

**URS**



**Vedanta Resources plc  
and Lanjigarh Alumina Refinery**

**REVIEW OF PROGRESS ON  
RECOMMENDATIONS – JULY 2011**

Report Finalised on 11th August 2011

Prepared for

**Standard Chartered Bank  
As Agent to the Lenders**

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# 1 EXECUTIVE SUMMARY

This Monitoring Review Report was commissioned as the first 6-monthly update on Vedanta's progress in implementing the agreed Recommendations from the independent strategic sustainability review that URS Scott Wilson undertook in September 2010.

Vedanta prepared their own First Progress Report, which was used as a basis for discussion during our visits to the VAL alumina refinery at Lanjigarh, the Sustainable Development office at Udaipur and the HZL plant at Chanderiya. Vedanta Management cooperated fully in this review process which took place in July 2011. We are pleased to confirm that overall satisfactory progress has been made - see part 6 of this report for analysis and tables.

Currently, Vedanta's main (on-going) efforts are focused upon establishing a Group-wide sustainability governance framework as a pre-requisite for rolling out its new management system that incorporates adoption of international standards for future projects. Consequently, the company is able to demonstrate good progress at the Group level, but is less advanced in regards to dealing with those Recommendations that apply across the subsidiary companies.

Whilst we understand this approach, a considerable amount of effort went into framing the original Recommendations and associated timeframes to provide a package that both addressed the issues and would provide information and input into the overall improvement programme. Slower progress than anticipated on some items due to concentration on the top-down development of the management systems has meant that some of the benefits have been missed; for example, earlier provision of suitable training on IFC requirements for the emerging Group's Sustainability Team and key Lanjigarh staff could have helped Vedanta achieve more progress on other Recommendations.

The situation in regard to the Recommendations concerning the Lanjigarh refinery is also 'mixed'; good progress has been made on some items, but not on others. For example, although a number of items are affected by the on-going imposition of a court order preventing any works on the Expansion Project, our view is that in several cases some progress could have been made without compromising the refinery's compliance with India's laws. There were also two items (environmental and safety gap analyses against IFC requirements) where Lanjigarh's response needs to be revisited to bring the programme to a satisfactory level.

In summary, of the 35 Recommendations, we consider that 8 can either be 'closed out' now or have been substantially completed so that further detailed checks on their progress will not be required. Vedanta has made adequate progress on another 5 items, which we consider to be 'on track' for completion, and 4 are classed as either 'pending' or 'not yet due' although we would have preferred to see some progress on the latter category.

However, we consider that further work is required in regard to the remaining 10 items for which we have suggested some remedial actions to ensure they receive higher priority and/or due attention to ensure their correct trajectory for the next 6-monthly review point at the end of December 2012. We have accordingly identified the specific outputs that Vedanta needs to prepare and suggested an interim target date of the end of September 2011 for their completion where we believe these to be appropriate – see sections 3, 4 and 5 for details.

All remedial actions have been discussed and agreed with Vedanta's Chief Sustainability Officer; we consider them to be attainable, albeit with some additional work in some cases. We have not identified any current major causes of concern or 'red flags' but, while we acknowledge progress to date, we wish to encourage Vedanta to make further efforts in addressing the full suite of Recommendations.

## 2 INTRODUCTION AND BACKGROUND

### 2.1 Vedanta Resources

Vedanta Resources (Vedanta) is listed on the London Stock Exchange and is a FTSE 100 metals and mining company. It is involved in mining and processing copper, zinc, aluminium and iron ore and in power generation. Revenue from its businesses increased from \$3,701.8 million in fiscal 2006 to \$7,930.5 million in fiscal 2010, representing a compound annual growth rate of 21%.

The Group is characterised by a spread of operations and plants, rapid growth and a complex ownership structure. It has experienced significant growth in recent years through various expansion projects of its core copper, iron, zinc and aluminium businesses in India, Australia and Zambia and its 2011 acquisitions of Bellary Steel & Alloys Ltd in India and Anglo American's Lisheen Mine in Ireland, the Skorpion mine in Namibia and the Black Mountain Mines in South Africa.

Vedanta is currently in the process of acquiring a controlling stake in Cairn India Limited (it is waiting to receive official notification of the Government of India's approval and details of any pre-conditions to be imposed on the transaction).

