiary	25	(43.6)	–
Foreign exchange differences	25	(9.9)	(33.1)
(Decrease)/increase in net cash for the year		**(496.6)**	**753.4**
Net cash/(debt) at the beginning of the year	25	422.3	(331.1)
Net (debt)/cash at the end of the year	25	**(74.3)**	**422.3**

Consolidated Statement of Total Recognised Gains and Losses

	Note	Year ended 31 March 2005 $ million	Year ended 31 March 2004 (restated) $ million
Profit/(loss) for the financial year			
Group		125.6	75.6
Associate	14a	(5.6)	(3.3)
		120.0	**72.3**
(Loss)/gain on change in minority interests in subsidiary shareholdings	23	(27.7)	3.1
Repayment of share application funds in Sterlite Opportunities and Ventures Ltd pending allotment		–	(26.2)
Foreign exchange differences on foreign currency net investments	23	12.7	13.8
Total recognised gains relating to the year		105.0	63.0
Prior year adjustment		4.8	
Total gains recognised since last annual report		**109.8**	

Company Balance Sheet

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts.

	Note	31 March 2005 $ million	31 March 2004 $ million
Fixed assets			
Tangible assets	35	0.9	–
Investments	36	632.4	15.6
		633.3	**15.6**
Current assets			
Debtors	37	560.6	67.1
Current asset investments	38	223.9	743.4
Cash at bank and in hand		3.8	33.0
		788.3	**843.5**
Creditors: amount falling due within one year	39	(41.2)	(21.9)
Net current assets		**747.1**	**821.6**
Total asset less current liabilities		**1,380.4**	**837.2**
Creditors: amount falling due after one year	40	(592.2)	–
Net assets		**788.2**	**837.2**
Capital and reserves			
Called up equity share capital	41	28.7	28.6
Shares to be issued	41	0.9	–
Share premium account	41	18.6	18.6
Profit and loss account	41	740.0	790.0
Equity shareholders' funds		**788.2**	**837.2**

These Financial Statements were approved by the Board of Directors on 1 June 2005.

Signed on behalf of the Board of Directors

Anil Agarwal
Executive Chairman

Peter Sydney-Smith
Finance Director

Notes to the Financial Statements

1. Prior Year Adjustment

The accounting policies applied in preparing the financial information are consistent with those adopted and disclosed in the Group's statutory accounts for the year ended 31 March 2004, with the exception of the Group's accounting policy in respect of employee trusts. The Group has reviewed its accounting policy for employee trusts in light of UITF Abstract 38 "Accounting for ESOP Trusts", which has been adopted for the first time this year. As required by this abstract, own shares held by employee trusts have been reclassified from other investments and are now recorded as a reduction in shareholders' funds. This has the effect of increasing the Group's interest in Sterlite by virtue of the change in treatment for the Sterlite shares held by the SEWT. This change has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly.

The effect on the profit and loss account of adopting this policy is as follows:

Year ended 31 March 2004	New treatment $ million	Previous treatment $ million	Difference $ million
Profit after tax	**157.4**	**157.4**	**–**
Equity minority interests	(85.1)	(90.8)	5.7
Profit for the financial year	**72.3**	**66.6**	**5.7**
Dividends	(15.8)	(15.8)	–
Retained profit for the financial year	**56.5**	**50.8**	**5.7**

Year ended 31 March 2005	New treatment $ million	Previous treatment $ million	Difference $ million
Profit after tax	**234.7**	**234.7**	**–**
Equity minority interests	(114.7)	(119.5)	4.8
Profit for the financial year	**120.0**	**115.2**	**4.8**
Dividends	(48.9)	(48.9)	–
Retained profit for the financial year	**71.1**	**66.3**	**4.8**

The adoption of this policy led to an increase in the net assets of the Group of $4.8 million at 31 March 2004 (1 April 2003: $8.4 million).

2. Accounting Policies

Basis of Preparation

The consolidated financial information for the Group has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

To provide information which is meaningful to the Company's shareholders, the Directors believe that it is necessary to prepare the accounts on the basis that the Group had existed throughout the period from 1 April 2003. The Directors believe that this information reflects the ongoing operations of the Group more clearly. Vedanta and VRHL's combination with the Twin Star Holdings Group has been accounted for as a group reconstruction under the provisions of FRS 6 ("Mergers and Acquisitions") and is presented as if the Company and VRHL had been the holding company and intermediate holding company, respectively, of the Twin Star Holdings Group for each year.

Basis of Consolidation

The consolidated financial information incorporates the Financial Statements 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.

The principal subsidiaries included in the consolidation are set out in note 42. The abbreviations used throughout these Financial Statements, in respect of these subsidiaries, are detailed in note 42.

Notes to the Financial Statements *continued*

2. Accounting Policies *continued*

Acquisitions and Disposals

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 acquisition method.

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.

To the extent that such excess purchase consideration relates to the acquisition of mining properties and leases, that amount is capitalised within tangible fixed assets as mining properties and leases. Other excess purchase consideration relating to the acquisition of subsidiaries is capitalised as goodwill within intangible fixed assets and is amortised over its estimated useful life up to a maximum of 20 years. Provision is made for any impairment.

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

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or disposal. Negative goodwill in excess of the fair value of the net assets acquired is credited to the profit and loss account through amortisation over the periods expected to benefit.

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 incorporated in the financial statements for the first full financial year following the acquisition.

Investments in Associates

In the consolidated Financial Statements, investments in associates, being investments over which the Group exercises significant influence and normally owns between 20% and 50% of the voting equity, are accounted for using the equity method.

The consolidated profit and loss account includes the Group's share of associates' profits/losses, whilst the Group's share of the net assets of the associates is shown in the consolidated balance sheet, based upon the most recent audited financial statements or unaudited interim financial information. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

Other Investments

Fixed asset investments, other than investments in subsidiaries and associates, are recorded at cost less provision for impairment.

Current asset investments primarily comprise bank term deposits, short term unit trusts, liquidity funds and fixed and floating rate debt securities. These are stated at the lower of cost and net realisable value.

Tangible Fixed Assets – Mining Properties and Leases

The costs of mining properties and leases, which include the costs of acquiring and developing mining properties and mineral rights, are capitalised as tangible fixed assets 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 expenditure is capitalised until 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.

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 Tangible Fixed Assets

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 the working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the profit and loss account in the period in which the costs are incurred.

Notes to the Financial Statements *continued*

2. Accounting Policies *continued*

Assets in the Course of Construction

Assets in the course of construction are capitalised in the capital work-in-progress account. Upon completion, the cost of construction is transferred to the appropriate category of tangible fixed assets. Costs associated with the commissioning of an asset are capitalised where the asset is available for use but incapable of operating at normal levels until a period of commissioning has been completed.

Interest payable on borrowings and foreign exchange gains or losses from hedging activities related to construction or development projects are capitalised until substantially all of the activities that are necessary to bring the asset into productive use have 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 "Tangible Fixed Assets – 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 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

Impairment

The carrying amounts of tangible fixed assets, investments in associates, other investments and goodwill are reviewed for impairment if events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. 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 profit and loss account.

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 tangible fixed assets, 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.

Research and Exploration Expenditure

Research and exploration expenditure is written off in the year in which it is incurred unless a decision is taken that a mining property becomes viable for commercial production.

Government Grants

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

Stocks

Stocks 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 basis:

- raw materials (including ore and concentrates) and consumables are recorded at cost on a first-in, first-out ("FIFO") basis, except for stores and spare parts which are carried at weighted average cost;
- coal and furnace oil used in the Aluminium Business, and metal and coke stocks are valued at weighted average cost;

Notes to the Financial Statements *continued*

2. Accounting Policies *continued*

Stocks *continued*

- 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; and
- 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

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 recognised in respect of all timing differences that have originated, but have not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

Deferred tax is measured on an undiscounted basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Pensions

The Group operates a number of pension schemes, the assets of which are (where funded) held in separately administered funds. The pension schemes are generally funded by payments from employees and the relevant Group companies, taking account of the recommendations of independent qualified actuaries.

For defined benefit schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Details of the Group's pension schemes are provided in note 29.

Employee Share Awards

The estimated cost of employee share awards made by the Group is charged to the profit and loss account over the relevant performance period. The estimated cost of awards is the market value of shares awarded or the intrinsic value of the awards (being the difference between the exercise price of the award and the market price at the date of grant) adjusted to reflect any applicable performance conditions.

Provisions for Liabilities and Charges

Provisions are recognised when the Group has a present obligation, 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. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

Notes to the Financial Statements *continued*

2. Accounting Policies *continued*

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 capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged to the profit and loss account over the life of the operation through the depreciation of the asset and the unwinding of the discount on the provision.

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 profit and loss account as extraction progresses. Where the costs of site restoration are not anticipated to be material, they are expensed as incurred.

Revenue Recognition

Turnover represents the net invoice value of goods and services provided to third parties after deducting sales taxes and duties, and is recognised when all significant risks and rewards of ownership of the asset sold are transferred. Dividends are recognised when received.

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.

Foreign Currency Translation

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 or, where forward exchange contracts are in place, at contractual rates. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into local currency at year end exchange rates, or at a contractual rate if applicable.

For the purposes of consolidation, the results of those entities for which 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 total recognised gains and losses. All other exchange differences are included in the profit and loss account.

The principal exchange rates applied for the translation of the Group's financial information are set out below:

$ Currency rates	As at 31 March 2005	Average 2004/2005	As at 31 March 2004
Indian rupee (INR)	43.75	44.96	43.39
Euro (€)	0.773	0.795	0.817
Australian dollar (A$)	1.298	1.357	1.312
UK pounds sterling (GBP)	0.533	0.542	0.545

Capital Instruments

Ordinary Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefit and, if not, they are included in shareholders' funds.

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The finance cost recognised in the profit and loss account in respect of capital instruments, other than equity shares, is allocated to periods over the term of the instrument at a constant rate on the carrying value. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

Notes to the Financial Statements *continued*

2. Accounting Policies *continued*

Derivative Financial Instruments

In order to manage its exposure to foreign exchange, interest rate and commodity price risks, the Group enters into forward, option, swap contracts and other derivative financial instruments. It is the Group's policy neither to 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 Group considers that its derivative instruments qualify for hedge accounting when the following criteria are met:

- the instrument is related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- it involves the same currency as the hedged item; and
- it reduces the risk of foreign currency exchange movements on operations.

Gains and losses arising on these contracts are deferred and are recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Financial Statements. The rates applicable to such contracts are used to record the hedged item.

For an interest rate swap to be treated as a hedge, the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the period of the contract.

Where commodity option contracts hedge anticipated future production or purchases, the option premiums paid are amortised over the life of the option and any realised gains and losses on exercise, in the period in which the hedged production is sold or commodity purchases are made, are recognised.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss is recognised at that time.

3. Segmental Analysis

(a) By Class of Business

The segmental analyses by class of business set out below include a category called "Other" which comprises the results and balance sheet items for Vedanta, VRHL, VRFL, VRCL, VAL, SPL, MCBV, MCNV, Twin Star and the aluminium conductor business of Sterlite.

All figures under the heading "Zambia" represent the acquisition of KCM during the year which completed on 5 November 2004.

Group Turnover

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Aluminium	281.7	223.4
Copper	1,014.7	592.8
India/Australia	765.5	592.8
Zambia	249.2	–
Zinc	486.4	401.1
Other	101.4	72.2
	1,884.2	**1,289.5**

Notes to the Financial Statements *continued*

3. Segmental Analysis *continued*

(a) By Class of Business *continued*

Group Operating Profit

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Aluminium	57.4	35.4
Copper	108.1	65.6
India/Australia	55.4	65.6
Zambia	52.7	–
Zinc	190.0	155.7
Other	(1.8)	(6.3)
Group operating profit before operating exceptional items	**353.7**	**250.4**
Operating exceptional items	(21.9)	(13.3)
Group operating profit	**331.8**	**237.1**
Aluminium	57.4	22.1
Copper	105.0	65.6
India/Australia	52.3	65.6
Zambia	52.7	–
Zinc	189.5	155.7
Other	(20.1)	(6.3)

Earnings Before Interest, Tax, Depreciation, Amortisation and Exceptional Items ("EBITDA")

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Aluminium	75.6	53.6
Copper	161.2	94.1
India/ Australia	85.2	94.1
Zambia	76.0	–
Zinc	218.8	179.3
Other	(0.6)	(4.3)
Group EBITDA	**455.0**	**322.7**
Goodwill amortisation (note 12)	0.4	(0.5)
Depreciation (note 13)	(101.7)	(71.8)
Operating exceptional items (note 6)	(21.9)	(13.3)
Group operating profit	**331.8**	**237.1**

Depreciation

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Aluminium	18.2	18.1
Copper	54.0	28.5
India/ Australia	29.8	28.5
Zambia	24.2	–
Zinc	28.8	23.6
Other	0.7	1.6
	101.7	**71.8**

Notes to the Financial Statements *continued*

3. Segmental Analysis *continued*

(a) By Class of Business *continued*

Profit on Ordinary Activities Before Taxation

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Aluminium	55.6	22.8
Copper	75.3	37.9
India/Australia	22.6	37.9
Zambia	52.7	–
Zinc	197.3	163.9
Other	9.7	12.1
	337.9	**236.7**
Share of loss in associate before taxation (note 14(a))	(5.6)	(3.3)
	332.3	**233.4**

Net Assets

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 (restated) $ million
Aluminium	752.9	353.9
Copper	484.1	160.2
India/Australia	225.6	160.2
Zambia	258.5	–
Zinc	589.6	391.4
Other	88.4	82.8
Net assets before goodwill, net (debt)/cash and minority interests	**1,915.0**	**988.3**
Intangible assets	(52.6)	3.6
Net (debt)/cash	(74.3)	422.3
Non equity minority interest	(59.4)	–
Equity minority interests	(681.6)	(423.3)
Net assets	**1,047.1**	**990.9**

Other includes $138.9 million of net assets, before net debt, attributable to the alumina project in VAL.

Tangible Fixed Assets

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Aluminium	862.9	433.9
Copper	723.1	404.4
India/Australia	397.3	404.4
Zambia	325.8	–
Zinc	560.2	348.9
Other	128.8	81.2
	2,275.0	**1,268.4**

Other includes $110.1 million of tangible fixed assets attributable to the alumina project in VAL.

