Finance review

Financial highlights

- Revenue of US$12.9 billion
- EBITDA of US$3.7 billion, EBITDA margin of 38%[1]
- Free cash flow after growth capex of US$1 billion
- Gross debt reduced by US$200 million
- Full year dividend of 63 US cents per share

1 Excluding custom smelting.

Our total revenue for the year was US$12.9 billion, in line with the previous year and despite a weaker commodity environment. We believe this demonstrates the underlying strength of our diversified portfolio of assets.

Vedanta delivered EBITDA of US$3.7 billion, a decrease of 17% due to the negative impact of the commodity price environment, lower volumes and consequently higher unit costs across a number of businesses, principally the Zinc operations, Cairn India and Copper Zambia. Average Brent for the year was down 21% and LME copper down 8%. Iron ore prices were down 39%, however this did not have a material impact on EBITDA given the low production volumes. Strong operational performances at Copper India and Aluminium and a better price environment for Zinc and Aluminium mitigated some of the downside.

Average EBIDTA margin (excluding custom smelting) for the year continues to remain healthy at 38%, despite the weaker commodity prices largely due to continued strength in our Zinc businesses and improving margins in Aluminium and Copper India.

Special items principally include asset impairments of US$4.5 billion (net of tax) in FY2015. This largely relates to the Oil & Gas business, and was triggered by a steep fall in Brent prices which were down 50% in Q4 compared to the beginning of the year.

Excluding special items, profit before tax was down only 12% despite a higher decline in EBITDA, largely owing to lower net interest and lower depreciation charges. Profit after tax at $751 million, was down 32%. The tax charge was higher in FY2015 in comparison to FY2014 primarily due to the effect of a one-off tax credit in FY2014. Underlying EPS at loss (14.2) US cents was lower than FY2014 at 14.7 US cents.

Consolidated operating profit before special items

(in US$ million, except as stated)	FY2015	FY2014	% Change
Oil & Gas	**206.6**	933.6	(77.9)%
Zinc	**1,129.2**	1,106.3	2.1%
India	**1,059.4**	1,030.2	2.8%
International	**69.8**	76.1	(8.4)%
Iron Ore	**(10.9)**	(70.0)	–
Copper	**38.5**	140.6	(72.7)%
India/Australia	**229.5**	155.8	47.2%
Zambia	**(191.0)**	(15.2)	–
Aluminium	**275.9**	112.6	145.0%
Power	**88.0**	69.3	27.0%
Others	**8.2**	(4.3)	–
Total Group operating profit before special items	**1,735.5**	2,288.1	(24.1)%

Consolidated operating profit variance analysis

(In US$ million)		
Operating profit before special items for FY2014		2,288.1
Volume – operations		(153.2)
Volumes – CMT – temporary shutdown		(37.2)
Prices		(182.0)
– LME/LBMA/Brent	(328.7)	
– Premium	146.7	
Foreign exchange fluctuation		87.1
Cash cost of production		(301.1)
Profit petroleum		(121.3)
Depreciation		155.7
Amortisation		41.5
Others		(42.1)
Operating profit before special items for FY2015		**1,735.5**

Note: Of the total operating profit variance above US$552 million, US$750 million (total operating profit variance less depreciation and amortisation variance as above) is the EBITDA variance.

Volumes

Whilst higher production volumes in Copper India, the recommencement of iron ore production in Karnataka and the commissioning of a new power plant at Talwandi Sabo helped increase operating profit, this was more than offset by lower volumes in our Zinc businesses, Oil & Gas and Copper Zambia.

In our Zinc International business, production was affected by a few unplanned maintenance shut downs and a fire at Skorpion in January 2015. Production also declined as the Lisheen mine nears the end of its life.

In India, zinc production volumes in the first half of the year were affected by lower mined metal production and the temporary lower silver grades at Sindesar Khurd.

In our Oil & Gas business, volumes were marginally lower as a result of a 10-day planned maintenance shutdown in the first half, and a temporary disruption of gas production.

Production at Copper Zambia was primarily affected by remediation and critical maintenance being carried out on the shafts and lower grades at Nchanga.

Together the above factors impacted operating profit before special items by US$153.2 million.

CMT, our copper mines in Australia remains under care and maintenance following a mud rush incident in January 2014 reducing operating profit by US$37.2 million.