### 2.2 Terms of Reference

Scott Wilson Ltd was originally appointed as the Lenders' Independent Environmental and Social Consultant (IESC) by Standard Chartered in September 2010 to review Vedanta's strategic approach to sustainable development and to assess the social and environmental issues in relation to Vedanta Aluminium Limited's (VAL) Lanjigarh (India) alumina refinery and its proposed expansion.

Following that strategic sustainability review, the Lenders require Vedanta to provide them with Implementation Progress Reports every 6 months until the IESC determines that "the implementation of all the recommendations in the Independent Review Report is materially complete and all the issues highlighted in the Independent Review Report have been suitably and substantially mitigated" (the "E&S Consultant Opinion").

URS Scott Wilson Ltd (Scott Wilson was acquired by URS in September 2010) was re-appointed as the Lenders' Independent Environmental and Social Consultant to undertake the 6-monthly review of Vedanta's progress.

The scope of work had three major components and a series of sub-components as follows:

#### 2.2.1 Review of Vedanta's Implementation Progress Report 1

- Review the preliminary Implementation Progress Report 1 and supporting documentation and provide a list of queries and/or additional information requests prior to the Site Visit.

#### 2.2.2 Site Visit

- Conduct a short site visit to Lanjigarh to gain first hand insights regarding the implementation of the recommendations and meet Vedanta's management in charge of

the addressing the recommendations of the 2010 Independent Review Report at Vedanta's Sustainability office in Udaipur and the HZL zinc refinery at Chanderiya.

### 2.2.3 Monitoring Review Report

- Provide a summary of Vedanta's progress and commitment to implementing the recommendations of the 2010 Independent Review Report, identifying those which have been materially completed or which have not been not satisfactorily addressed and why progress is not in line with expectations.
- Comment on the adequacy and timescale of any remedial actions proposed by Vedanta, particularly in regard to material failings, and recommend appropriate remedial action plans and timelines accordingly.
- In regard to Recommendation 2.5.23, review the register of social, environmental and H&S incidences and report on Vedanta's approach and response to any material incident(s) and report on whether any changes to Vedanta's processes or procedures were recommended and / or implemented as a result of any investigations into significant incidents. Compare the incident register to media coverage of Vedanta and any allegations made against Vedanta and investigate any discrepancies.
- For all other recommendations, comment on the progress made to-date, investigate any off-schedule situations and comment upon the adequacy and timescale of any remedial actions proposed by Vedanta, including its capacity to achieve any recommendation within the agreed timeline.

## 2.3 Approach

The URS Scott Wilson team to undertake the 6-monthly review of progress study comprised three consultants, two of whom were involved in the original review in 2010.

Two team members undertook a seven day visit to India to visit the Lanjigarh Refinery and to liaise with Vedanta Sustainable Development staff at Udaipur and Chanderiya. Including travel, three days were spent at Lanjigarh with one day each at Udaipur and the HZL plant at Chanderiya.

Findings were presented to and discussed with the COOs and senior management / staff of both Vedanta and VAL. The consultants are pleased to acknowledge the full cooperation of all managers and staff involved and their helpful and comprehensive responses to requests for information.

The third team member was unable to join the team during the visit; however, arrangements were made for her to visit the Lanjigarh site and undertake further research, principally with stakeholders in the surrounding community, during 24-28<sup>th</sup> July 2011.

A meeting was convened on the 26<sup>th</sup> with 12 stakeholders from 10 different settlements to discuss stakeholder perceptions on pertinent issues such as the new grievance mechanism, dust emissions and livelihood initiatives; stakeholders present consisted of a range of affected people including villagers and their representatives and contractors (most are involved in passing on information such as the new grievance process to their local community). Another meeting was held with representatives from 5 NGOs involved in pre-school education, nutrition and health care; other stakeholders (villagers/representatives, farmers, contract workers and educational workers) also provided feedback when engaged with during field visits.

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## 2.4 The Monitoring Review Report

This Monitoring Review Report is presented in several sections.

- Part 3 relates to our findings on the progress Vedanta has made in addressing the recommendations regarding its strategic approach to sustainable development at the corporate level;
- Part 4 considers Vedanta's progress on the recommendations which are applicable to the Group's subsidiary companies;
- Part 5 deals with URS Scott Wilson's review of the recommendations for the Lanjigarh alumina refinery; and
- Part 6 is a tabular representation of progress against recommendations for Group, company and Lanjigarh levels;
- Part 7 deals with the specific Lenders' concerns in regard to incident reporting and investigation across the group.