Notes to the Financial Statements *continued*

3. Segmental Analysis *continued*

(a) By Class of Business *continued*

Net Current Assets/(Liabilities)

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Aluminium	(141.0)	92.4
Copper	463.9	(311.2)
India/Australia	211.7	(311.2)
Zambia	252.2	–
Zinc	208.7	259.7
Other	774.9	763.9
	1,306.5	**804.8**

Net (Debt)/Cash

Class of Business	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Aluminium	(441.7)	(75.8)
Copper	127.6	(318.0)
India/Australia	84.7	(318.0)
Zambia	42.9	–
Zinc	26.6	43.9
Other	213.2	772.2
	(74.3)	**422.3**

(b) By Location

Turnover by Destination

Location	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Far East	487.1	200.3
India	1,130.6	980.9
Africa	19.0	–
Other	247.5	108.3
	1,884.2	**1,289.5**

Notes to the Financial Statements *continued*

3. Segmental Analysis *continued*

(b) By Location *continued*

Net Assets/(Liabilities)

Location	Year ended 31 March 2005 $ million	Year ended 31 March 2004 (restated) $ million
Australia	67.8	11.9
India	1,526.2	999.7
Zambia	258.5	–
Other	62.5	(23.3)
Net assets before goodwill, net (debt)/cash and minority interests	**1,915.0**	**988.3**
Intangible assets	(52.6)	3.6
Net (debt)/cash	(74.3)	422.3
Non equity minority interest	(59.4)	–
Equity minority interests	(681.6)	(423.3)
Net assets	**1,047.1**	**990.9**

4. Group Operating Profit

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Operating profit is stated after charging/(crediting):		
Depreciation – owned assets (note 13)	101.7	71.8
Amortisation of positive goodwill (note 12)	1.3	1.3
Amortisation of negative goodwill (note 12)	(1.7)	(0.8)
Research and exploration costs	0.2	0.2
Auditors' remuneration for audit services	1.5	0.7
Operating exceptional items (note 6)	21.9	13.3

The table below shows the fees payable globally to the Group's auditors, Deloitte & Touche, for statutory external audit and audit related services, as well as the fees paid to other accountancy firms for statutory external audit and audit related services in the two years ended 31 March 2005.

	Year ended 31 March 2005			Year ended 31 March 2004		
Statutory external audit and audit related fees	UK $ million	Other $ million	Total $ million	UK $ million	Other $ million	Total $ million
Deloitte & Touche:						
Statutory external audit	0.9	0.5	1.4	0.5	0.1	0.6
Other audit related	0.5	–	0.5	6.4	0.1	6.5
	1.4	**0.5**	**1.9**	**6.9**	**0.2**	**7.1**

	Year ended 31 March 2005			Year ended 31 March 2004		
Statutory external audit and audit related fees	UK $ million	Other $ million	Total $ million	UK $ million	Other $ million	Total $ million
Other accountancy firms:						
Statutory external audit	–	0.1	0.1	–	0.1	0.1
	–	**0.1**	**0.1**	**–**	**0.1**	**0.1**

Included in the audit related services provided by Deloitte & Touche for the year ended 31 March 2005 are $0.2 million of fees for the interim review in respect of the period for the six months ended 30 September 2004 which have been expensed to the profit and loss account, and $0.3 million of fees for assurance services in respect of the $600 million bond issue which have been capitalised as part of bond issue costs.

Included in the audit related services provided by Deloitte & Touche for the year ended 31 March 2004 are $6.4 million of fees for services in respect of the Listing. These costs have been included in the share issue costs that were capitalised in the share premium account.

Notes to the Financial Statements *continued*

4. Group Operating Profit *continued*

The following table shows the fees paid globally to accountancy firms in respect of non-audit services provided in the two years ended 31 March 2005.

	Year ended 31 March 2005			Year ended 31 March 2004		
	UK $ million	Other $ million	Total $ million	UK $ million	Other $ million	Total $ million
Deloitte & Touche	0.3	–	0.3	–	0.1	0.1
Other accountancy firms	0.8	0.5	1.3	0.1	0.3	0.4
	1.1	**0.5**	**1.6**	**0.1**	**0.4**	**0.5**

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 services and support in the drafting of the Corporate Social Responsibility Report for the 2004 annual report, which amounted to less than $50,000 in total.

5. Employee Numbers and Costs

Average Number of Persons Employed by the Group in the Year

Class of Business	Year ended 31 March 2005 Number	Year ended 31 March 2004 Number
Aluminium	5,254	5,531
Copper	11,189	914
India/Australia	1,003	914
Zambia	10,186	–
Zinc	5,987	5,982
Other	183	179
	22,613	**12,606**

The Principal Locations of Employment

Location	Year ended 31 March 2005 Number	Year ended 31 March 2004 Number
Australia	143	132
India	12,272	12,463
United Kingdom	12	11
Zambia	10,186	–
	22,613	**12,606**

Costs incurred during the year in respect of employees and Directors	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Wages and salaries	109.4	73.2
Social security costs	10.3	7.8
Defined contribution pension scheme costs (note 29)	5.0	4.2
Defined benefit pension scheme costs (note 29)	5.9	3.9
	130.6	**89.1**
Voluntary Retirement Scheme ("VRS") costs (note 6)	4.1	13.3
	134.7	**102.4**

Disclosures on Directors' emoluments, pension entitlements, share awards and LTIP awards required by the Companies Act 1985 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Remuneration Report on pages 55 to 61 and form part of these Financial Statements.

Notes to the Financial Statements *continued*

6. Exceptional Items

Operating exceptional items	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Impairment of fixed assets (note 13)	(17.8)	–
Restructuring and redundancies	(4.1)	(13.3)
	(21.9)	**(13.3)**
Taxation	1.5	4.8
Minority interests	3.1	5.4
Net effect of operating exceptional items	**(17.3)**	**(3.1)**

During the year the Group impaired certain fixed assets which had been previously identified as non-core. The assets were written down to their recoverable amounts. During the year ended 31 March 2005, HZL incurred VRS costs of $4.1 million (2004 : BALCO – $12.7 million; HZL – $0.6 million).

Non-operating exceptional items	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Profit on sale of fixed asset investment	0.1	0.6
Loss on disposal of tangible fixed assets	(0.5)	(1.8)
	(0.4)	**(1.2)**
Taxation	0.1	0.4
Minority interests	(0.1)	–
Net effect of non-operating exceptional items	**(0.4)**	**(0.8)**

7. Investment Income

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Interest and other financial income	49.2	24.8
Dividend income from other financial assets	2.8	0.8
Foreign exchange (loss)/ gain on cash and current asset investments	(6.1)	14.1
Capitalisation of foreign exchange differences and interest income	(4.6)	–
	41.3	**39.7**

During the year ended 31 March 2005, the Group incurred a $6.1 million foreign exchange loss on cash and current asset investments held in UK pounds sterling (2004: gain of $14.1 million). The foreign exchange losses and gains related to funds raised at the time of Listing and which were retained in UK pounds sterling during the period from Listing until the respective balance sheet dates.

8. Interest Payable and Similar Charges

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Bank loans and overdrafts	53.4	29.3
Other loans	10.2	14.2
Share of interest payable in associate	2.9	2.1
Capitalisation of borrowing costs	(28.8)	(4.6)
	37.7	**41.0**

Notes to the Financial Statements *continued*

9. Tax on Profit on Ordinary Activities

(a) Analysis of Charge for the Year

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Tax charge/(credit) for the year		
UK corporation tax (2005: 30%; 2004: 30%)	(0.6)	4.6
Indian corporation tax (2005: 36.59%; 2004: 35.88%)	63.1	69.6
Zambian corporation tax (2005: 25%)	0.2	–
Adjustments in respect of prior years	0.1	(4.9)
Minimum Alternate Tax	1.1	0.7
Dividend distribution tax	3.0	–
Current tax on exceptional items	(1.5)	(1.2)
Total current tax	**65.4**	**68.8**
Deferred taxation	32.3	11.2
Deferred taxation on exceptional items	(0.1)	(4.0)
Total deferred tax (note 20)	**32.2**	**7.2**
Total tax charge	**97.6**	**76.0**
Effective tax rate	**29.4%**	**32.6%**

There is no current or deferred tax charge relating to the Group's associate, India Foils Limited ("IFL") (note 14a).

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 Alternate 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 35% (plus a surcharge). The corporate tax rate has been revised to 30% (plus a surcharge) from the financial year 2005/06;
- MAT is charged on book profits (prepared under Indian GAAP) but typically with a limited number of adjustments. MAT is charged at 7.5% (plus a surcharge);
- 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; and
- 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 Financial Statements *continued*

9. Tax on Profit on Ordinary Activities *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; and
- 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.

(b) Factors Affecting Current Tax Charge for the Year

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Profit on ordinary activities before taxation	**332.3**	**233.4**
Tax on profit on ordinary activities at 36.59 % (2004: 35.88%)	**121.6**	**83.7**
Effect of timing differences:		
Accelerated capital allowances	(29.1)	(2.2)
Utilisation of tax losses	(10.6)	(3.9)
Other short term timing differences	(12.2)	(1.0)
Permanent differences:		
Disallowable expenses	23.0	18.0
Non-taxable income	(6.5)	(0.7)
Tax holiday and similar exemptions	(17.3)	(18.0)
Impact of tax rate differences	(7.7)	(2.9)
Dividend distribution tax	3.0	–
Minimum Alternate Tax	1.1	0.7
Adjustments in respect of prior years	0.1	(4.9)
Current tax charge for the year	**65.4**	**68.8**

The majority of the Group's profits are earned and taxed in India and in Zambia. During the period the effective tax rate has been significantly less than the applicable Indian corporate rate of income tax. This is primarily as a result of the significant tax exemptions (industrial undertakings and tax holidays) which have been available to shelter profits of Sterlite and HZL from regular income tax. The statutory tax rate in Zambia applicable to KCM is 25%, which also has a reducing impact on the effective tax rate. A further reduction in the corporate tax rate from the financial year 2005/06 has reduced the overall effective tax rate due to its impact on deferred tax.

(c) Factors that may Affect Future Tax Charges

The effective tax rate of the Group in future periods is likely to be influenced most significantly by the following factors:

- the availability of exemptions and tax holidays to shelter profits from regular Indian income tax;
- the potential utilisation of accumulated tax losses of CMT, IFL, VRHL and the Company, the potential benefit of which has not been fully recognised as a deferred tax asset; and
- incremental tax costs, if any, of distributing earnings to shareholders through the Group structure.

Notes to the Financial Statements *continued*

10. Earnings per Share

Earnings per Share Based on Profit for the Year

Basic earnings per share on the profit for the year	Year ended 31 March 2005	Year ended 31 March 2004 (restated)
Profit for the financial year ($ million)	120.0	72.3
Weighted average number of shares of the Company in issue (million)	286.4	286.0
Earnings per share on profit for the year (US cents per share)	**41.9**	**25.3**

Diluted earnings per share on the profit for the year	Year ended 31 March 2005	Year ended 31 March 2004 (restated)
Profit for the financial year ($ million)	120.0	72.3
Adjustment in respect of convertible bonds in Sterlite	(1.9)	(1.3)
Profit for the financial year after dilutive adjustment ($ million)	**118.1**	**71.0**
Weighted average number of shares of the Company in issue after dilutive adjustments (million)	287.9	286.2
Diluted earnings per share on profit for the year (US cents per share)	**41.0**	**24.9**

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. The issue of these shares has been included in determining the 2005 weighted average number of shares.

Profit for the year would be diluted if holders of the convertible bonds in Sterlite exercised their right to convert their bond holdings into Sterlite equity. The impact on profit for the year of this conversion would be the difference between interest payable on the convertible bond and the higher charge attributable to minority interests if conversion was to occur.

The outstanding awards under the LTIP are reflected in the diluted EPS figure through an increased number of weighted average shares.

Earnings per Share Based on Underlying Profit for the Year

The Group's Underlying Profit is the profit for the financial year after adding back the operating and non-operating exceptional items and their resultant tax and minority interest effects, as shown in the table below:

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 (restated) $ million
Profit for the financial year	**120.0**	**72.3**
Operating exceptional items	21.9	13.3
Tax effect of operating exceptional items (note 6)	(1.5)	(4.8)
Minority interest effect of operating exceptional items (note 6)	(3.1)	(5.4)
Non-operating exceptional items	0.4	1.2
Tax effect of non-operating exceptional items (note 6)	(0.1)	(0.4)
Minority interest effect of non-operating exceptional items (note 6)	0.1	–
Underlying Profit for the year	**137.7**	**76.2**

Basic earnings per share on Underlying Profit for the year	Year ended 31 March 2005	Year ended 31 March 2004 (restated)
Underlying Profit for the financial year ($ million)	137.7	76.2
Weighted average number of shares of the Company in issue (million)	286.4	286.0
Earnings per share on Underlying Profit for the year (US cents per share)	**48.1**	**26.6**

Notes to the Financial Statements *continued*

10. Earnings per Share *continued*

Earnings per Share Based on Underlying Profit for the Year *continued*

Diluted earnings per share on Underlying Profit for the year	**Year ended 31 March 2005**	**Year ended 31 March 2004 (restated)**
Underlying Profit for the financial year ($ million)	137.7	76.2
Adjustment in respect of convertible bond in respect of Sterlite	(1.9)	(1.3)
Underlying Profit for the financial year after dilutive adjustments ($ million)	**135.8**	**74.9**
Weighted average number of shares of the Company in issue after dilutive adjustments (million)	287.9	286.2
Diluted earnings per share on Underlying Profit for the year (US cents per share)	**47.2**	**26.2**

11. Dividends

	Year ended 31 March 2005 $ million	**Year ended 31 March 2004 $ million**
Interim dividend (2005: 5.5 US cents per Ordinary Share; 2004: nil)	15.8	–
Final dividend (2005:11.55 US cents per Ordinary Share; 2004: 5.5 US Cents per Ordinary Share)	33.1	15.8
	48.9	**15.8**

12. Goodwill

	Positive goodwill $ million	**Negative goodwill $ million**	**Total $ million**
Cost			
At 1 April 2004	**16.9**	**(11.5)**	**5.4**
Additions (note 26a)	–	(56.6)	56.6
Foreign exchange differences	(0.1)	0.1	–
At 31 March 2005	**16.8**	**68.0**	**(51.2)**
Accumulated amortisation			
At 1 April 2004	**4.7**	**(2.9)**	**1.8**
Charge for the year	1.3	(1.7)	(0.4)
At 31 March 2005	**6.0**	**(4.6)**	**1.4**
Net book value			
At 1 April 2004	**12.2**	**(8.6)**	**3.6**
At 31 March 2005	**10.8**	**(63.4)**	**(52.6)**

Negative goodwill of $56.6 million has arisen during the year as a consequence of the acquisition of KCM (see note 26a).