Prices

The operating profit before special items of a number of our businesses have been significantly affected by the changes in commodity prices.

Oil & Gas: Brent prices fell sharply in the second half of FY2015 reducing operating profit by US$543 million.

Copper: Average LME copper prices were down 8% in FY2015 compared to the previous year adversely affecting Zambian operating profit by US$61 million.

Lead and Silver: Average lead prices were down 3% and silver down 15%, together these reduced operating profit by US$40 million.

Power: Lower energy prices, following reduced short-term demand, had an adverse effect of US$38 million.

These negative impacts totalling US$682 million were partly offset by increases in the average zinc and aluminium prices of 14% and 7% respectively. This, in combination with stronger premia in both the businesses, resulted in a positive offset of US$439 million (zinc US$279 million, aluminium US$160 million). Stronger TcRc's in Copper India contributed US$39 million, giving an overall adverse net price impact of US$182 million.

Foreign exchange fluctuation

Local currencies weakened versus the US dollar, increasing our profitability by reducing locally denominated costs in US dollar terms.

The Indian rupee: US$ exchange rate at the beginning of FY2015 was 60.10 Indian rupees per US$, closing at 62.59 Indian rupees per US$ at the year end. The average exchange rate for FY2015 was 61.15 Indian rupees per US$, a marginal increase of 1.1% compared to the average of 60.50 Indian rupees per US$ for FY2014. This improved operating profits by US$87 million. In FY2015 the movements in currencies other than the India rupee had a nil net impact compared to the prior year.

Costs of production

Unit costs across our businesses have been affected by lower volumes, regulatory headwinds in the form of higher royalties and coal availability:

- **Oil & Gas:** Costs were adversely affected by US$99 million due to higher processing and well maintenance costs and the expense of the 10 day planned shutdown.
- **Zinc India:** A negative effect of US$93 million, principally comprised higher royalty charges of US$56 million (including contributions to a new 'District Mineral Fund' at 33% of the royalty rate), together with long-term wage settlements and coal cost increases also driven by regulatory issues.
- **Aluminium:** Whilst operating profit in our Aluminium business has improved on the back of stronger prices and premia, the business has suffered higher coal and alumina costs, due to regulatory sourcing issues leading to an overall adverse impact of US$75 million.
- **Copper Zambia:** The additional costs incurred in addressing the shaft and equipment availability issues, combined with the US$15 million effect of the higher royalty rate, reduced profitability by US$55 million.

Information regarding exchange rates against the US dollar

	Average FY2015	Average FY2014	**As at 31.3.15**	As at 31.3.14
Indian rupee	**61.15**	60.50	**62.59**	60.10
Australian dollar	**0.87**	0.93	**0.76**	0.93
South African rand	**11.06**	10.11	**12.10**	10.58
Kwacha	**6.45**	5.54	**7.59**	6.25

Income statement

(in US$ million, except as stated)	**FY2015**	FY2014	% change
Revenue	**12,878.7**	12,945.0	(0.5)%
EBITDA	**3,741.2**	4,491.2	(16.7)%
EBITDA margin (%)	**29.1%**	34.7%	–
EBITDA margin without custom smelting (%)	**38.0%**	44.9%	–
Special items	**(6,744.2)**	(138.0)	–
Depreciation	**(1,254.6)**	(1,410.5)	(11.1)%
Amortisation	**(751.1)**	(792.6)	(5.2)%
Operating (loss)/profit	**(5,008.7)**	2,150.1	–
Operating (loss)/profit w/o special items	**1,735.5**	2,288.1	(24.2)%
Net interest expense	**(554.6)**	(752.1)	(26.3)%
Other gains and (losses)	**(76.9)**	(279.9)	–
(Loss)/profit before taxation	**(5,640.2)**	1,118.1	–
Profit before taxation w/o special items	**1,104.0**	1,256.1	(12.1)%
Income tax expense – others	**(352.6)**	(158.0)	–
Income tax credit (special items)	**2,205.1**	29.4	–
Effective tax rate w/o special items (%)	**31.9%**	12.6%	–
(Loss)/profit for the year	**3,787.7**	989.4	–
Profit for the year w/o special items	**751.4**	1,098.1	(31.6)%
Non-controlling interest	**(1,988.1)**	1,185.4	
Non-controlling interest w/o special items	**826.5**	1,221.1	(32.3)%
Non-controlling interest w/o special items (%)	**110.0%**	111.2%	–
Attributable (loss)/profit	**(1,798.6)**	(196.0)	–
Attributable (loss)/profit w/o special items	**(74.7)**	(123.0)	–
Underlying attributable (loss)/profit	**(38.9)**	40.2	–
Basic (loss)/earnings per share (US cents per share)	**(654.5)**	(71.7)	–
Earnings per share w/o special items (US cents per share)	**(27.2)**	(45.0)	–
Underlying earnings per share (US cents per share)	**(14.2)**	14.7	–