Each recommendation is considered in turn and comprises our original recommendation and its timescale, commentary on what progress or otherwise has been made thus far, our judgement on what has been achieved, and our recommendations or suggestions for further actions and/or revised timings.

In regard to the latter, we discussed the degree of progress or otherwise against each recommendation with Vedanta's Chief Sustainability Officer and, where appropriate, indicated what remedial actions we believe are needed and when they ought to be completed in order to get back on schedule. Consequently, we have identified a number of specific actions that are to be completed by the end of September 2011 and ahead of Vedanta's next planned reporting deadline of December 2011, but which we consider to be achievable within the specified timeline.

The tables included in part 6 present an overview of our assessment of Vedanta's progress implementing the recommendations, together with brief details of any remedial actions, their interim targets for completion and an appraisal of the outlook for successful close-out.

### 3 CORPORATE RECOMMENDATIONS

This section comprises the Recommendations proposed for the establishment of an over-arching corporate level sustainability function, including development of a governance structure and management systems, with the aim of improving coordination across the Group in regard to new projects and their associated environmental and social impact assessment and mitigation processes.

Our commentary is summarised in section 6.1 below which includes a table showing overall progress in addressing the Corporate Recommendations.

#### 3.1 Recommendation 2.5.7 Sustainability Committee

- ***The title of the HSE Committee should be changed to the Sustainable Development Committee and its terms of reference expanded to reflect the breadth of its role covering all aspects of the environmental and social sustainability of the Group (Original target = May 2011).***

The Vedanta Resources Board approved and published a broader mandate for the Sustainability Committee in March 2011 and has reduced the number of participating members. The Committee now includes the CEOs to ensure top level buy-in to the sustainability agenda and ensure implementation across all Group companies.

We reviewed the Mandate document, which covers scope, composition, levels of authority, meeting protocols and review / approval of the terms of reference. It is confirmed that the committee's remit has been extended to cover occupational health and safety, the environment, human rights, vulnerable social groups, cultural heritage, sustainability risks, corporate responsibility, stakeholder engagement and product stewardship.

Information about the new governance arrangements has also been published on the web site (at <http://ar2011.vedantaresources.com/sustainability.html>).

We note that the Committee met again on the 12th July to approve the suite of new Group policies, and supporting sustainability management and technical standards / guidelines. We reviewed the agenda and the minutes of that meeting in which the following items are relevant to this review:

- A range of 5-year safety and environmental targets were proposed (2.5.13 Reporting);
- The Committee duly approved the draft policy statements (2.5.6 Policies);
- The CSO was tasked with providing a structured training program (2.5.9 Professional competencies); and
- The importance of reporting environmental, safety, labour and social incidents (2.5.23 Incident register).

We consider it appropriate that the Sustainability Committee takes full ownership of its process for addressing and closing out both the actions required to address the original recommendations of the 2010 Independent Review Report and the remedial actions of this progress review. Accordingly, we suggest that the Sustainability Committee sign off all future submissions prior to presenting them for the Lender's IESC's review, starting with the remedial actions requested by the end of September 2011.

***Subject to presentation of Sustainability Committee 'approved' submissions in regards to the remedial actions required at the end of September 2011, we consider that this Recommendation can be effectively closed out at that time.***

### 3.2 Recommendation 2.5.8 Sustainability Officer

- **Appoint an appropriately qualified Chief Sustainability Officer (CSO) with international experience to direct and coordinate the HSE, CSR and related functions. The CSO will act through single points of contact in each subsidiary company (Original target = November 2011).**

Vedanta appointed a Chief Sustainability Officer (CSO) in November 2010 and a team is in the process of being assembled. The team will comprise specialists in occupational health and safety, environment, corporate responsibility, sustainability reporting and assurance.

At the time of our visit, there was no defined job description for the role, which describes in particular how the position relates to both the Executive Committee (EXCO) and the various subsidiary companies including the overseas operations and acquisitions (e.g. undertaking investigations into serious safety or other incidents). An organisation chart showing how the CSO and his team fit into the overall organisation including the designated contact points in each subsidiary company would also be helpful.

Following our visit, a draft job description for the CSO was made available and indicates that the CSO reports directly to the CEO and has to keep EXCO informed of sustainability issues. The draft should however be strengthened by underlining the need for robust impact assessment processes for new projects and defining the CSO's role in addressing serious lapses against policy and communicating 'lessons learned across the Group.