Notes to the Financial Statements *continued*

13. Tangible Fixed Assets

	Mining property and leases $ million	Long term leasehold land and buildings $ million	Freehold land and buildings $ million	Plant and equipment $ million	Assets under construction $ million	Other $ million	Total $ million
Cost							
At 1 April 2004	**385.1**	**10.1**	**111.2**	**1,119.6**	**349.8**	**25.9**	**2,001.7**
Additions	4.3	–	23.7	367.7	403.1	2.9	801.7
Acquisition of subsidiary undertaking (note 26a)	40.9	–	16.8	188.2	79.3	–	325.2
Disposals	–	–	(0.1)	(5.0)	(13.4)	(6.4)	(24.9)
Transfers and other movements	–	(0.8)	0.7	(21.0)	(5.4)	26.5	–
Foreign exchange differences	(1.7)	(0.1)	(0.4)	0.8	10.0	(0.6)	8.0
At 31 March 2005	**428.6**	**9.2**	**151.9**	**1,650.3**	**823.4**	**48.3**	**3,111.7**
Accumulated depreciation							
At 1 April 2004	**93.4**	**4.5**	**30.6**	**585.5**	**–**	**19.3**	**733.3**
Charge for the year	4.6	0.6	2.7	92.4	–	1.4	101.7
Impairment (note 6)	–	–	–	–	17.8	–	17.8
Disposals	–	–	–	(4.3)	–	(6.1)	(10.4)
Transfers and other movements	(10.2)	–	1.8	(13.0)	–	21.4	–
Foreign exchange differences	0.6	–	(0.1)	(6.0)	–	(0.2)	(5.7)
At 31 March 2005	**88.4**	**5.1**	**35.0**	**654.6**	**17.8**	**35.8**	**836.7**
Net book value							
At 1 April 2004	**291.7**	**5.6**	**80.6**	**534.1**	**349.8**	**6.6**	**1,268.4**
At 31 March 2005	**340.2**	**4.1**	**116.9**	**995.7**	**805.6**	**12.5**	**2,275.0**

At 31 March 2005, land of $7.4 million (31 March 2004: $5.7 million) was not depreciated.

At 31 March 2005, cumulative capitalised interest and foreign exchange gains or losses included within the table above was $43.9 million (31 March 2004: $19.7 million).

Other tangible fixed assets include office equipment and fixtures, and light vehicles.

The ability of the Group to realise the net book value of mining properties in the future is dependent upon the commercial viability of mineral reserves. The Directors are satisfied that the Group's estimate of the discounted future net revenues to be derived from such remaining reserves is greater than the net book value of the mining properties both individually and in aggregate.

Notes to the Financial Statements *continued*

14. Fixed Asset Investments

(a) Investment in Associate – IFL

The principal activity of IFL, a company incorporated in Kolkata, State of West Bengal, India, is 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. The Group has a 38.8% interest in IFL which is held as an associate company. Further details of the Group's share of the results and net assets of IFL are set out below.

Analysis of movements in investment in associate	31 March 2005 $ million	31 March 2004 $ million
At beginning of year	**2.7**	**0.3**
Share of loss for the year	(5.6)	(3.3)
Operating loss	(2.7)	(1.2)
Interest payable	(2.9)	(2.1)
Other movements	–	(0.6)
Preference share investment (see below)	–	6.3
Loans given (see below)	6.2	–
At end of year	**3.3**	**2.7**
Market value	**3.8**	**1.7**

Profit and loss account – Group's share	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Turnover	10.8	11.1
Loss before taxation	(5.6)	(3.3)

Balance sheet – Group's share	31 March 2005 $ million	31 March 2004 $ million
Fixed assets	15.9	17.6
Current assets	4.4	5.3
Liabilities due within one year	(14.1)	(6.5)
Liabilities due after one year	(14.0)	(18.1)

IFL's debt includes a loan of $23.3 million with ICICI Bank. There is an option 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 8.4%. 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 2005 amounted to $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 $6.3 million (Sterlite – $5.5 million; MALCO – $0.8 million) for non-cash consideration in full settlement of its liabilities to these companies at that time.

Fixed assets in IFL were revalued between 1980 and 1994.

Notes to the Financial Statements *continued*

14. Fixed Asset Investments *continued*

(b) Other Investments

Analysis of other investments	31 March 2005 $ million	31 March 2004 (restated) $ million
Quoted	2.4	2.6
Unquoted	22.4	24.9
Carrying value of other investments	**24.8**	**27.5**
Market value of quoted investments	3.7	3.1

Analysis of movements in other investments	Quoted $ million	Unquoted $ million	Total $ million
At 1 April 2004 (restated)	**2.6**	**24.9**	**27.5**
Disposals	(0.1)	(2.2)	(2.3)
Foreign exchange differences	(0.1)	(0.3)	(0.4)
At 31 March 2005	**2.4**	**22.4**	**24.8**

The table below sets out the carrying values of the quoted investments held by the Group at each year end together with the number of shares held and their open market values.

Quoted Investments

	31 March 2005 $ million	31 March 2004 $ million
Sterlite Optical Technologies Limited		
Carrying value	1.3	1.3
Market value	1.4	1.1
Morgan Stanley Growth Fund		
Carrying value	1.1	1.3
Market value	2.3	2.0

Number of Shares	31 March 2005	31 March 2004
Sterlite Optical Technologies Limited	952,709	952,709
Morgan Stanley Growth Fund	4,601,726	5,217,261

Unquoted Investments

The Group holds an investment in the equity share capital of the Andhra Pradesh Gas Power Corporation Limited. This holding was 8.1% (with a book value of $22.4 million) at 31 March 2005, the holding having been 8.1% (with a book value of U$22.7 million) at 31 March 2004.

15. Stocks

	31 March 2005 $ million	31 March 2004 $ million
Raw materials and consumables	171.1	107.6
Work in progress	134.4	60.5
Finished products	30.8	31.8
	336.3	**199.9**

There is no material difference between the balance sheet value of stocks and their replacement cost.

Notes to the Financial Statements *continued*

16. Debtors

	31 March 2005 $ million	31 March 2004 $ million
Trade debtors	183.6	139.2
Deferred taxation (note 20b)	90.0	–
Amounts due from associate (note 30)	3.6	1.9
Amounts due from related companies (note 30b)	16.9	2.3
Other debtors	166.0	99.5
Prepayments and accrued income	4.1	2.6
	464.2	**245.5**
Debtors due within one year	384.4	225.4
Debtors due after one year	79.8	20.1
	464.2	**245.5**

17. Current Asset Investments

	31 March 2005 $ million	31 March 2004 $ million (restated)
Bank term deposits	235.7	353.1
Short term unit trusts and liquidity funds	705.5	835.4
Unquoted quasi-equity securities (note 38)	199.7	–
Other current asset investments	245.1	–
	1,386.0	**1,188.5**

At 31 March 2005, $135.5 million (2004: $743.4 million) of the Listing proceeds were held in the United Kingdom by the Company (see note 38). Of these, $24.2 million (2004: $590.1 million) were held in short term unit trusts and liquidity funds. It is the Group's intention to hold these amounts in such funds for the medium term.

The carrying value of current asset investments is not materially different from market value.

18. Other Current Liabilities

	31 March 2005 $ million	31 March 2004 $ million
Trade creditors	215.8	157.0
Bills of exchange payable	287.1	295.4
Taxation and social security	14.1	14.5
Proposed dividends to shareholders	33.1	15.8
Other creditors	102.2	73.6
Deferred consideration for KCM acquisition	4.9	–
Accruals and deferred income	66.0	30.2
	723.2	**586.5**

19. Creditors: Amounts Falling due After More than One Year

	31 March 2005 $ million	31 March 2004 $ million
Bank loans	645.7	484.9
Bonds	592.2	–
Other loans	65.6	38.7
	1,303.5	**523.6**
Other creditors*	41.2	6.3
	1,344.7	**529.9**

* Includes deferred consideration of $12.9 million for KCM acquisition.

Notes to the Financial Statements *continued*

19. Creditors: Amounts Falling due After More than One Year *continued*

Maturity Profile of Financial Liabilities

	31 March 2005 $ million	31 March 2004 $ million
Due within one to two years	145.2	63.2
Due within two to five years	1,004.4	287.5
Due after five years	153.9	172.9
	1,303.5	**523.6**
Short term borrowings:		
Due within one year	218.4	295.3
	1,521.9	**818.9**

The principal loans held by Group companies at 31 March 2005 were as follows:

Hindustan Zinc Limited

Foreign Currency Syndicated Loan
In September 2003, HZL secured a $125 million syndicated loan. The loan is secured by a first charge on certain of HZL's fixed assets. The interest rate on the loan is approximately LIBOR plus 120 basis points. The loan is repayable in November 2006 ($30 million), November 2008 ($65 million) and November 2010 ($30 million).

Bharat Aluminium Company Limited

Term Loans
At 31 March 2005, BALCO held two syndicated Indian rupee term loans totalling $274.3 million at an average interest rate of 7.6% per annum. These loans are secured by a first charge on the fixed assets of BALCO. The first loan of $228.6 million is repayable in 12 quarterly instalments, due to commence in January 2007; the second loan of $45.7 million is repayable in 8 quarterly instalments, due to commence from May 2009.

Project Buyers' Credit
As at 31 March 2005, BALCO was provided with extended credit terms relating to purchases of fixed assets for its projects. The extended credit amounted to $158.0 million, of which $71.1 million is repayable in March 2007 and the balance repayable within six months of draw down.

Sterlite Industries (India) Limited

Non-Convertible Debentures
Sterlite had $25.9 million of Indian rupee non-convertible debentures in issue with various institutions at 31 March 2005. The debentures are repayable from June 2005 to April 2013 with interest rates varying from 7.9% to 13.25% per annum. These debentures are secured upon Sterlite's immoveable property at Lonavala, Tuticorin, Gujarat and Chinchpada.

Floating Rate Loan Note
At 31 March 2005, Sterlite had a floating rate loan note ("FRN") in issue of $13.4 million. Interest currently accrues at 6.54% per annum after taking into account currency and interest rate swaps. The FRN matures for repayment in June 2007.

Foreign Currency Loans
Sterlite had foreign currency loans with various banks amounting to $181.7 million as at 31 March 2005. The loans mature between October 2005 and October 2008 and bear effective interest rates (after taking account of currency swaps, where applicable) of between 4.4% and 8.2% per annum. Of these, loans amounting to $89.1 million are secured by a first charge on all the assets of Tuticorin and Silvassa sites, with loans amounting to $92.6 million being unsecured.

Foreign Currency Redeemable 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. These bonds can be converted into ordinary shares of Sterlite at a conversion price of INR 550 per ordinary share, subject to adjustment on the occurrence of certain dilutive effects, and a fixed exchange rate, which equates to 82.4 ordinary shares in Sterlite per bond held. The bonds became convertible on 4 December 2003 and can be converted at any time before 27 September 2008. At 31 March 2005, 26,300 of these bonds had been converted into ordinary shares in Sterlite, leaving a carrying value for the bonds outstanding of $23.7 million.

Notes to the Financial Statements *continued*

19. Creditors: Amounts Falling due After More than One Year *continued*

Sterlite Industries (India) Limited

Working Capital Loans
Sterlite has $28.3 million of Indian rupee working capital loans with various banks. The loans bear interest at rates of between 3.5% and 4.0% per annum.

Vedanta Resources plc

Long Term Bonds
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 the 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 and Ba2 by Moody's. The proceeds from the bonds were substantially remitted to India by 31 March 2005 for the funding of the Group's projects.

Konkola Copper Mines PLC

Term Loans
As at 31 March 2005, KCM had loans amounting to $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 of 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 the Company; 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 has extended a loan to KCM for an aggregate amount of $8.5 million. The facility is secured upon a second charge over all KCM's rights, title and interest, 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.

20. Provisions for Liabilities and Charges

	Pension and similar obligations $ million	Deferred taxation $ million	Restoration, rehabilitation and environmental $ million	Other $ million	Total $ million
Balance at 1 April 2004	**4.6**	**123.2**	**10.3**	**24.8**	**162.9**
Acquisition of subsidiary undertaking (note 26a)	59.8	–	50.8	137.9	248.5
Charged/(credited) to profit and loss	5.9	20.9	0.8	(9.2)	18.4
Amounts applied	(5.8)	–	0.1	0.6	(5.1)
Foreign exchange differences	(0.1)	(0.3)	0.1	(0.7)	(1.0)
Other movements	0.1	2.5	–	(2.1)	0.5
Balance at 31 March 2005	**64.5**	**146.3**	**62.1**	**151.3**	**424.2**

(a) Pensions and Similar Obligations
Pensions and similar obligations include terminal benefits payable to specified employees of KCM, for which the Group assumed responsibility in respect of the transferring employees from Zambia Consolidated Copper Mines Limited, now known as ZCCM with effect from the date of acquisition.

Details of pension provisions are provided in note 29.

Notes to the Financial Statements *continued*

20. Provisions for Liabilities and Charges *continued*

(b) Deferred Taxation

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, net of losses carried forward by MALCO and CMT. No benefit has been recognised for excess losses of CMT, TCM, IFL, VRHL and the Company on the grounds that their successful application against future profits is not probable in the foreseeable future.