The adverse cost impacts above, were partially mitigated by US$33 million of positive unit cost variances. These included higher acid credits at the Copper smelter at Tuticorin leading to lower net costs and improved efficiency at our power plant in Jharsuguda.

The net effect of the above was an adverse impact of around US$301 million on the operating profit before special items.

Profit petroleum

The change in government share of profit petroleum in Rajasthan block at Cairn India from 30% to 40% in FY2015 resulted most of the increase.

Finance review continued

Consolidated revenue – detail

(in US$ million, except as stated)	FY2015	FY2014	% change
Zinc	**2,943.9**	2,856.8	3.1%
India	**2,357.0**	2,195.4	7.4%
International	**586.9**	661.4	(11.3)%
Oil & Gas	**2,397.5**	3,092.8	(22.5)%
Iron Ore	**326.5**	267.1	22.2%
Copper	**4,777.8**	4,676.2	2.2%
India/Australia	**3,700.7**	3,404.8	8.7%
Zambia	**1,077.1**	1,271.4	(15.3)%
Aluminium	**2,081.9**	1,785.4	16.6%
Power	**671.9**	621.7	8.1%
Eliminations	**(320.8)**	(355.0)	–
Revenue	**12,878.7**	12,945.0	(0.5)%

Consolidated EBITDA

The consolidated EBITDA by sector is set out in the table below:

(in US$ million, except as stated)	FY2015	FY2014	% Change	EBITDA margin % FY2015	FY2014
Oil & Gas	**1,476.8**	2,347.0	(37.1)%	**61.6%**	75.9%
Zinc	**1,373.3**	1,358.4	1.1%	**46.6%**	47.5%
India	**1,192.5**	1,145.0	4.1%	**50.6%**	52.2%
International	**180.8**	213.4	(15.3)%	**30.8%**	32.3%
Iron Ore	**31.4**	(24.2)	–	**9.6%**	(9.1%)
Copper	**277.2**	354.2	(21.7)%	**5.8%**	7.6%
India/Australia	**281.0**	197.9	42.0%	**7.6%**	5.8%
Zambia	**(3.8)**	156.3	–	**(0.4)%**	12.3%
Aluminium	**415.5**	287.3	44.6%	**20.0%**	16.1%
Power	**153.8**	168.4	(8.7)%	**22.9%**	27.1%
Others[1]	**13.2**	0.1	–		–
Total	**3,741.2**	4,491.2	(16.7)%	**29.0%**	34.7%

1 Includes port business.

Balance sheet

(In US$ million, except as stated)	31 March 2015	31 March 2014
Goodwill	**16.6**	16.6
Intangible assets	**101.9**	108.6
Tangible fixed assets	**23,352.0**	31,043.5
Other non-current assets	**1,807.0**	1,373.7
Cash and liquid investments	**8,209.8**	8,937.9
Other current assets	**3,501.6**	3,894.0
Gross debt	**(16,667.8)**	(16,871.2)
Other current and non-current liabilities	**(8,063.7)**	(10,528.3)
Net assets	**12,257.4**	17,974.8
Shareholders' equity	**1,603.1**	4,010.4
Non-controlling interests	**10,654.3**	13,964.4
Total equity	**12,257.4**	17,974.8

Depreciation

The Oil & Gas business realised a lower depreciation charge of US$120 million in the year. The expense is based on production, divided by the Group's economic interest, which has increased as the interest accruing to partners has fallen in line with lower prices.