**Given the fundamental importance of the CSO role, we will require the final, approved job description and an organisation chart by the interim date of September 2011. Subject to its acceptability, we consider that this Recommendation can be closed out at that time (i.e. within the original target date).**

### 3.3 Recommendation 2.5.4 Value Statement

- **Revise the wording of the Value statement on Sustainability to state: "We aim to contribute to the social and economic welfare of the communities where we work and to protect and conserve the environment" (Original target = February 2011).**

An amendment to the Sustainability section of the Value Statement adding the above clause was duly approved by the Vedanta Board in March 2011. We have verified that the text includes the amendment in the 2nd paragraph of the Sustainability section and that the revised version is now published on the corporate web page (at <http://www.vedantaresources.com/mission-values.aspx>). Further attention on this topic is included in regards to Recommendation 2.5.16 Human rights policy

**Although this change to the Value statement may yet have to percolate through to all the subsidiary companies' documentation, we consider that this Recommendation is now closed out.**

### 3.4 Recommendation 2.5.2 Code of Business Ethics

- **The preamble to the Code, "How We Do Business", should include reference to local communities as a key element affecting Vedanta's reputation along with customers, shareholders, competitors and suppliers (Original target = February 2011).**

Vedanta implemented an amendment in December 2010, shortly after our site review and during discussions on the recommendations. A revised Code of Conduct was produced with a new section on Human Rights.

This was published on the web site in March 2011 and an instruction to update subsidiary company versions and procedures was issued in April 2011. The Company is now in the process of supporting this statement with a new Human Rights policy as stipulated by Recommendation 2.5.6; we understand that this draft policy has now been approved and will be published shortly.

***Although this change to the Code of Business Ethics may yet have to be implemented throughout all the subsidiary companies' documentation and procedures, we consider that this Recommendation can be closed out now.***

### 3.5 Recommendation 2.5.6 Policies

- ***Develop a series of policies to realise the aims stated for each of the four sustainability areas (environmental stewardship, nurturing people, health and safety and empowering communities). The policy statements should be succinct, should reflect best international practice and reflect a commitment to continuous improvement. Annual targets for progress and reporting should be considered wherever possible. Noise should be included as a policy issue (original target = 2011 Annual Report and Sustainability Report).***

Vedanta is in the process of developing a sustainability governance framework and has stated that it requires further time to complete the exercise. The framework consists of Group level Policies, Management Standards and associated Technical Standards / Guidelines. This has been a time-consuming commitment, which involves external consultants and internal consultations, and the process is on-going.

We reviewed the available drafts which are generally considered to be satisfactory although an explanatory diagram outlining the documentation structure and relationship with subsidiary companies' management systems would be useful. We suggested and agreed some minor refinements to the draft policy statements, which were generally accepted.

Process flow diagrams could be considered as they would help to explain what needs to be done and provide useful training aids to support implementation.

We also worked through the example of the Management Standard on New Projects, Planning Processes and Site Closure to demonstrate how this document should be amended to reflect specific requirements of the IFC's PS 1 (e.g. to provide specific guidance and instructions regarding company responsibility under government led stakeholder engagement activities and the assessment of any 'associated facilities; etc.). A similar approach needs to be adopted for other documents that may be subject to specific IFC requirements – e.g. the Stakeholder Engagement technical standard in relation to IFC's PS 1 and PS 7.

Once the framework is completed, the company will ensure that the subsidiary companies undertake a gap analysis process to facilitate full and correct implementation. The company states that this analysis process is likely to take 6 months to complete and further time will be required to fully implement the changes across the Group. It is expected that the assurance team leader will be appointed shortly and will therefore be in position to support implementation.

We discussed and accept the reasons given for the additional time needed to develop and implement an effective management system (i.e. create and train a team, develop the approach, define and draft document contents, and implement across the Group). This sustainability management system will eventually deliver a broad range of benefits to Vedanta, but we have some reservations about progress in addressing the key policies and processes for managing new projects and its potential impact upon other Recommendations, particularly the Company level ones dealt with in Section 4.