The deferred tax asset that has been recognised on the acquisition of KCM is attributable to carry forward tax losses:

Deferred Tax Assets of KCM Classified as Debtors (note 16)

	$ million
Balance at 1 April 2004	–
Acquisition of subsidiary undertaking	(101.4)
Charged to profit and loss	11.3
Foreign exchange differences	0.1
Balance at 31 March 2005	**(90.0)**

The amounts of deferred taxation and timing differences, provided and not provided, in the accounts are as follows:

Provided – Liabilities/(Assets)

	31 March 2005 $ million	31 March 2004 $ million
Accelerated capital allowances	234.4	145.9
Unutilised tax losses	(159.7)	(26.7)
Other timing differences	(18.4)	4.0
	56.3	**123.2**
Recognised as:		
Deferred tax liability provided	146.3	123.2
Deferred tax asset recognised	(90.0)	–

Not Provided – Liabilities/(Assets)

	31 March 2005 $ million	31 March 2004 $ million
Accelerated capital allowances	–	3.3
Unutilised tax losses	(2.6)	(4.1)
Other timing differences	–	(0.1)
	(2.6)	**0.9**

(c) Restoration, Rehabilitation and Environmental

The provisions for restoration, rehabilitation and environmental liabilities represent the Directors' 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.

(d) Other

Other provisions comprise the Directors' 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 recognised as part of acquisition accounting for the price participation agreement between KCM and ZCCM.

Notes to the Financial Statements *continued*

21. Minority Interests

(a) Non Equity Interests

Non equity minority interests are represented by the deferred shares in KCM held by ZCI of $47.5 million and ZCCM 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 once all of KCM's ordinary shares have received a distribution equal to their par value and any share premium created on their issue and which remains distributable to them.

(b) Equity Interests

	$ million
Balance at 1 April 2004	**405.2**
Prior year adjustment	18.1
Balance at 1 April (restated)	**423.3**
Profit for the period	114.7
Acquisition of subsidiary undertaking (note 26a)	98.7
Increase/(reduction) in minority interests due to increase/decrease interest in subsidiary shareholdings:	
– acquisition of Sterlite shares from SEWT (note 26b)	(2.6)
– subscription to Sterlite rights issue (note 26c)	21.1
– subscription to VAL equity (note 26d)	8.0
– conversion of Sterlite convertible bonds (note 26e)	25.1
Foreign exchange differences	1.0
Dividends paid	(7.7)
Balance at 31 March 2005	**681.6**

22. Called Up Equity Share Capital

	31 March 2005		31 March 2004	
	Number of shares	Value of shares $ million	Number of shares (restated)	Value of shares $ 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
	400,050,000	**40.1**	**400,050,000**	**40.1**
Called up and fully paid				
Ordinary shares of 10 US cents each	286,776,000	28.7	286,388,000	28.6
Deferred shares of £1 each	50,000	–	50,000	–
	286,826,000	**28.7**	**286,438,000**	**28.6**
Shares to be issued				
Ordinary shares of 10 US cents each	1,527,500	0.9	2,021,500	–
	1,527,500	**0.9**	**2,021,500**	**–**

At general meetings of the Company each member present or by proxy has one vote on a show of hands, and on a poll every member who is present in person or by proxy has one vote for every Ordinary Share.

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.

The Reward Plan

On 26 February 2004, awards of 776,000 Ordinary Shares were granted to 43 employees pursuant to the Reward Plan. The exercise price of these awards was 10 US cents per share. The first tranche of awards vested immediately, and upon exercise, 388,000 Ordinary Shares were issued and credited as fully paid on 31 March 2004.

Notes to the Financial Statements *continued*

22. Called Up Equity Share Capital *continued*

The second tranche of awards vested on 26 February 2005 and upon exercise 303,000 Ordinary Shares and 85,000 Ordinary Shares were issued and credited as fully paid on 18 March 2005 and 31 March 2005, respectively.

The full cost of the Reward Plan was $5.0 million and was recorded in the prior year profit and loss account.

LTIP

Initial awards under the LTIP were granted on 26 February 2004 with further awards made on 11 June 2004 and 23 November 2004. 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 page 57. No options were exercised in the year.

Year of grant	Exercise date	Exercise price US cents per share	Options outstanding 1 April 2004	Options granted during the year	Options lapsed during the year	Options outstanding 31 March 2005
2004	26 February 2007 to 26 August 2007	10	1,633,500	–	(176,000)	1,457,500
2004	11 June 2007 to 11 December 2007	10	–	42,500	(20,000)	22,500
2004	23 November 2007 to 23 May 2008	10	–	77,500	(30,000)	47,500
			1,633,500	**120,000**	**(226,000)**	**1,527,500**

23. Consolidated Reconciliation of Movement in Equity Shareholders' Funds

	Share capital $ million	Shares to be issued $ million	Share premium account $ million	Merger reserve $ million	Other reserves $ million	Profit and loss account $ million	Total $ million
Equity shareholders' funds at 1 April 2004	**28.6**	**–**	**18.6**	**4.4**	**8.3**	**926.2**	**986.1**
Prior year adjustment (note 1)	–	–	–	–	–	4.8	4.8
Equity shareholders' funds at 1 April 2004 (restated)	**28.6**	**–**	**18.6**	**4.4**	**8.3**	**931.0**	**990.9**
Retained profit for the year	–	–	–	–	–	71.1	71.1
Transfers	–	–	–	–	18.0	(18.0)	–
Loss on change in minority interests in subsidiary shareholdings	–	–	–	–	–	(27.7)	(27.7)
Shares issued under Reward Plan (note 22)	0.1	–	–	–	–	–	0.1
Shares to be issued under LTIP (note 22)	–	0.9	–	–	–	(0.9)	–
Foreign exchange differences	–	–	–	–	0.6	12.1	12.7
Equity shareholders' funds at 31 March 2005	**28.7**	**0.9**	**18.6**	**4.4**	**26.9**	**967.6**	**1,047.1**

As at 31 March 2005, other reserves comprise the general reserves established in the statutory accounts of the Group's Indian subsidiaries. Under Indian law, a general reserve is created through a year on year transfer from the profit and loss account. The amount transferred is 5% of the profits for the year for each Indian company as stated in Indian GAAP. 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 Financial Statements *continued*

24. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Operating profit	331.8	237.1
Depreciation	101.7	71.8
Impairment charge	17.8	–
Goodwill amortisation	(0.4)	0.5
Increase in stocks	(61.0)	(16.1)
Increase in debtors	(79.1)	(77.2)
Decrease in provisions	(5.1)	–
(Decrease)/increase in creditors	(35.0)	263.1
Increase/(decrease) in other long term creditors	22.0	(6.6)
Other non cash items	10.5	23.7
Net cash inflow from operating activities	**303.2**	**496.3**

Net cash inflow from operating activities is stated after cash outflows relating to operating exceptional items of $4.1 million in the year ended 31 March 2005 and $13.3 million in the year ended 31 March 2004 relating to VRS expenses.

25. Analysis of Net (Debt)/Cash

	At 1 April 2004 $ million	Cash flow $ million	Acquisition and disposals excluding cash and overdraft $ million	Other non-cash changes $ million	Foreign exchange differences $ million	At 31 March 2005 $ million
Cash at bank and in hand	52.7	12.4	–	–	(3.5)	61.6
Debt due within one year	(295.3)	96.6	(6.8)	(17.2)	4.3	(218.4)
Debt due after one year	(523.6)	(607.0)	(47.0)	(121.3)	(4.6)	(1,303.5)
	(766.2)	**(498.0)**	**(53.8)**	**(138.5)**	**(3.8)**	**(1,460.3)**
Current asset investments	1,188.5	193.4	10.2	–	(6.1)	1,386.0
Net cash/(debt)	**422.3**	**(304.6)**	**(43.6)**	**(138.5)**	**(9.9)**	**(74.3)**

The non-cash movement in debt includes $163.5 million relating to the re-financing of project capital work in progress creditors.

26. Acquisitions and Disposals

(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, for a total cash consideration of $49.2 million (including acquisition expenses of $1.0 million). KCM's principal activities comprise copper mining and smelting, and its operations are located in the Republic of Zambia.

The Group subscribed for $25.0 million of new ordinary shares in KCM, representing 51% of the enlarged issued share capital of KCM. Additionally, the Group agreed to pay $23.2 million to ZCI, a minority shareholder in KCM, comprising an initial payment of $2.3 million at the date of acquisition, with the remaining $20.9 million payable in equal instalments over four years from 31 December 2005. As required under UK GAAP, the deferred consideration of $20.9 million has been discounted to arrive at a net present value of $17.8 million, thereby resulting in a consideration of $46.1 million for the purposes of the goodwill determination.

Notes to the Financial Statements *continued*

26. Acquisitions and Disposals *continued*

(a) Konkola Copper Mines PLC *continued*

The following table sets out the book values of the identifiable assets and liabilities acquired at the date of acquisition and their provisional fair value to the Group:

		Fair value adjustments		
	Book value $ million	Accounting policy alignments $ million	Other items $ million	Fair value $ million
Tangible fixed assets	**363.8**	**(36.7)**	**(1.9)**	**325.2**
Stocks	80.8	–	–	80.8
Debtors	72.3	–	(11.4)	60.9
Deferred taxation assets	65.1	5.8	30.5	101.4
Current asset investments	10.2	–	–	10.2
Cash at bank and in hand	16.2	–	25.0	41.2
Short term borrowings	(6.8)	–	–	(6.8)
Other current liabilities	(56.9)	1.3	(1.0)	(56.6)
Net current assets	**180.9**	**7.1**	**43.1**	**231.1**
Creditors: amount falling due after more than one year	(47.0)	–	–	(47.0)
Provisions for liabilities and charges	(109.7)	(22.6)	(116.2)	(248.5)
Non equity minority interests	(59.4)	–	–	(59.4)
Equity minority interests	–	–	–	(98.7)
Net assets				**102.7**
Negative goodwill arising on acquisition (note 12)				(56.6)
Total cost of acquisition				**46.1**
Satisfied by:				
Deferred consideration payable to ZCI in cash (after discounting to net present value)				17.8
Cash consideration paid				28.3
Upfront cash consideration paid to ZCI				2.3
Cash subscription to KCM for newly issued equity				25.0
Acquisition expenses				1.0
Total consideration				**46.1**

The fair values of the assets and liabilities acquired are provisional and will be finalised in the 2006 Financial Statements, when the fair values exercise will have been completed; particularly as regards the determination of environmental provisioning in light of the Development Agreement entered into by KCM and the Government of Zambia at the date of acquisition, and the valuation of fixed assets after completion of a review of the existence and productivity of plant and equipment at KCM.

The principal fair value adjustments are as follows:

- write off of secondary development expenditure which had been capitalised by KCM, whereas Vedanta's accounting policy requires this expenditure to be charged to the profit and loss account as incurred;
- increase in the provision for post-retirement employee benefits arising from actuarial valuations completed as at the date of acquisition;
- creation of a provision relating to the price participation agreement with ZCCM which obliges KCM to pay commission to ZCCM in the event that copper prices exceed a defined threshold;
- decrease in sundry debtor balances over which there is uncertainty as to their recoverability; and
- creation of a deferred tax asset arising from certain of the fair value adjustments set out above, offset by a reduction in the deferred tax asset attributable to tax losses over which there is uncertainty as to their recoverability in the time horizon permitted by the Group's accounting policies.

Notes to the Financial Statements *continued*

26. Acquisitions and Disposals *continued*

(a) Konkola Copper Mines PLC *continued*

KCM reported a profit after taxation and minority interests of $30.0 million in the period from 1 January 2004 to 4 November 2004 (year ended 31 December 2003: loss of $17.0 million). The summarised profit and loss account from 1 January 2004 to 4 November 2004, shown on the basis of KCM's accounting policies, is as follows:

	$ million
Turnover	**426.2**
Operating profit	**79.2**
Finance charges (net)	(3.0)
Profit on ordinary activities before taxation	**76.2**
Tax on profit on ordinary activities	(17.4)
Profit on ordinary activities after taxation	**58.8**
Minority interests	(28.8)
Profit for the financial period	**30.0**

Since acquisition, KCM contributed $68.9 million to the Group's net operating cash flow and utilised $21.0 million for capital expenditure.

(b) Sterlite Employee's Welfare Trust

On 2 January 2004, the Group purchased 4.98% of Sterlite's issued share capital from the SEWT for a cash consideration of $58.0 million, being the open market price at that date. Following this acquisition, the Group's Economic Interest in Sterlite increased to 70.8%. On 2 April 2004, the Group purchased 2.4% of Sterlite's issued share capital from the SEWT for a cash consideration of $21.4 million, being the open market price at that date. Following this acquisition, the Group's Economic Interest in Sterlite increased from 70.8% to 71.6%.

The SEWT is treated as a quasi-subsidiary and consolidated within the Financial Statements. Consequently, as these acquisitions are intra-group transactions, the cash consideration eliminates on consolidation and is thus not included as an acquisition cash flow in the consolidated cash flow statement, and there is no cash impact to the Group.

At 31 March 2005, the SEWT held 3,559,263 shares in Sterlite at a cost of $7.8 million (31 March 2004: 5,049,297 shares at $9.0 million).

(c) Sterlite Rights Issue

In September 2004, Sterlite completed its rights issue in which Twin Star subscribed for its own entitlement and those rights not taken up by the minority shareholders. As a result of Twin Star subscribing $433 million to the total rights issue of $434 million, the Group increased its Economic Interest in Sterlite from 71.6% to 81.3%.

(d) Vedanta Alumina Limited

VAL was a wholly owned subsidiary of Sterlite at 31 March 2004. During the year ended 31 March 2005, an independent valuation of the business was carried out by KPMG jointly on behalf of Sterlite and Vedanta. Based on this valuation, the value of VAL was determined at $138 million. Based on Vedanta's equity subscription of $100 million, undertaken in May 2004, Vedanta has a 70.5% interest in VAL thereby diluting Sterlite's holding to 29.5%.

(e) Conversion of Sterlite Bonds

As disclosed in note 33, Sterlite has bonds in issue which became convertible on 4 December 2003. In the period from 4 December 2003 to 31 March 2005, 26,300 of these bonds were converted into ordinary shares in Sterlite which diluted the Group's Economic Interest in Sterlite by 1.4%.

27. Operating Lease Commitments

The Group does not have any material operating lease commitments.