In accordance with its accounting policy, the Group carried out a review of the useful life of its assets. This was based on technical studies performed by an independent external agency and applying their recommendations with effect from 1 October 2014 resulted in a US$71 million lower net charge compared to FY2014.

The capitalisation of one unit of TSPL and 84 pots at Korba-II contributed to an increase in depreciation of US$8 million. The further commissioning of pots in Aluminium and the continued staged commissioning of power plants at BALCO IPP and TSPL, will increase the depreciation charge in FY2016.

Amortisation

The reduction in amortisation charges in FY2015 compared to the previous year was US$42 million, mainly attributable to lower volumes at Cairn India and Zinc International.

Others

An exploratory asset write off of US$129 million, largely pertaining to a deep gas well in the Ravva production block, offset by higher profitability from our smaller businesses (pig iron, phosphoric acids and precious metal), leads to a net reduction in operating profit before special items of US$42 million.

Revenue

Overall revenues, as explained earlier, were stable in FY2015. The table below indicates the movement by segment. Primarily, the fall in Oil & Gas revenue, as a result of lower Brent prices, has been offset by increased revenue in Zinc, Iron Ore, Copper, Aluminium and Power.

EBITDA for FY2015 is lower by 16.7% at US$3,741 million. This was primarily due to reduction in Oil & Gas, Copper Zambia, Zinc International and Power businesses.

Further detail on the year-on-year variations are provided in the operational review.

EBITDA margin

In FY2015 EBITDA margin was 29% as compared to 35% in FY2014. EBITDA margin excluding custom smelting was 38.0% and reduced from 44.5% in FY2014. The main drivers across key businesses were:

- **Oil & Gas:** The sharp decline in crude oil prices and the Ravva exploration asset write off.

- **Zinc India:** Higher prices and premia offset by higher royalty and wage settlement costs.
- **Zinc International:** Higher prices offset by unit cost increases.
- **Copper:** Improvement in smelting margins in Copper India with higher TcRc's; higher per unit costs as well as lower prices in Copper Zambia; and the full year effect of Australian assets being under care and maintenance.
- **Aluminium:** Higher costs driven coal and bauxite sourcing offset by higher prices and premia.

Special items

Special items of US$6,744 million include a non-cash impairment charge of US$6,642 (US$4,504 million net of tax) relating to the Oil & Gas business and US$52 million in Copper Zambia.

The impairment in Oil & Gas was triggered by the steep fall in Brent oil prices. The non-cash charge includes US$5,854 million (US$3,716 million net of tax) on the Rajasthan and other units which includes both producing and exploratory assets and US$788 million on the Sri Lankan exploratory block. Key assumptions include the short-term (five years) oil price and the long-term nominal oil price of US$84 per barrel increasing at 2.5% per annum. The assumptions selected were consistent with the various available analyst pricing.

The charge at the Vedanta Resources plc level is greater than that announced previously by Vedanta Limited (formerly Sesa Sterlite Limited) as additional carrying value was previously recognised on the acquisition of Cairn India in FY2012, as under IFRS were on 100% basis with a corresponding non-controlling interest, whereas under Indian Generally Accepted Accounting Principles the fair value uplift only arose on the economic interest acquired. This non-cash impairment charge will not have any impact in the future operating or earnings capacity of the underlying assets.

Copper Zambia impairment charge arose on the underground assets at Nchanga where the Upper Ore Body project started in 2008 was suspended due to ground conditions and existing mine infrastructure constraints.

Other special items include the provision in respect of an investment in the cancelled coal block of the Company pursuant to a Supreme Court decision in September 2014, and a US$8 million provision in respect of a contractor dispute in Copper Zambia.

Net interest

Finance costs decreased by 4% to US$1,387 million in FY2015 (FY2014: US$1,440 million). This is largely due to refinancing at lower interest rates. The average borrowing cost of the Group is 7.5% per annum (8.0% in FY2014).

Investment revenue increased to US$833 million, (FY2014: US$688 million), mainly at Zinc India and Cairn India, driven by higher treasury income on account of mark-to-market (MTM) gains accruing in a falling interest rate environment in India where most of the Group's cash and investments reside. The combination of significantly higher investment revenues and lower finance cost led to a decrease of US$198 million in net interest expense for the year.