***Whilst some good progress has been made, we consider that focused remedial actions will be helpful in supporting further progress, specifically in regards to developing the***

**management systems documentation related to new projects and impact assessment and mitigation. Accordingly, we require the following remedial actions within the timescales specified below:**

- a) Copies of key Management Standards and Technical Standards relating to Vedanta's EIA / ESIA processes for new projects should be clearly aligned with the relevant IFC requirements, preferably as stipulated in their 2011 revision of the Performance Standards. We would like to see advanced drafts if not final drafts / approved copies by the end of September 2011;**
- b) The core sustainability policy statements are to be finalised and made publicly available by the December 2011 reporting deadline; and**
- c) Detailed implementation plans and an indicative schedule are to be prepared for the roll-out of the sustainability governance framework to all subsidiary companies, prioritising any business units which have ongoing or planned projects that require an impact assessment, and made available for review by the December 2011 reporting deadline.**

### 3.6 Recommendation 2.5.3 Stakeholder engagement

- **Adopt internal procedures to ensure that all requests for information from stakeholders (including investors, NGOs, international organisations and the press) are dealt with in a timely manner. We see this as an important part of a wider programme to inform and communicate with all stakeholders. To assist with transparency Vedanta should maintain a register of enquiries and responses and provide a summary in their Annual Sustainability Report/website (Original target = May 2011).**

We discussed and broadly accept the reasons given for the additional time needed to address this Recommendation (i.e. as per 2.5.6 above). We note that a new policy statement is being developed as part of the new sustainability governance framework, and will be supported by a management / technical standard that will cover enquiry handling and tracking mechanisms. The framework will also require the development of stakeholder engagement plans at subsidiary companies and new projects. We also note that Vedanta has recently appointed a new corporate Communications Officer and accept that this function may fall within his remit.

A new email address has been set up and is directly linked from the Group's Stakeholder Engagement section on the corporate web site. The link consists of an email address in the "Contact Us" box on each page of that section (this initiates an email to [sustainability@vedanta.co.in](mailto:sustainability@vedanta.co.in) on the Sustainability 'home page'; and to [sdrc@vedanta.co.in](mailto:sdrc@vedanta.co.in) on all the other Sustainability pages). There is no explanatory text and the email link is not included in the general Vedanta "Contact Us" web page (<http://www.vedantaresources.com/contact-us.aspx>).

It is also noted that the Group's subsidiary companies and individual projects (e.g. Lanjigarh's example which can be accessed at <http://lanjigarhproject.vedantaaluminium.com/index.htm>) also have their own web sites that could also be directly linked to this Group stakeholder contact point. Vedanta has stated that it will publish the group email address on its subsidiary company web sites to give this new mechanism greater exposure.

We are able to confirm that a process is in place to register these enquiries and we are informed that there have been no instances that give rise to any material concerns. As yet however, there has been no detailed analysis of stakeholder requests for information and other enquiries and we consider that the original deadline did not allow adequate time for full implementation in line with the emerging sustainability governance framework and the other communication channels being established across the Group. The register of enquiries which is maintained by the corporate Investor Relations function will be checked during our next review.

*We consider that adequate progress has been made so far, but that this is insufficient to close-out at this time. This recommendation will be re-visited in the next 6-monthly review of progress planned in regard to Vedanta's next submissions for its reporting in December 2011. At that time, Vedanta should present an analysis of the enquiries it has received from its stakeholders (i.e. origin, date received, the subject of the enquiry, brief details of the company's initial / definitive responses, date closed and lessons learned / further actions needed).*

### 3.7 Recommendation 2.5.13 Reporting

- **Report, where possible, on Group environmental and social performance as a whole, seek to benchmark performance against industry best practice, and seek assurance from appropriate bodies with industry and sustainability expertise (Original target = April 2012).**

Sustainability reporting has now been realigned with the Group's financial year and a copy of the 2010-2011 report was provided for our review.

The Group's latest Sustainable Development Report was subject to independent assurance by Det Norske Veritas (DNV) and is stated to meet the criteria for the Global Reporting Initiative's GRI G3 application level B+. The contents include a section on the Scott Wilson Recommendations from our 2010 Independent Review Report, which addresses the 20 corporate and company-wide examples, but excludes those that specifically concerned Lanjigarh. This section gives an indication of status and comments; 5 are considered 'complete', the remainder were categorised as 'under way' at the time of publication.

The Sustainable Development Report's contents are broadly in line with expectations for such reports although benchmarking is limited (a copy of the 2009 Global Alumina Industry Scorecard was provided to the CSO as an example of what could be benchmarked in future reports). We note future intentions to publish 5-year targets for key environmental and safety performance indicators (Sustainability Committee meeting minutes of 12<sup>th</sup> July 2011). We also note that greater automation of data collection across the Group would help to improve reporting.