Notes to the Financial Statements *continued*

28. Financial Instruments

The Group's accounting policies with regard to financial instruments are detailed in note 2. The Group does not trade in financial instruments. As permitted by FRS 13 "Derivatives and Other Financial Instruments: Disclosure", short-term debtors and creditors have been excluded from the disclosures other than the currency disclosures.

Derivatives, Financial Instruments and Risk Management

The Group uses derivative instruments to manage its exposure 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 banks and institutions with the highest national or international standing. 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.

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 policy of the Group is to determine 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.

Interest Rate Risk

The short-term debt of the Group is principally denominated in Indian rupees with fixed rates of interest. While no significant interest rate risk arises on this portion of the debt, the Group utilises interest rate swap products to optimise the interest liability. Most of the foreign currency debt is on floating rates of interest linked to six-month US dollar LIBOR. 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.

Counterparty and Concentration of Credit Risk

The Group is exposed to credit risk in respect of debtors, current asset investments and derivative financial instruments. There is no concentration of credit risk among the debtors of the Group given the large number of debtors and the business diversity. Credit risk on debtors is very limited as almost all credit sales are against letters of credit of banks of national standing. 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 banks and institutions with the highest national or international standing. These exposures are further reduced by having standard ISDA Master agreements including set-off provisions with each counterparty.

Commodity Price Risk

The Group has historically been extremely 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 purely as a risk management tool and in some cases to secure future cash flows by entering into forward contracts or similar instruments.

Aluminium

The raw material is mined in India with sales prices linked to the London Metals Exchange prices. Currently no hedging is being done for Aluminium.

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 hedged through forward contracts or options. For the mining assets in Australia and Zambia, the policy is to hedge a part of the production as determined by management.

Zinc and Lead

The raw material is mined in India with sales prices linked to the London Metals Exchange prices. Currently an element of exports out of India is hedged through forward contracts or other instruments.

Notes to the Financial Statements *continued*

28. Financial Instruments *continued*

(a) Interest Rate and Currency Profile

	Total $ million	Floating rate financial assets $ million	Fixed rate financial assets US$ million	Equity investments $ million	Non-interest bearing assets $ million	Fixed rate financial assets: Weighted average interest rate %	Fixed rate financial assets: Weighted average period for which the rate is fixed (years)
At 31 March 2004							
INR	486.1	248.7	209.8	27.5	–	5.8	0.8
GBP	256.8	256.8	–	–	–	–	–
US$	520.1	520.1	–	–	–	–	–
Australian $	5.7	5.7	–	–	–	–	–
Gross financial assets	**1,268.7**	**1,031.3**	**209.8**	**27.5**	**–**		
At 31 March 2005							
INR	1,141.2	415.8	671.4	24.8	29.2	5.5	0.5
US$	303.7	81.3	199.7	–	22.7	3.7	0.4
Australian $	25.4	3.8	21.6	–	–	5.5	0.3
Zambian Kwacha	2.1	–	–		2.1	–	–
Gross financial assets	**1,472.4**	**500.9**	**892.7**	**24.8**	**54.0**		

At 31 March 2005, financial assets include $2.0 million (2004: $2.9 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 or monies held by the SEWT, and an $18 million restricted cash reserve in KCM.

	Total $ million	Floating rate financial liabilities $ million	Fixed rate financial liabilities $ million	Non-interest bearing financial liabilities $ million	Fixed rate financial liabilities: Weighted average interest rate %	Fixed rate financial liabilities: Weighted average period for which the rate is fixed (years)	Fixed rate financial liabilities: Weighted average period until maturity (years)
At 31 March 2004							
INR	411.4	30.5	369.1	11.8	7.9	3.0	4.0
US$	664.9	615.2	49.7	–	1.0	4.6	–
Japanese Yen	36.6	36.6	–	–	–	–	–
Australian $	1.4	–	–	1.4	–	–	1.0
Gross financial liabilities	**1,114.3**	**682.3**	**418.8**	**13.2**			
At 31 March 2005							
INR	369.2	14.4	339.3	15.5	7.4	4.1	7.9
US$	1,379.5	1,102.0	277.5	–	2.7	0.5	–
Japanese Yen	36.9	36.9	–	–	–	–	–
Australian $	23.4	–	23.4	–	6.0	0.5	–
Gross financial liabilities	**1,809.0**	**1,153.3**	**640.2**	**15.5**			

Notes to the Financial Statements *continued*

28. Financial Instruments *continued*

(b) Fair Value of Financial Assets and Liabilities

Primary financial instruments held or issued to finance the Group's operations.

	Estimated fair value $ million	Carrying value $ million
At 31 March 2004		
Cash at bank and in hand	52.7	52.7
Current asset investments	1,188.5	1,188.5
Long term investments	28.0	27.5
Gross financial assets	**1,269.2**	**1,268.7**
Short term borrowings	295.3	295.3
Bank loans	486.6	484.9
Other loans	38.9	38.7
Bills payable	295.4	295.4
Gross financial liabilities	**1,116.2**	**1,114.3**
At 31 March 2005		
Cash at bank and in hand	61.6	61.6
Current asset investments	1,389.5	1,386.0
Long term investments	26.1	24.8
Gross financial assets	**1,477.2**	**1,472.4**
Short term borrowings	218.4	218.4
Bank loans	645.8	645.7
Bonds	574.6	592.2
Other loans	61.4	65.6
Bills payable	287.1	287.1
Gross financial liabilities	**1,787.3**	**1,809.0**

Derivative financial instruments relate to interest rate swaps and financial contracts and have a carrying value of nil. The fair values of financial assets and liabilities have been calculated by discounting anticipated future returns and payments at an appropriate discount rate, save for the bond for which the market price of the bond as at 31 March 2005 has been used.

(c) Undrawn Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available were as follows:

	31 March 2005 $ million	31 March 2004 $ million
Expiry date:		
One to two years	307.0	41.6
More than two years	–	132.0
	307.0	**173.6**

Notes to the Financial Statements *continued*

28. Financial Instruments *continued*

(d) Net Foreign Currency Monetary Assets and Liabilities

The main currencies of the Group include the US dollar, UK pound sterling, Indian rupee and Australian dollar. The analysis of the net monetary assets and liabilities indicates the Group's exposures in various operating companies that are denominated in currencies other than the functional currency of the Company. These exposures represent the transactional exposures that may give rise to net currency gains and losses recognised in the profit and loss account. These exposures are net of the forward contracts and derivative products used to manage currency exposures.

	Net foreign currency monetary assets/(liabilities)		
At 31 March 2004	US$ $ million	GBP $ million	Total $ million
Financial currency of entity			
US$	n/a	257.1	257.1
INR	(317.0)	–	(317.0)
Total	**(317.0)**	**257.1**	**(59.9)**

	Net foreign currency monetary assets/(liabilities)						
At 31 March 2005	US$ $ million	GBP $ million	EUR $ million	A$ $ million	Kwacha $ million	Others $ million	Total $ million
Financial currency of entity							
US$	n/a	1.3	–	–	2.1	40.8	44.2
INR	(326.3)	–	(4.7)	(11.5)	–	–	(342.5)
Australian $	1.6	–	–	n/a	–	–	1.6
Total	**(324.7)**	**1.3**	**(4.7)**	**(11.5)**	**2.1**	**40.8**	**(296.7)**

(e) Hedging

As described above, the Group's policy is to hedge the following exposures:

- interest rate exposures by using interest rate swaps, options and other derivative instruments; and
- structural and transactional currency exposures, and currency exposures on future expected sales by using currency swaps, forward foreign currency contracts, options and other derivative instruments.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The carrying value of financial derivatives are thus held in the Financial Statements at nil value.

	Gains $ million	Losses $ million	Net gain/(loss) $ million
Unrecognised gains/(losses) on hedges at 1 April 2004 (restated)	**2.1**	**(20.9)**	**(18.8)**
Less: Gains/(losses) arising in previous years that were recognised in 2004/05	(1.1)	14.6	13.5
Add: (Losses)/gains arising in 2004/05 that were not recognised during the year	(0.3)	(7.9)	(8.2)
Unrecognised gains/(losses) on hedges at 31 March 2005	**0.7**	**(14.2)**	**(13.5)**
Of which:			
Gains/(losses) expected to be recognised during the year 2005/06	0.7	(10.3)	(9.6)
Losses expected to be recognised after 2006	–	(3.9)	(3.9)

Notes to the Financial Statements *continued*

29. Pensions

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 a designated percentage of 12% of basic salary, together with an additional contribution of 12% of 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 profit and loss account.

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 salary each month. This must be provided for every permanent employee on the payroll.

At the age of 60 (the statutory retirement age for all non-professional employees), 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.

It is not possible to assess the Group's own level of assets or liabilities within the Pension Fund as it is effectively a multi-employer scheme. On this basis, it is accounted for as a defined contribution scheme. No information regarding the overall level of surplus or deficit in the fund is publicly available.

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 at least 9% of the employee's gross remuneration into the employee's fund of choice and the employee has 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 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 profit and loss account.

Notes to the Financial Statements *continued*

29. Pensions *continued*

(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.

KCM

Specified permanent employees of KCM are entitled to receive medical and retirement severance benefit. This comprises two months' basic pay for every completed year of service. Under this scheme, benefits are provided based on final pensionable pay and a 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. This scheme is 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 25%.

(c) Pension Schemes existing within Group Companies

As at 31 March 2005, membership of pension schemes across MALCO, BALCO, HZL and KCM stood at 20,868 employees (31 March 2004: 10,735). The deficits 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 2005 using the projected unit actuarial method. At that date the fund was in deficit. The main assumptions used in the actuarial valuation were a discount rate of 8% per annum and an annual salary increase of 5%.

BALCO

At BALCO, all employees who are scheduled to retire on or before 31 March 2005 are covered by the LIC and therefore their remaining contributions are accounted for on a defined contribution basis. However, the scheme is accounted for as a defined benefit scheme for all employees scheduled to retire after 31 March 2005, who are not covered by the LIC. The latest actuarial valuation was performed as at 31 March 2005 using the projected unit actuarial method. At that date the fund was in deficit. The main assumptions used in the actuarial valuation were a discount rate of 8.5% per annum and an annual salary increase of 5% for office staff and 3% for non-office staff.

HZL

HZL contributes to the LIC but the policy does not cover the full deficit 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 2005 using the projected unit actuarial method. At that date the fund was in deficit. The main assumptions used in the actuarial valuation were a discount rate of 7.5% per annum and an annual salary increase of 5.0%.

(d) SSAP 24 – Accounting for Pension Costs

The Group accounts for pension costs in accordance with "Statement of Standard Accounting Practice 24 – Accounting for Pension Costs".

The retirement benefit charge for the year was as follows:

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Defined contribution pension schemes	5.0	4.2
Defined benefit pension schemes	5.9	3.9
	10.9	**8.1**

Notes to the Financial Statements *continued*

29. Pensions *continued*

(d) SSAP 24 – Accounting for Pension Costs *continued*

There were no outstanding or prepaid contributions for either the defined contribution or the defined benefit schemes as at 31 March 2005 or 31 March 2004.

The latest full actuarial valuations of the Gratuity schemes for MALCO, BALCO and HZL as at 31 March 2005, 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 2005.

(e) FRS 17 – Retirement Benefits – Transitional Disclosures

The results for the year ended 31 March 2005 continue to include a pension charge calculated under the principles of SSAP 24. Transitional arrangements for the adoption of FRS 17 require the disclosures set out below. The disclosures relate to the third year of the transitional provisions. The United Kingdom Accounting Standards Board has deferred the date for full adoption of FRS 17.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations of the MALCO, BALCO, HZL and KCM defined benefit schemes. Scheme assets are stated at their market value as at the relevant period end date.

The other pension schemes have been treated as defined contribution schemes for FRS 17 disclosure purposes.

The principal financial assumptions used to calculate the Gratuity schemes' liabilities under FRS 17 are set out below:

	MALCO			BALCO			HZL			KCM
	31 March 2003	31 March 2004	31 March 2005	31 March 2003	31 March 2004	31 March 2005	31 March 2003	31 March 2004	31 March 2005	31 March 2005
	%	%	%	%	%	%	%	%	%	%
Discount rate	8.0	8.0	8.0	8.0	7.5	7.5	8.5	7.5	7.5	25
Salary increases	5.0	5.0	5.0	5% for office staff, 3% for non office	5% for office staff, 3% for non office	5% for office staff, 3% for non office	5.0	4.5	5.0	25
Number of employees	861	845	789	5,069	3,944	4,159	6,013	5,946	5,933	9,987

Notes to the Financial Statements *continued*

29. Pensions *continued*

(e) FRS 17 – Retirement Benefits – Transitional Disclosures *continued*

FRS 17 balance sheet disclosures	MALCO	BALCO	HZL		KCM	Group Total	
	Fair value $ million	Fair value $ million	Rate of return %	Fair value $ million	Fair value $ million	Rate of return %	Fair value $ million
At 31 March 2003							
LIC funding	–	–	7.4	4.8		7.4	4.8
Fair value of pension scheme assets	–	–		4.8			4.8
Present value of pension scheme liabilities	(1.1)	(10.3)		(9.6)			(21.0)
Deficit in pension scheme	**(1.1)**	**(10.3)**		**(4.8)**			**(16.2)**
Deferred tax	0.4	3.7		1.7			5.8
Net pension liability	**(0.7)**	**(6.6)**		**(3.1)**			**(10.4)**
At 31 March 2004							
LIC funding	–	–	8.4	10.7		8.4	10.7
Fair value of pension scheme assets	–	–		10.7			10.7
Present value of pension scheme liabilities	(1.2)	(8.3)		(12.2)			(21.7)
Deficit in pension scheme	**(1.2)**	**(8.3)**		**(1.5)**			**(11.0)**
Deferred tax	0.4	3.0		0.5			3.9
Net pension liability	**(0.8)**	**(5.3)**		**(1.0)**			**(7.1)**
At 31 March 2005							
LIC funding	–	–	8.0	12.0		8.0	12.0
Fair value of pension scheme assets				12.0			12.0
Present value of pension scheme liabilities	(1.1)	(8.9)		(13.6)	(15.4)		(39.0)
Deficit in pension scheme	**(1.1)**	**(8.9)**		**(1.6)**	**(15.4)**		**(27.0)**
Deferred tax	0.4	3.0		0.5	3.9		7.8
Net pension liability	**(0.7)**	**(5.7)**		**(1.1)**	**(11.5)**		**(19.2)**