Other gains and losses

Other gains and losses include the impact of mark-to-market (MTM) on foreign currency borrowings, primarily at our Indian businesses and dollar denominated cash deposits at the Oil & Gas business. Depreciation in the Indian rupee against the US dollar during FY2015 was only around 1% against an unprecedented 10% in FY2014. The FY2015 MTM cost of US$77 million was thus significantly lower than US$280 million in FY2014.

Taxation

The Effective Tax Rate (ETR) in FY2014 was primarily lower as a result of a tax credit of US$176 million which arose on the restructuring of the Indian subsidiary Vedanta Limited (formerly Sesa Sterlite Limited).

The tax charge, excluding special items, in FY2015 is US$352 million (effective tax rate 32%) compared with US$158 million (effect tax rate 13%) in FY2014.

Tax charge (with special items) in FY2015 includes a credit of US$2,205 million relating to the corresponding non-cash impairment charge and other special items described earlier.

Attributable (loss)/profit

Attributable loss (before special items) was US$(75) million as compared to US$(123) million in the previous year, mainly driven by the weak commodity prices resulting in lower EBITDA, which includes a one time provision of 7% Gridco receivables US$45 million and exploratory asset write off at Cairn India US$88 million pertaining to a deep gas well in the Ravva production block. Further, it reduced due to the higher tax which was partially offset by lower depreciation and amortisation and the lower net interest expense. The attributable loss (including special items) at US$(1,799) million (FY2014 at US$196 million) is significantly greater largely due to the non cash impairments in the Oil & Gas business.

Earnings per share

Basic EPS at loss (654.5) US cents (FY2014 loss (71.7) US cents) decreased significantly primarily as a result of the special items described above. Excluding the impact of specials items and other gains and losses, the underlying EPS was loss (14.2) US cents per share (FY2014 14.7 US cents).

> Despite lower EBITDA, our average EBITDA margin excluding custom smelting remained healthy at 38%.

> Our net debt has reduced since FY2012 whilst our operating free cash flow in FY2015 was US$1 billion.

Finance review continued

Debt

Particulars	Total	FY2016	FY2017	FY2018	FY2019	FY2020	Beyond FY2020
Debt at Vedanta Resources plc	7.8	0.4	2.0	1.0	2.6	0.3	1.5
Debt at subsidiaries	8.4	2.1	1.3	1.7	1.7	0.7	0.9
Total debt	**16.2**	**2.5**	**3.3**	**2.7**	**4.3**	**1.0**	**2.4**

The movement in fund flow is set out below.

Fund flows

(in US$ million, except as stated)	31 March 2015	31 March 2014
Fund flow		
EBITDA	**3,741**	4,491
Operating exceptional items	**(50)**	(138)
Working capital movements	**131**	395
Changes in non-cash items	**203**	151
Sustaining capital expenditure	**(221)**	(322)
Movement in capital creditors	**(288)**	(320)
Sale of tangible fixed assets	**26**	9
Net interest	**(362)**	(710)
Tax paid	**(602)**	(861)
Expansion capital expenditure[1]	**(1,531)**	(1,425)
Free cash flow post capex	**1,047**	**1,270**
Acquisition of minorities	**(819)**	–
Dividend paid to equity shareholders	**(171)**	(163)
Dividend paid to non-controlling interests	**(340)**	(346)
Sale of fixed asset investments	**–**	17
Other movement[2]	**(258)**	(82)
Movement in net debt	**(541)**	696

1 On an accrual basis.
2 Includes foreign exchange movements.

Shareholder's equity was US$1,603 million at 31 March 2015 compared to US$4,010 million at 31 March 2014 reflecting largely the impact of the impairments and other special items of US$4,539 million, adverse currency translation impact due to depreciation of the operating currencies against US dollar (mainly, the Indian rupee) of US$291 million, a decrease in equity attributable to shareholders by US$175 million on account of both the Cairn share buyback and stake acquisition in Vedanta Limited (formerly Sesa Sterlite Limited) representing difference between acquisition price and book value and the US$171 million dividend payment.

Tangible fixed assets

During the year, we invested US$1,752 million in property, plant and equipment; comprising of US$1,531 million on our expansion and improvement projects and US$221 million spent on sustaining capital expenditure. Expansion project expenses were US$1,080 million in our Oil & Gas business at Cairn India; US$167 million at Zinc India; US$142 million in the Power business mainly at Talwandi Sabo, US$145 million in our Aluminium business.