During our discussions, the CSO confirmed that Vedanta will seek to apply the criteria to achieve an A+ GRI G3 rating, including mandated application of the Mining and Metal Sector Supplement, for future reports once the new sustainability governance management system is fully implemented. This Supplement sets reporting criteria for key issues in the sector that may be of concern to Lenders, including: Biodiversity / Ecosystem services; Labour; Indigenous rights; Community; Resettlement; Closure planning; and Materials stewardship.

***We consider that Vedanta appears to be 'on track' to achieve the requirements of this Recommendation by the original target date.***

***The realignment of sustainability reporting with the Group's financial year means that the 2011 Sustainable Development Report will be published in June 2012. Assessment of Vedanta's steps towards achievement of this Recommendation will therefore be undertaken during the proposed June 2012 review of progress, when it is expected that the report will contain a range of suitable benchmarks against industry best practice.***

### 3.8 Recommendation 2.5.8 Sustainability oversight

- ***The corporate Sustainability Development Committee should continue to ensure that subsidiary companies take a consistent approach to promoting sustainable development in accord with international best practice by monitoring performance, lesson learning and dissemination of best practice (Original target = November 2011).***

This is being addressed via the development of the sustainability governance framework as described above. It is anticipated that the August meeting of the Sustainability Committee will authorise the implementation plan for the sustainability framework.

Please note the new requirement for the Sustainability Committee to take full ownership for the process used to address these recommendations and remedial actions by prior approval of all submissions for review by the Lender's IESC – see 2.5.7 Sustainability management. Accordingly, we would like to see evidence of this requirement being applied to both the interim reporting actions in September and future planned reports on progress.

***Our view on the achievement of this Recommendation is that although the foundations are now in place and progress has been made, successful close out is tied to progress implementing the sustainability governance framework. If Vedanta can demonstrate progress through providing approved submissions for the review of interim actions due by end of September 2011, we consider that this Recommendation would be on track for close out within the original target date.***

### 3.9 Recommendation 2.5.9 Professional competencies

- ***Keep under review the full range of HSE and CSR competencies it requires across its business and consider the need for additional training, as appropriate, in relation to the IFC Performance Standards and Guidelines, human rights, vulnerable groups and the GRI Mining and Metals Sector Supplement (Original target = November 2011).***

In our discussions, the CSO confirmed that the actions to address this recommendation were due to commence in July once the sustainability framework and its supporting documentation has been completed. No training has been undertaken so far in response to this Recommendation, partly due to the ongoing recruitment of the central Sustainable Development team. Accordingly, given the need to complete the core documentation and then provide suitable training to senior Group management and its sustainable development team as well as all levels of HSE and CSR staff (more than 400 people across the Group), we acknowledge that the required work involved will extend beyond the original November 2011 target for completion.

We are generally impressed by the high calibre of Vedanta's workforce and consider them capable of both assimilating the international standards now required of the company and putting them into effective practice across the Group's operations and projects. Accordingly, Vedanta should aim to harness this resource for implementation of its sustainability governance framework. However, we need to ensure that the core competencies for the Sustainable Development team and those HSE and CSR personnel who are likely to participate in IFC-compliant EIA / ESIA activities in support of future projects are clearly defined and available for review at the end of the year.

More focus needs to be placed on ensuring that there is in-depth knowledge within the Group in regards to the intent and requirements of the IFC's Performance Standards and applicable EHS Guidelines (see various other Recommendations such as 3.3.20 for Lanjigarh). This is especially important for successful implementation of the sustainability governance framework and we would like to see suitable training provision to both the Group's Sustainable Development team and relevant staff at Lanjigarh by the end of September 2011.

In a similar vein, a training plan should be developed to indicate a targeted programme for rolling-out sustainability training across the Group; this should detail who requires training, and when and how it will be delivered (i.e. in-house or externally; formal, interactive courses or distance learning; etc.) and be included with the submissions accompanying Vedanta's next planned progress report in December 2011.

***Vedanta should harness the capabilities and enthusiasm of its own personnel in developing its sustainability management system. In order to ensure that this objective returns 'on track', we require that the following remedial actions are taken by the dates shown below:***

- a) ***Provide suitable awareness training in international standards including the IFC Performance Standards and EHS Guidelines by the end of September 2011. This training should be undertaken for the Corporate Sustainable Development team and key HSE / CSR personnel at Lanjigarh and other sites which are likely to have project EIAs in the near future;***
- b) ***Vedanta present defined competencies (i.e. attributes, skill requirements and any specific levels of experience) for all personnel and functions including 'top management' that may need to be briefed / educated in regard to the proposed changes in corporate policies and/or will be responsible for the implementation of the sustainability governance framework with its submissions for its December 2011 report on progress. At the same time, a training plan should also be submitted to demonstrate how the Group aims to ensure that those staff will be fully equipped to implement the company's new commitments.***

### **3.10 Recommendation 2.5.16 Human rights policy**

- ***Adopt a specific human rights policy demonstrating its commitment to the UN Declaration of Human Rights and procedures to ensure its implementation. This should be communicated to all stakeholders via its web site (Original target = November 2011).***

It was originally intended that the draft policies on Human Rights and Indigenous Peoples would address this recommendation and that implementation would commence once the policies were duly approved in July.