FRS17 Profit and Loss Account Disclosure

Had the Group adopted FRS 17 early, amounts included in the consolidated profit and loss account for the years ended 31 March 2005 and 31 March 2004 in respect of defined benefit pension plans would have been as follows:

	31 March 2005					31 March 2004			
	MALCO $ million	BALCO $ million	HZL $ million	KCM $ million	Total $ million	MALCO $ million	BALCO $ million	HZL $ million	Total $ million
Analysis of the amount charged to operating profit:									
Current service cost	–	0.4	0.7	2.0	**3.1**	0.2	0.5	0.6	**1.3**
Previously unrecognised surplus deducted from past service costs	–	–	–	–	**–**	–	–	0.6	**0.6**
Cost of settlements	–	–	–	–	**–**	–	2.2	–	**2.2**
Total operating charge	**–**	**0.4**	**0.7**	**2.0**	**3.1**	**0.2**	**2.7**	**1.2**	**4.1**
Analysis of the amount charged to other finance income:									
Expected return on scheme assets	–	–	(0.8)	–	**(0.8)**	–	–	(0.4)	**(0.4)**
Interest cost of scheme liabilities	0.1	0.6	1.8	1.1	**3.6**	0.1	0.6	0.7	**1.4**
Net charge to other finance income	**0.1**	**0.6**	**1.0**	**1.1**	**2.8**	**0.1**	**0.6**	**0.3**	**1.0**
Total charge to profit and loss account	**0.1**	**1.0**	**1.7**	**3.1**	**5.9**	**0.3**	**3.3**	**1.5**	**5.1**

Notes to the Financial Statements *continued*

29. Pensions *continued*

(e) FRS 17 – Retirement Benefits – Transitional Disclosures *continued*

Statement of Total Recognised Gains and Losses Disclosure

Had the Group adopted FRS 17 early, amounts included in the statement of total recognised gains and losses ("STRGL") for the years ended 31 March 2005 and 31 March 2004 would have been as follows:

	31 March 2005					31 March 2004			
	MALCO $ million	BALCO $ million	HZL $ million	KCM $ million	Total $ million	MALCO $ million	BALCO $ million	HZL $ million	Total $ million
Experience losses arising on scheme liabilities	–	(0.2)	(0.1)	(2.1)	**(2.4)**	–	(0.6)	(0.8)	**(1.4)**
Percentage of the present value of the scheme liabilities	–	1.8%	0.6%	13.7%	**–**	–	7.2%	6.8%	**–**
Effects of changes in assumptions underlying the scheme liabilities	–	–	0.2	–	**0.2**	–	(0.4)	(0.4)	**(0.8)**
Total actuarial losses recognised in the STRGL	**–**	**(0.2)**	**0.1**	**(2.1)**	**(2.2)**	**–**	**(1.0)**	**(1.2)**	**(2.2)**
Percentage of the present value of the scheme liabilities	–	1.8%	1.0%	13.7%	–	–	12.0%	9.7%	**–**

FRS 17 Liability Disclosure

The movement during the year ended 31 March 2005 in the FRS 17 pension liability (before allowance for deferred tax) shown above can be analysed as follows:

	31 March 2005					31 March 2004			
	MALCO $ million	BALCO $ million	HZL $ million	KCM $ million	Total $ million	MALCO $ million	BALCO $ million	HZL $ million	Total $ million
Balance at start of year	**(1.2)**	**(8.3)**	**(1.5)**	**–**	**(11.0)**	**(1.1)**	**(10.3)**	**(4.8)**	**(16.2)**
At acquisition	–	–	–	(10.5)	**(10.5)**	–	–	–	**–**
Current service cost	–	(0.4)	(0.7)	(2.0)	**(3.1)**	(0.2)	(0.5)	(0.6)	**(1.3)**
Previously unrecognised surplus deducted from past service costs	–	–	–	–	**–**	–	–	(0.6)	**(0.6)**
Settlement costs	–	–	–	–	**–**	–	(2.2)	–	**(2.2)**
Gratuity benefits paid	0.2	0.4	1.5	0.3	**2.4**	0.2	7.1	6.4	**13.7**
Net finance costs	(0.1)	(0.6)	(1.0)	(1.1)	**(2.8)**	(0.1)	(0.6)	(0.3)	**(1.0)**
Actuarial losses	–	(0.2)	0.1	(2.1)	**(2.2)**	–	(1.0)	(1.2)	**(2.2)**
Foreign exchange differences	–	0.2	–	–	**0.2**	–	(0.8)	(0.4)	**(1.2)**
Balance at end of year	**(1.1)**	**(8.9)**	**(1.6)**	**(15.4)**	**(27.0)**	**(1.2)**	**(8.3)**	**(1.5)**	**(11.0)**

Notes to the Financial Statements *continued*

29. Pensions *continued*

(e) FRS 17 – Retirement Benefits – Transitional Disclosures *continued*

Had the Group adopted FRS 17 early, the consolidated profit and loss reserve would have been restated as follows:

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 (restated) $ million	Year ended 31 March 2003 $ million
Profit and loss reserve at year end in the financial statements	**967.6**	**931.0**	**67.1**
Less: FRS 17 balances			
Deficit in pension scheme	(27.0)	(11.0)	(16.2)
add: attributable deferred tax	7.8	3.9	5.8
Add: SSAP 24 balances			
Pension provision	20.4	4.6	8.7
less: attributable deferred tax	(5.5)	(1.6)	(3.1)
Profit and loss reserve as adjusted	**963.3**	**926.9**	**62.3**

30. Related Party Transactions

The following are significant related party transactions entered into during the two years ended 31 March 2005:

(a) Transactions with Directors and members of the Executive Committeee 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 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 page 60. A residence is also made available to Mr Anil Agarwal for his frequent business trips to India.

"Other debtors" in note 16 at 31 March 2005 includes a housing loan of $350,000 receivable from the wife of Mr Tarun Jain, a director of Sterlite, HZL, BALCO and MALCO and a member of the Company's Executive Committee (2004: $350,000). Such housing loans are provided to members of senior management in accordance with local market practice. It has been agreed with Mr Jain that repayment of this loan will take place by 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 2005. 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 2005 $ million	Year ended 31 March 2004 $ million
Sales to SOTL	24.7	–
Acquisition of fixed assets	0.1	1.4
Amounts receivable at year end	16.7	1.7

Notes to the Financial Statements *continued*

30. Related Party Transactions *continued*

(b) Corporate Related Party Transactions *continued*

Sterlite Gold

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Provision of commercial services and others	0.2	–
Amounts receivable at year end	0.2	–

Volcan

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Benefit of tax deduction gained by Vedanta	3.8	–
Reimbursement of bank charges	(0.5)	–
Amount receivable at the year end	–	0.6

Duratube

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Acquisition of fixed assets	0.1	–

IFL

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 $ million
Sales to IFL	24.4	12.8
Net interest received	0.3	0.1
Trade debtors receivable (note 16)	3.6	–
Loan balance receivable (note 14a)	6.2	–
Amounts receivable at year end	9.8	1.9

In addition, a limited number of employees are seconded to Sterlite from IFL, SOTL and Sterlite Gold and similarly from IFL, SOTL and Sterlite Gold to 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 2005 amounted to $0.3 million. The loan has been classified as investment in associate.

Loans receivable

During the year ended 31 March 2004, the Group held two loans receivable from related parties, both of which have been repaid. The details of these loans are as follows:

- Brockway Inc.
  The Group held a loan due from Brockway Inc., a related party controlled by relatives of Mr Navin Agarwal. The loan bore interest at LIBOR plus 100 basis points. The loan was for $1.5 million and was repaid in full in October 2003.

- Ararat Gold Recovery Company Limited
  During the year ended 31 March 2004, the Group held a loan due from Ararat Gold Recovery Company Limited of $0.6 million. Ararat Gold Recovery Company Limited is a related party by virtue of being controlled by the same ultimate parent company as the Company. This loan was repaid in full in October 2003.

Notes to the Financial Statements *continued*

30. Related Party Transactions *continued*

(b) Corporate Related Party Transactions *continued*

Loans payable

- Oasis International Trading Corporation

  During the two years ended 31 March 2005, the Group held a loan payable to Oasis International Trading Corporation, a related party controlled by relatives of Mr Navin Agarwal. The loan bore interest at LIBOR and the Group paid interest of $9,000 and $95,000 during the years ended 31 March 2005 and 31 March 2004, respectively. The balance outstanding at 31 March 2005 was nil (2004: $2.6 million). The loan was repaid in June 2004.

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, in October 2003. The cost of bank charges borne by MALCO in respect of issuing these guarantees was $0.5 million and was reimbursed by Volcan in June 2004. Interest at LIBOR was applied on this balance and amounted to $13,000.

- Twin Star

  During the year ended 31 March 2004, the Group paid fees amounting to $0.3 million to Blake, Cassels & Graydon LLP, a Canadian firm of lawyers, in respect of corporate finance and legal advice provided to the Company. $43,000 of these fees related to the de-merger of Twin Star International Limited from Twin Star, and was regarded as having been incurred on behalf of Volcan.

  Payment in full was received from Volcan on 5 April 2004. No interest was applied on this balance given the short time period between the date when the fees were remitted to Blake, Cassels & Graydon LLP, and the date of receipt from Volcan.

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 arms' length basis and at normal commercial terms.

For the period from 10 December 2003 to 31 March 2005, 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 $0.03 million and $0.1 million, respectively, and remain unpaid as at 31 March 2005.

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.

Political and Public Awareness Trust

During the year, the Group contributed $1.3 million to the Political and Public Awareness Trust (2004: $1.2 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, $0.8 million was paid by BALCO and HZL to the Sterlite Foundation (2004: $0.3 million). 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.

Notes to the Financial Statements *continued*

31. Commitments and Guarantees

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:

	31 March 2005 $ million	31 March 2004 $ million
Contracted but not provided	538.3	958.7
	538.3	**958.7**

The commitments at 31 March 2005 primarily related to the expansion projects at HZL ($31.8 million), BALCO ($141.5 million) and Vedanta Alumina Limited ($336.1 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, details of which are provided in note 19.

A summary of the most significant guarantees is set out below:

Guarantees
As at 31 March 2005, the Group's assets were encumbered by $108 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 $29 million relating to payment of import duties on purchases of fixed assets.

Export Obligations
The Indian entities of the Group have export obligations of $922.5 million over eight years, on account of concessional rates of import duty paid on capital goods as per 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 liability which would impact on the Group is $115.2 million as reduced in proportion to actual exports.

Secured Loans
At 31 March 2005, the Group had $551.2 million of loans secured upon its assets (2004: $666.2 million). See note 19 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 $41.6 million at 31 March 2005 (2004: $19.6 million) against an outstanding balance of $36.6 million (2004: $13.1 million).

Feasibility Study – KCM
The Company is obliged to meet the first $1.0 million of cost relating to the feasibility study for the Konkola Ore Body Extension Project without recourse to KCM.

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 a financial year to procure 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 2005, ETB liabilities were $84.1 million, although these liabilities are likely to fluctuate at each future reporting date.

Shortfall Funding Commitment – KCM
Pursuant to the acquisition agreement with KCM, 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 33), 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.

Notes to the Financial Statements *continued*

32. 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.

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 has not yet been heard.

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. 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 Car SpA 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. Arbitration proceedings under ICC rules are currently underway.

National Thermal Power Corporation ("NTPC") dispute with BALCO

During the year ended 31 March 2005, BALCO has been in dispute with NTPC over the rates at which water and coal are supplied to the BALCO captive power plant (which BALCO took over from NTPC). BALCO asserts non-cooperation by NTPC, which has prevented BALCO from setting up its own coal handling and water pipeline facilties.

Subsequent to BALCO being successful in arbitration, NTPC appealed to the High Court in Delhi where NTPC gained an interim order raising water charges to nearly seven times the present level. After the granting of an interim order, the High Court dismissed NTPC's appeal, against which NTPC has filed a petition with the Supreme Court. The Supreme Court recommended that both parties should amicably settle the matter, and a hearing is expected in June 2005. Meanwhile, negotiations are continuing with the NTPC over the rates being charged.

The adverse impact to BALCO, if this matter is decided against the company and the revised rates charged by NTPC are upheld, would be approximately $10.3 million per annum.

Ministry of Environment and Forest ("MOEF") claim – VAL

In September 2004, VAL received environmental clearance from MOEF for its refinery project in the State of Orissa, after which construction work on the refinery project commenced. Subsequently, claims were filed with the Central Empowered Committee ("CEC") of the Supreme Court of India (which was constituted to look into environmental violations) alleging that the land on which the refinery was to be constructed included forestry, and the mine which was expected to source the refinery's future bauxite requirements, would adversely affect the environment and therefore the construction work on the refinery was in violation of MOEF guidelines.

VAL has since represented to MOEF that no forestry would be impacted by the construction of the refinery. VAL has also represented that the mining lease is owned by Orissa Mining Corporation Limited ("OMC"), a Government of Orissa undertaking, which has applied to MOEF for the necessary clearance. VAL is therefore of the view that the responsibility for obtaining the necessary mine clearance rests with OMC.

The MOEF has submitted an affidavit to CEC that it would not decide on the application for clearance of the mines submitted by OMC until CEC submits its report to the Supreme Court of India. VAL filed a writ petition in the Supreme Court seeking directions that MOEF decides on the forestry clearance. The Supreme Court admitted the writ petition and has directed CEC to submit its report within eight weeks with a copy to MOEF. The MOEF has subsequently been directed to submit its response.

Notes to the Financial Statements *continued*

32. Contingencies *continued*

Miscellaneous Excise Duty 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 $31.9 million, of which $10.5 million is included as a provision in the balance sheet as at 31 March 2005. In the view of the Directors, there are no significant unprovided liabilities arising from these claims.

33. Share transactions

Call Options – KCM

The Group purchased a 51% holding in KCM on 5 November 2004, with ZCI and ZCCM holding 28.5% and 20.5% interests, respectively. There are several call options over the KCM shares held by the Group, ZCI and ZCCM.