Net debt

Gross debt as at 31 March 2015 was US$16,668 million (31 March 2014: US$16,871 million). This reduction was mainly driven by the repayment of maturing debt (c.US$500 million of FCCBs) in the Copper business out of operating cash flows and devaluation of rupee denominated debt largely offset by the increase in borrowings primarily to fund capital expenditure in projects and some short-term operational needs.

The average debt in FY2015 was US$17,074 million. Given the significant repayments of debt in the second half of the year and lower capex in general, the closing debt position was lower at US$16,668 million. The debt reduction in the second half was approximately US$600 million, driven by strong capital rationing and working capital management in a difficult commodity price environment.

Of our total gross debt (excluding working capital loans) of US$16.2 billion debt at our subsidiaries is US$8.4 billion, with the balance in the holding company. The future maturity profile of debt (in US$ billion) of Vedanta Resources plc is as follows:

A US$350 million loan has been arranged with the State Bank of India (SBI) at Vedanta Resources plc (of which US$25 million had been drawn as at 31 March 2015), to meet the upcoming debt maturities.

Of the US$2.1 billion debt maturing in subsidiaries during FY2016, almost US$1.6 billion is in the Aluminium and Power businesses. These maturities mainly relate to short-term loans which are expected to be refinanced from long-term sources in view of the softer interest rate regime in the Indian market. Cash and liquid investments were US$8,210 million at 31 March 2015 (31 March 2014: US$8,938 million).

Net debt increased by US$540 million to US$8,460 million at 31 March 2015 (31 March 2014: US$7,920 million). This increase is mainly due to the outflow of US$820 million in first half of the year towards the share buyback by Cairn India and the acquisition of a 5% stake in Vedanta Limited (formerly Sesa Sterlite Limited) by Vedanta Resources plc.

Project capex

Capex in progress	Status	Capex (US$Mn)	Spent up to March 2014	Spent up to March 2015	Unspent as on 31 March 2015
Cairn India	Phase wise completion (US$500 million to be spent in FY2016 and retain the flexibility to invest balance US$1.4 billion as oil prices improve and costs bottom out)	3,030	–	1,080	1,949
Total capex in progress – Oil & Gas		**3,030**	**–**	**1,080**	**1,949**
Aluminium Sector					
BALCO – Korba-II 325ktpa Smelter and 1,200MW power plant (4x300MW)	Smelter: 84 post capitalised in September 2014	1,872	1,721	98	53
Lanjigarh Refinery (Phase II) – 4mtpa	Awaiting approval	1,570	809	–	761
Jharsuguda 1.25mtpa smelter	Potline-wise commissioning: 1st phase of 50 pots started	2,920	2,500	35	385
Power sector					
Talwandi 1,980MW IPP	Unit II under trial run	2,150	1,869	142	139
Zinc sector					
Zinc India (mines expansion)	Phasewise completion	1,500	435	167	898
Zinc International					
Gamsberg mining project	Capex rephased	630	–	5	625
Skorpion refinery conversion		152	–	4	148
Total capex in progress – Metals & Mining		**10,794**	**7,334**	**451**	**3,009**

Capex flexibility	Status	Capex (US$mn)	Spent up to March 2015	Spent in FY2015	Unspent as at 31 March 2015
Copper sector					
Tuticorin smelter 400ktpa	EC awaited	367	129	–	239
Total capex flexibility		367	129	–	239
Total capex (excl. Cairn)		**11,161**	**7,463**	**451**	**3,247**
Total capex (incl. Cairn)		**14,191**	**7,463**	**1,531**	**5,197**

The Group's net gearing has gone from 30.6% to 40.8% with 7.3% of this change relating to the non-cash impairments in the year and their corresponding effect on net assets.

Credit rating

The downward pressure on metal and oil prices has impacted the Company's credit rating. In January 2015, the rating agency Moody's revised the outlook on the Company's ratings to 'Negative' from 'Stable', while maintaining the rating at 'Ba1'. S&P recently revised the Company rating to 'BB-' from 'BB', with the outlook on the rating to 'Negative'.