We reviewed the draft and, in our discussions with the CSO, we requested that the proposed Human Rights policy statement be amended to include a specific commitment to the UNDHR as required above. We also suggested that the policy be amended to provide for Human Rights Risk Assessments in regard to any new projects where there might be potential concerns or reputational risks related to this issue and especially where vulnerable or indigenous peoples might be affected by the proposed development.

A revision of the draft policy was supplied prior to completion of this report; it is confirmed that the revised text includes specific mention of the UNDHR and provision to conduct human rights impact assessments if considered necessary to comply with policy commitments. The policy will be published in due course.

***Subject to the formal approval, publication and implementation of the new policy and availability of its supporting documents, we consider that this Recommendation is capable of being closed out within the original target date.***

### **3.11 Recommendation 2.5.24 External audit**

- ***Undertake an independent audit of Group and Company environmental and social performance against international standards (IFC, ICMM, OECD) after 12 months of implementing the recommendations in the Scott Wilson report (i.e. June 2012). Recommendations which are not implemented will be included in a Remedial Action Plan and their compliance reviewed every 6 months (Original target = as specified within preceding text).***

Vedanta expects to address this Recommendation following the implementation of the suite of recommendations – no actions are currently required, although as part of the December review,

we shall consider whether the proposed June 2012 commissioning date will give Vedanta sufficient time to fully integrate the Recommendations prior to an audit taking place.

## 4 COMPANY LEVEL RECOMMENDATIONS

This section comprises the Recommendations needed to ensure that the Group's sustainability policies and procedures are implemented across the organisation's structure, both in India and overseas, with particular regard to new projects, their environmental and social impact and appropriate mitigation.

Due in part to the need to address the corporate level recommendations first, the degree of progress made in rolling out the new arrangements across the subsidiary companies has not advanced as consistently as we would have liked. Our commentary is summarised in section 6.2 below which includes a table showing overall progress in addressing the Recommendations for the Group's subsidiary companies.

### 4.1 Recommendation 2.5.15 International best practice

- ***Produce and test EIAs and EMPs against the IFC Performance Standards and ICMM best practice and define clear links between the EIAs, EMPs and Environmental Management Systems. Specifically EIAs should be expanded in relation to biodiversity and habitat identification, the identification of cultural heritage (scheduled and non-scheduled sites) and social and human rights impacts. Vedanta should commission independent reviews of one or more major EIAs each year in order to ensure compliance with IFC Standards (Original target = to be implemented for all new projects and major extensions requiring EIA).***

A review of the BALCO EIA for the Durgapur II / Taraimar Coal Block proposal in Chhattisgarh for an extension of mining and a new coal wash facility was undertaken by an external consultancy in March 2011. The EIA documentation, which was already underway at the time of our 2010 appraisal, was not provided for our review and had been prepared before Vedanta's adoption of the IFC standards for EIAs. We did obtain a copy of its Executive Summary via the internet before our visit. We also located a copy on the internet of a review of the EIA that had been undertaken by the Centre for Science and Environment (CSE) (an NGO) in India and which identified a number of shortcomings in its analysis of project impacts.

We were provided with a copy of the consultant's report whilst in India and, based upon our own review of the Executive Summary and the CSE's commentary, we generally concur with the report's findings and the actions taken by Vedanta to address them. In essence, this EIA was generally deficient (e.g. in regard to social issues, the impacts of the 'Merry-Go-Round railway, no section on applicable assessment of legal requirements, etc.) and Vedanta has committed to producing a supplemental report to cover the major gaps found by the consultants. We can therefore conclude that the Group has begun to implement a reasonably robust process to test EIAs against best practice criteria.