The Group has a call option over ZCI's holding 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.

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.

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 2005, the Government's holding in HZL was 29.5% (2004: 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 is currently being determined.

Notes to the Financial Statements *continued*

33. Share transactions *continued*

Convertible Debt – IFL

IFL has a loan of $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 8.4%.

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 (note 19). Of these, 500 bonds were converted into Sterlite's ordinary shares during the year ended 31 March 2004 and 25,800 bonds were converted into Sterlite's ordinary shares during the year ended 31 March 2005. This had an effect of reducing the Group's Economic Interest in Sterlite from 81.3% to 79.9%.

If the remaining 23,700 bonds were converted into Sterlite ordinary shares, then the dilutive impact on the Group`s Economic Interest would be 1.4%. The bonds became convertible on 4 December 2003 and can be converted at any time before 27 September 2008.

34. Subsequent Events

Environment Clearance - Sterlite

On 25 April 2005, Sterlite obtained the necessary permission from the Government authorities to commence production of copper cathode at its expansion project at Tuticorin. The expansion project will increase smelting capacity of Sterlite from 180,000 tpa to 300,000 tpa.

Commissioning of Zinc Smelter

On 31 May 2005, it was announced that the expanded smelter had been commissioned. This expansion project will increase the Group's refined zinc capacity from 220,000 tpa to 390,000 tpa.

35. Company Tangible Fixed Assets

	$ million
Cost	
At 1 April 2004	–
Additions	1.0
At 31 March 2005	**1.0**
Accumulated depreciation	
At 1 April 2004	–
Charge for the year	0.1
At 31 March 2005	**0.1**
Net book value	
At 1 April 2004	**–**
At 31 March 2005	**0.9**

36. Company Fixed Asset Investments

	$ million
Cost	
At 1 April 2004	15.6
Additions	616.8
Net book value	
At 1 April 2004	**15.6**
At 31 March 2005	**632.4**

At 31 March 2005, the Company held 123,371,952 shares in VRHL (2004: 10,000 shares), being 100% of VRHL's issued equity share capital. The Company also held one deferred share in VRHL.

Notes to the Financial Statements *continued*

37. Company Debtors

	31 March 2005 $ million	31 March 2004 $ million
Loan to subsidiary undertakings	538.3	66.0
Deferred tax asset	1.6	0.7
Other debtors	18.7	0.1
Prepayments and accrued income	0.9	0.3
Corporation tax receivable	0.6	–
Other taxes	0.5	–
	560.6	**67.1**
Debtors due within one year	22.3	67.1
Debtors due after one year	538.3	–
	560.6	**67.1**

At 31 March 2005, Vedanta had a loan due from Twin Star of $50.6 million (2004: $66.0 million). The loan bears interest at LIBOR plus 50 basis points. Included in the loan balance is accrued interest of $1.4 million (2004: $0.3 million).

At 31 March 2005, Vedanta had a loan due from VRHL of $487.6 million which 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 19. The loan bears interest at US dollar LIBOR 6 months plus 350 basis points. Accrued interest of $3.1 million is included in accruals.

38. Company Current Asset Investments

	31 March 2005 $ million	31 March 2004 $ million
Bank term deposits	–	153.3
Short term unit trusts and liquidity funds	24.2	590.1
Unquoted quasi-equity securities	199.7	–
	223.9	**743.4**

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.

39. Company Creditors: Amounts Falling Due Within One Year

	31 March 2005 $ million	31 March 2004 $ million
Trade creditors	2.9	0.4
Corporation tax payable	–	3.8
Other taxes payable	–	0.5
Accruals and deferred income	5.2	1.4
Proposed dividend to shareholders	33.1	15.8
	41.2	**21.9**

40. Company Creditors : Amounts Falling Due After One Year

	31 March 2005 $ million	31 March 2004 $ million
Bond	592.2	–
	592.2	**–**

During the year ended 31 March 2005, the Company issued a $600 million bond with a coupon rate of 6.625% that matures in February 2010. Further details are provided in note 19.

Notes to the Financial Statements *continued*

41. Company Reconciliation of Movement in Equity Shareholders' Funds

	Share capital $ million	Shares to be issued $ million	Share premium account $ million	Profit and loss account $ million	Total $ million
Equity shareholders' funds at 1 April 2004	**28.6**	**–**	**18.6**	**790.0**	**837.2**
Retained loss for the year	–	–	–	(49.1)	(49.1)
Shares issued under Reward Plan (note 22)	0.1	–	–	–	0.1
Shares to be issued under LTIP (note 22)	–	0.9	–	(0.9)	–
Equity shareholders' funds at 31 March 2005	**28.7**	**0.9**	**18.6**	**740.0**	**788.2**

42. Principal Subsidiaries

The consolidated Financial Statements comprise the financial statements of the following subsidiaries. Details of the Group's associate are provided in note 14a.

Subsidiaries	Principal activities	The Company's economic+ percentage holding		Country of incorporation	Immediate holding company
		31 March 2004 (restated)	31 March 2005		
Bharat Aluminium Company Limited ("BALCO")	Aluminium mining & smelting	36.1%+	40.7%+	India	Sterlite
Copper Mines of Tasmania Pty Limited ("CMT")	Copper mining	70.8%	79.9%	Australia	MCBV
Hindustan Zinc Limited ("HZL")	Zinc mining and smelting	46.0%+	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	70.8%	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%	Zambia	VRHL
Sterlite Employee Welfare Trust ("SEWT")*	Employee Trust	70.8%	79.9%	India	Sterlite
Sterlite Industries (India) Limited ("Sterlite")	Copper smelting	70.8%+	79.9%+	India	Twin Star
Sterlite Opportunities and Ventures Limited ("SOVL")	Holding company	70.8%	79.9%	India	Sterlite
Sterlite Paper Limited ("SPL")	Non-trading	70.8%	79.9%	India	Sterlite
Thalanga Copper Mines Pty Limited ("TCM")	Copper mining	70.8%	79.9%	Australia	MCBV
Twin Star Holdings Limited ("Twin Star")	Holding company	100.0%	100.0%	Mauritius	VRHL
Vedanta Alumina Limited ("VAL")	Alumina mining and smelting	70.8%+	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%	UK	VRHL
Vedanta Resources Cyprus Limited ("VRCL")	Financing company	–	100.0%	Cyprus	VRFL

* Quasi-subsidiary
\+ The Group's Economic Interest in operating companies is different from its effective interest as a consequence of the Sterlite shares owned by the SEWT. The Group's Economic Interest is the basis on which the Attributable Profit and net assets are determined in the consolidated accounts. The Group's effective interest in its principal operating subsidiaries are: Sterlite 77.3% (2004: 65.8%), BALCO 39.4% (2004: 33.6%), HZL 50.2% (2004: 42.7%) and VAL 93.3% (2004: 65.8%)

The following subsidiaries of the Group are listed on stock exchanges in India as follows:

Subsidiaries	Stock Exchanges
MALCO	Bombay and Madras
Sterlite	Bombay, Calcutta and National
HZL	Bombay

43. Ultimate Controlling Party

At 31 March 2005, 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.

Production and Reserves Summary

Copper

Copper Production Summary

Facility	Product	31 March 2005 mt	31 March 2004 mt
Tuticorin	Copper anode	177,020	175,242
	Sulphuric acid	546,647	541,721
	Phosphoric acid	104,902	117,614
Silvassa	Copper cathode	171,992	178,654
	Copper rods	125,406	122,713
KCM	Copper cathode	67,547	–

Copper Mining Summary

		Ore Mined		Copper Concentrate		Copper in Concentrate	
Mine	Type of Mine	31 March 2005 mt	31 March 2004 mt	31 March 2005 mt	31 March 2004 mt	31 March 2005 mt	31 March 2004 mt
Mt Lyell	Underground	2,417,468	2,674,946	98,141	97,007	27,593	28,334
Highway Reward	Underground	305,437	792,568	47,843	103,345	12,272	27,211
Konkola	Underground	3,452,341	–	108,029	–	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	11.7	1.5	17.7	1.3	14.9	1.2
Highway Reward & TCM	0.4	1.0	0.7	2.6	0.2	4.5
Konkola	303.2	2.3	233.0	2.4	143.6	1.4

Bauxite and Aluminium

Aluminium Production Summary

Company	31 March 2005 mt	31 March 2004 mt
BALCO	100,277	96,829
MALCO	35,649	32,226

Bauxite Production Summary

Company	Type of Mine	31 March 2005 mt	31 March 2004 mt
BALCO	Opencut	493,422	517,322
MALCO	Opencut	302,167	272,000

Bauxite Mines Resource and Reserves Summary

Bauxite Mines

	Resources[1]				Reserves	
BALCO	Measured and Indicated million mt	Aluminium Oxide %	Inferred million mt	Aluminium Oxide %	Proved and Probable Reserves million mt	Aluminium Oxide %
Mainpat			5.0	48.1	4.4	48.3
Bodai – Daldali			2.0	48.0	7.1	48.0
Pandrapat			8.0	48.0		
Jamirapat			15.7	50.5		
Total BALCO	**–**	**–**	**30.7**	**49.3**	**11.5**	**48.1**
MALCO						
Yercaud					0.6	42.0
Kolli Hills	0.8	44.0	1.3	44.0	0.8	44.0
Poondi			1.6	44.0		
Total MALCO	**0.8**	**44.0**	**2.9**	**44.0**	**1.4**	**43.0**
Lanjigarh	**–**	**–**	**–**	**–**	**77.7**	**46.5**
Total Bauxite	**0.8**	**44.0**	**33.6**	**48.8**	**90.6**	**46.6**

[1] Resources are additional to the reserves

Production and Reserves Summary *continued*

Zinc and Lead

Zinc and Lead Smelter Production Summary

Metal	31 March 2005 mt	31 March 2004 mt
Zinc	212,445	220,664
Lead	15,727	24,941

Zinc and Lead Concentrate Production Summary

		Ore Production		Zinc Concentrate		Lead Concentrate	
Zinc Mines	Type of Mine	31 March 2005 mt	31 March 2004 mt	31 March 2005 mt	31 March 2004 mt	31 March 2005 mt	31 March 2004 mt
Rampura Agucha	Opencut	2,451,725	2,200,025	549,785	509,780	47,266	40,643
Rajpura Dariba	Underground	538,715	593,038	55,556	54,036	10,546	10,061
Zawar	Underground	938,100	851,100	61,083	51,122	26,439	23,612
Total		**3,928,540**	**3,644,163**	**666,424**	**614,938**	**84,251**	**74,316**

Zinc and Lead Resource and Reserves Summary

	Resources[1]						Reserves		
	Measured and Indicated million mt	Zinc Grade %	Lead Grade %	Inferred million mt	Zinc Grade %	Lead Grade %	Proved and Probable Reserves million mt	Zinc Grade %	Lead Grade %
Rampura Agucha	11.1	12.7	1.7	13.8	12.2	1.7	50.1	12.8	1.9
Rajpura Dariba	12.2	7.5	2.5	19.6	5.7	2.1	10.6	5.9	1.7
Zawar	22.5	4.8	1.9	13.8	3.7	3.1	5.8	4.4	1.8
Kayar	0.8	13.3	2.2	4.5	11.0	1.5			
Total	**46.6**	**7.5**	**2.0**	**51.7**	**7.4**	**2.2**	**66.5**	**11.0**	**1.9**

[1] Resources are additional to the reserves

Source of Information
The resources and reserves information for the year ended 31 March 2004 has been extracted from the Company's Listing Particulars adjusted for subsequent production during the year.

The information for the year ended 31 March 2005 in respect of HZL was determined by HZL management using in-house geologists. Subsequently it was subject to verification by Steffen Robertson Kirsten (UK) Limited, an international engineering consultancy company. In respect of businesses other than HZL, the information has been certified by in-house geologists on behalf of company 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". This code is subtitled "Report of 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". The edition of the JORC Code in force as at the date of this Annual Report is dated September 1999+. The JORC Code recognises a fundamental distinction between resources and reserves.

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. No allowances are included for dilution and losses during mining, but the reporting of resource estimates carries the implication that there are reasonable prospects for eventual economic exploitation. Resources may therefore be viewed as the estimation stage prior to the application of more stringent economic criteria for reserve definition, such as a rigorously defined cut-off grade and mine design outlines, along with allowances for dilution and losses during mining.

Ore reserves, as defined by the JORC Code, are designated as proved and probable, and are derived from the corresponding measured and indicated resource estimates by including allowances for dilution and losses during mining. It is an explicitly stated further requirement that other modifying economic, mining, metallurgical, marketing, legal, environmental, social and governmental factors must also be taken into account.

References to resources and reserves are to total resources and reserves respectively. Total resources and reserves means that part of the resource and reserve from a mine in which subsidiaries of the Group have an economic interest. The Group does not wholly own certain of its subsidiaries and therefore total resources and total reserves include resources and reserves attributable to third party interests in controlled subsidiaries.

References to production are to total production. Total production means that part of production at mines and operations in which subsidiaries of the Group have an economic interest. The Group does not wholly own certain of its subsidiaries and therefore total production includes production attributable to third party interests in controlled subsidiaries.

+ the JORC Code – 2004 Edition

Five Year Summary

Summary Profit and Loss Account

	Year ended 31 March 2005 $ million	Year ended 31 March 2004 (restated) $ million	Year ended 31 March 2003 $ million	Year ended 31 March 2002 $ million	Year ended 31 March 2001 $ million
Group turnover	**1,884.2**	**1,289.5**	**963.1**	**601.3**	**481.6**
Group EBITDA	**455.0**	**322.7**	**224.3**	**109.7**	**104.7**
Depreciation	(101.7)	(71.8)	(59.2)	(46.1)	(29.5)
Goodwill amortisation	0.4	(0.5)	(0.4)	(0.4)	(0.4)
Exceptional items	(21.9)	(13.3)	(50.1)	(5.0)	–
Group operating profit	**331.8**	**237.1**	**114.6**	**58.2**	**74.8**
Share of (loss)/profit in associate	(2.7)	(1.2)	(0.5)	0.3	1.5
Non-operating exceptional items	(0.4)	(1.2)	(0.7)	–	11.1
Profit before interest	**328.7**	**234.7**	**113.4**	**58.5**	**87.4**
Net interest	3.6	(1.3)	(35.0)	(35.3)	(37.2)
Profit before taxation	**332.3**	**233.4**	**78.4**	**23.2**	**50.2**
Taxation	(97.6)	(76.0)	(20.5)	(6.7)	(15.2)
Profit after taxation	**234.7**	**157.4**	**57.9**	**16.5**	**35.0**
Equity minority interests	(114.7)	(85.1)	(33.4)	(15.3)	(13.0)
Profit attributable to shareholders	**120.0**	**72.3**	**24.5**	**1.2**	**22.0**
Dividends	(48.9)	(15.8)	–	–	–
Retained profit	**71.1**	**56.5**	**24.5**	**1.2**	**22.0**
Basic earnings per share (US cents per share)					
Profit for the financial year	41.9	25.3	8.6	0.4	7.7
Underlying Profit for the financial year	48.1	26.6	11.9	2.2	3.9
Dividend per share (US cents per share)	17.05	5.5	–	–	–

The financial information for the years ended 31 March 2003, 2002 and 2001 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. No restatement has been made for 2003, 2002 and 2001.

Five Year Summary *continued*

Summary Balance Sheet

	31 March 2005 $ million	31 March 2004 (restated) US$ million	31 March 2003 $ million	31 March 2002 $ million	31 March 2001 $ million
Goodwill	(52.6)	3.6	3.7	4.0	7.2
Tangible fixed assets	2,275.0	1,268.4	889.1	599.4	628.1
Fixed asset investments/associate	28.1	30.2	30.4	17.0	10.0
Total fixed assets	**2,250.5**	**1,302.2**	**923.2**	**620.4**	**645.3**
Stocks	336.3	199.9	170.1	96.6	123.0
Debtors	464.2	245.5	173.5	85.6	105.7
Cash and current asset investments	1,447.6	1,241.2	146.9	108.0	116.4
Total current assets	**2,248.1**	**1,686.6**	**490.5**	**290.2**	**345.1**
Short term borrowings	(218.4)	(295.3)	(220.3)	(161.1)	(158.7)
Other current liabilities	(723.2)	(586.5)	(277.8)	(122.9)	(161.1)
Total current liabilities	**(941.6)**	**(881.8)**	**(498.1)**	**(284.0)**	**(319.8)**
Net current assets/(liabilities)	**1,306.5**	**804.8**	**(7.6)**	**6.2**	**25.3**
Total assets less current liabilities	**3,557.0**	**2,107.0**	**915.6**	**626.6**	**670.6**
Long term borrowings	(1,303.5)	(523.6)	(257.7)	(177.8)	(218.7)
Other long term liabilities	(41.2)	(6.3)	(3.7)	(1.8)	(3.0)
Provisions	(424.2)	(162.9)	(144.0)	(120.3)	(116.0)
Total long term liabilities	**(1,768.9)**	**(692.8)**	**(405.4)**	**(299.9)**	**(337.7)**
Equity minority interests	(681.6)	(423.3)	(405.2)	(264.7)	(287.8)
Non equity minority interest	(59.4)	–	–	–	–
Net assets	**1,047.1**	**990.9**	**105.0**	**62.0**	**45.1**

Turnover	2005 $ million	2004 $ million	2003 $ million	2002 $ million	2001 $ million
Aluminium	281.7	223.4	220.7	168.5	50.1
Copper	1,014.7	592.8	406.7	379.0	384.6
India/Australia	765.5	592.8	406.7	379.0	384.6
Zambia	249.2	–	–	–	–
Zinc	486.4	401.1	291.1	–	–
Other	101.4	72.2	44.6	53.8	46.9
Group	**1,884.2**	**1,289.5**	**963.1**	**601.3**	**481.6**

Five Year Summary *continued*

EBITDA	2005 $ million	2004 $ million	2003 $ million	2002 $ million	2001 $ million
Aluminium	75.6	53.6	38.3	10.4	7.0
Copper	161.2	94.1	101.0	101.4	100.6
India/Australia	85.2	94.1	101.0	101.4	100.6
Zambia	76.0	–	–	–	–
Zinc	218.8	179.3	87.1	–	–
Other	(0.6)	(4.3)	(2.1)	(2.1)	(2.9)
Group	**455.0**	**322.7**	**224.3**	**109.7**	**104.7**

EBITDA Margin	2005 %	2004 %	2003 %	2002 %	2001 %
Aluminium	26.8	24.0	17.4	6.2	14.0
Copper	15.9	15.9	24.8	26.8	26.2
India/Australia	11.1	15.9	24.87	26.8	26.2
Zambia	30.5	–	–	–	–
Zinc	45.0	44.7	29.9	–	–
Group	**24.1**	**25.0**	**23.3**	**18.2**	**21.7**

Production	2005 000's mt	2004 000's mt	2003 000's mt	2002 000's mt	2001 000's mt
Aluminium	136	129	127	98	116
BALCO	100	97	96	68	87
MALCO	36	32	31	30	29
Copper	240	179	156	114	109
Sterlite	172	179	156	114*	109
KCM	68	–	–	–	–
Zinc	212	221	207	–	–

* 9 months

Cash costs of production	2005 US Cents/lb	2004 US Cents/lb	2003 US Cents/lb	2002 US Cents/lb	2001 US Cents/lb
Aluminium – BALCO	61.1	56.2	56.8	71.5	72.4
Aluminium – MALCO	66.5	53.8	48.9	54.8	54.1
Copper – Sterlite	7.1	7.8	9.1	10.0	13.0
Copper – KCM	106.2	–	–	–	–
Zinc	31.5	25.9	30.1	38.6	48.6

Capital expenditure	2005 $ million	2004 $ million	2003 $ million	2002 $ million	2001 $ million
Sustaining	67.1	64.5	35.7	43.4	31.8
Expansion	734.6	284.5	9.8	–	–
Total capital expenditure	**801.7**	**349.0**	**45.5**	**43.4**	**31.8**

Net cash/(debt)	2005 $ million	2004 $ million	2003 $ million	2002 $ million	2001 $ million
Aluminium	(441.7)	(75.8)	(3.2)	(7.0)	(0.4)
Copper	127.6	(318.0)	(346.3)	(194.1)	(219.2)
India/Australia	84.7	(318.0)	(346.3)	(194.1)	(219.2)
Zambia	42.9	–	–	–	–
Zinc	26.6	43.9	32.7	–	–
Other	213.2	772.2	(14.3)	(29.8)	(41.4)
Group	**(74.3)**	**422.3**	**(331.1)**	**(230.9)**	**(261.0)**

	2005 %	2004 %	2003 %	2002 %	2001 %
Gearing	4.0	–	39.4	41.7	44.5

	2005 $ million	2004 $ million	2003 $ million	2002 $ million	2001 $ million
Group Free Cash Flow	**204.4**	**335.4**	**145.6**	**37.1**	**(20.4)**

	2005 $ million	2004 $ million	2003 $ million	2002 $ million	2001 $ million
Capital Employed	**1,803.0**	**991.9**	**841.3**	**553.5**	**586.4**

	2005 %	2004 %	2003 %	2002 %	2001 %
ROCE	**13.7**	**16.9**	**14.4**	**8.2**	**9.1**

Glossary and Definitions

Aluminium Business
The aluminium business of the Group comprising its fully integrated bauxite mining, alumina refining and aluminium smelting in India

AGM or Annual General Meeting
The annual general meeting of the Company which is scheduled to be held on Wednesday 3 August 2005 at 3.00 pm at the City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP

Attributable Profit
Profit for the financial year before dividends to the shareholders of Vedanta Resources plc

BALCO
Bharat Aluminium Company Limited, a company incorporated in India

Board
The board of directors of the Company

Businesses
The Aluminium Business, the Copper Business and the Zinc Business together

Capital Employed
Net assets before net (debt)/cash and equity minority interests

Cash Tax Rate
Current taxation as a percentage of profit on ordinary activities before taxation

CMT
Copper Mines of Tasmania Pty Ltd, a company incorporated in Australia

Company or Vedanta
Vedanta Resources plc

Copper Business
The copper business of the Group comprising a copper smelter, a refinery and two copper rod plants in India, two copper mines in Australia and an integrated operation in Zambia consisting of three mines, a leaching plant and a smelter

CSR
Corporate social responsibility

Directors
The directors of the Company

Dollar or $
United States dollars, the currency of the United States of America

EBITDA
Earnings before interest, taxation, depreciation, goodwill amortisation and exceptional items (see note 3)

EBITDA Margin
EBITDA as a percentage of turnover

Effective Holdings and Economic Interest
The Group's Economic Interest in operating companies is different from its Effective Holdings as a consequence of the Sterlite shares owned by the SEWT. The Effective Holdings are derived by combining the Group's direct and indirect shareholdings in the operating companies. The SEWT is treated as an ESOP trust, its shares held in Sterlite are recorded as a reduction in shareholders' funds, as if the shares were cancelled. This has the effect of the Group's Economic Interest being higher compared to its Effective Holdings. The Group's Economic Interest is the basis on which the Attributable Profit and net assets are determined in the consolidated accounts

EPS
Earnings per Ordinary Share

Executive Directors
The executive directors of the Company

Expansion Capital Expenditure
Capital expenditure that increases the Group's operating capacity

Glossary and Definitions *continued*

Financial Statements
The audited financial statements for the Company and the Group for the year ended 31 March 2005 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 (see Financial Review)

GAAP
Generally Accepted Accounting Principles

Gearing
Net debt as a percentage of Capital Employed

Government
The Government of the Republic of India

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

IFL
India Foils Limited, a company incorporated in India

KCM or Konkola Copper Mines
Konkola Copper Mines PLC, a company incorporated in Zambia

LIBOR
London Inter Bank Offered Rate

Listing
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

LME
London Metals Exchange

London Stock Exchange
London Stock Exchange plc

LTIP
Vedanta Resources Long Term Incentive Plan

MALCO
The Madras Aluminium Company Limited, a company incorporated in India

mt or tonnes
Metric tonnes

MW
Megawatts of electrical power

Non-executive Directors
The non-executive directors of the Company

Ordinary Shares
Ordinary shares of $0.10 each in the Company

Return on Capital Employed or ROCE
Profit before interest, taxation, exceptional items, tax effected at the Group's effective tax rate as a percentage of Capital Employed

Reward Plan
Vedanta Resources Share Reward Plan

SEWT
Sterlite Employee Welfare Trust, a long term investment plan for Sterlite senior management

SOTL
Sterlite Optical Technologies Limited, a company incorporated in India

Glossary and Definitions *continued*

SOVL
Sterlite Opportunities and Ventures Limited, a company incorporated in India

Sterlite
Sterlite Industries (India) Limited, a company incorporated in India

Sustaining Capital Expenditure
Capital expenditure to maintain the Group's operating capacity

TC/RC
Treatment charge/refining charge being the terms used to set the smelting and refining costs

tpa
Metric tonnes per annum

TCM
Thalanga Copper Mines Pty Limited, a company incorporated in Australia

Twin Star
Twin Star Holdings Limited, a company incorporated in Mauritius

Twin Star Holdings Group
Twin Star and its subsidiaries and associated undertaking

Underlying Profit
Profit for the year after adding back exceptional items and their resultant tax and minority interest effects

VAL
Vedanta Alumina Limited, a company incorporated in India

Volcan
Volcan Investments Limited, a company incorporated in the Bahamas

VRHL
Vedanta Resources Holdings Limited, a company incorporated in the United Kingdom

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

Shareholder Information

Shareholder Interests at 31 March 2005:

Number of shareholders: 723 (2004: 623)
Number of shares in issue: 286,776,000 (2004: 286,388,000)

By Size of Holding:

	Shareholders %		Shares %	
	2005	**2004**	**2005**	**2004**
500 and under	**16.32**	13.00	**0.01**	0.01
501 to 1,000	**13.14**	10.76	**0.03**	0.02
1,001 to 10,000	**31.67**	34.35	**0.27**	0.26
10,001 to 100,000	**19.09**	20.23	**1.99**	1.69
100,001 to 1,000,000	**15.08**	17.17	**13.19**	13.62
Over 1,000,000	**4.70**	4.49	**84.51**	84.40
	100.00	100.00	**100.00**	100.00

By Category of Shareholder:

- 53.76% of shares, representing 0.27% of shareholders, are held by Volcan Investments Limited on behalf of the Agarwal family.
- 45.93% of shares, representing 69.72% of shareholders, are held by various institutional investors.
- 0.31% of shares, representing 30.01% of shareholders, are held by individual private investors.

Annual General Meeting

The AGM will be held on Wednesday 3 August 2005 at the City Presentation Centre, 4 Chiswell Street, London, United Kingdom, EC1Y 4UP. The Notice of Meeting and the proxy card 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 BS13 8AE.

Telephone: +44 (0) 870 702 0000
Fax: +44 (0) 870 703 6101
www.computershare.com

Currency Option and Dividend Mandate

Shareholders wishing to receive their dividend in UK pounds sterling should contact the Company's Registrars to request a currency election form. This form should be completed and returned to the Registrars by 5 August 2005.

The Company's Registrars can also arrange for the dividend to be paid directly into shareholders' UK bank accounts. To take advantage of this facility, a dividend mandate form, also available from the Company's Registrars, should be completed and returned to the Registrars by 5 August 2005. 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 Company's Registrars by 5 August 2005.

Shareholders who already have completed one or both of these forms need take no further action.

Investor Relations

For investor enquiries please contact: Mr John Smelt, Head of Investor Relations, Vedanta Resources plc, 16 Berkeley Street, London W1J 8DZ.
Telephone: +44 (0) 20 7659 4734 (js@vedantaresources.com)

Shareholder Information *continued*

Financial Calendar
Dividend Payments:

Ex-dividend date	20 July 2005
Record date	22 July 2005
Final dividend payable	19 August 2005
Interim dividend payable	January 2006

Other Dates:

Annual General Meeting	3 August 2005
Interim results announced	16 November 2005
Interim report circulated	2 December 2005

Registered Office
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Hill House
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EC4A 3TR

Company Secretary
Matthew Hird

Head Office
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Registered Number
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Solicitors
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