Vedanta has made a commitment to ensure that all future impact assessments comply with host country legislation and IFC requirements. However, it should be noted that Vedanta is yet to prepare new EIAs in line with this commitment. As mentioned previously, it was intended that the draft policies and supporting management standards / technical guidance documents would address this recommendation; implementation was to commence after the policies are approved in July. We refer to our above comments in regard to Group level Recommendations where the same approach is being taken.

In regard to reviews of EIAs, we require more detailed information about the Group's operations and current / proposed projects in India and overseas so that we can track existing and new EIAs and the need for reviews. We also understand that provision of more granular information on EIA activity has also been stipulated by the financial institutions behind the credit facility so it should be already 'under way'.

***We note that this will be a continual process and that our future reviews of progress will need to take account for any new projects and the status of their EIAs. Subject to company-***

***wide implementation of the sustainability governance framework and - if practicable - further tests of project EIAs being undertaken in the meantime, we estimate that this Recommendation may be closed out next June.***

***Nevertheless, the complexity of the Group's spread of operations and plants, rapid growth and a complex ownership structure means that a clear overview of current operations and development projects is required. Accordingly, in September 2011, we will require a matrix that lists all mines / refineries and other substantial facilities as well as on-going and proposed development projects that are subject to an EIA/ESIA process.***

***Where relevant this matrix should also show the current stage of development projects (i.e. pre-feasibility, feasibility, screening, impact assessment, public consultation / hearing, clearance, etc.). In addition, the matrix should also include some basic information in relation to any potentially significant issues associated with individual project (i.e. strong reliance upon government or public bodies such as state-owned mining companies for successful implementation, presence of scheduled tribes or other potentially vulnerable stakeholders including those that may be categorised as 'indigenous' peoples using the IFC's PS 7 definition, proximity to protected areas or adverse impacts on threatened or endangered species, etc.).***

## 4.2 Recommendation 2.5.11 Land management

- ***Develop a policy and implementation practices to more proactively manage land in their ownership in order to maximise environmental gains and to promote biodiversity. This would include the development of environmental management plans for all non-operational land and the carrying out of habitat surveys for all new sites prior to development (Original target = in time for the 2011 Annual report and Sustainability Report, i.e. now June 2012).***

Policies and practices are being developed within the overall sustainability framework and the Land and Resettlement documents will be implemented once they are approved. No draft documents on land management or biodiversity were made available for our review

A basic company-wide biodiversity and water review was undertaken to identify which operations already take these issues into account and /or what intentions they have in this regard. The information in the review provided is basic and focuses upon mandated 'green-belt' and 'forestry' zones (i.e. landscaping of operational sites and maintenance or enhancement of designated forestry areas) rather than habitats, species or ecosystem services; one operation has nothing in place and the others are at varying levels depending upon site location and date of commissioning. No information is yet available from the overseas operations or the acquisitions made earlier this year.

The Group CSO has been assessing the IBAT tool which can help Vedanta identify what species are of particular concern at a target project site; whether there are any globally threatened species known to occur at/near a target site; the status of such species (e.g. IUCN Red List etc.); when a target site was last assessed; and whether any taxonomic groups were not included in previous assessments.

The results for 3 sites (Tasmania and the new Skorpion and Black Mountain acquisitions in Africa) were checked and found to contain information on protected land and species distribution in line with our expectations. We also note that IBAT has been undergoing an upgrade and may be able to offer an improved service.

***Our considered view is that achievement of this Recommendation is dependent upon successful completion and implementation of Vedanta's sustainability governance framework by its December reporting deadline.***

*To demonstrate that it will be 'on track' at that time, Vedanta should present:*

- a) Information on the steps it will have taken following the aforementioned company-wide biodiversity and water review;*
- b) What actions, if any, it proposes to address any significant failings it has identified at existing mines or refineries; and*
- c) An implementation plan that sets out how and when they will roll-out environmental management plans for all non-operational land and the carrying out of habitat surveys for all new project sites prior to development.*

#### 4.3 Recommendation 2.5.23 Incident register

- ***Maintain a register of major environmental, social and labour incidents at their plants and report to Vedanta Resources (Original target = April 2011).***

All Group companies were required to implement an incident register and report monthly from April 1st and this date was met (Lanjigarh commenced its register in November 2010). Results to date have been provided for each component part of the Group for April, May and June in regard to environmental, health, social, labour and other categories of events. Given the complexities of the Group's structure it is not always easy to determine whether for example all new acquisitions are contributing to the register (e.g. the register only identifies the 'Entity' and not always the specific subsidiary or plant / mine involved).

Brief details are provided for each incident, its cause / status and consequent actions; although sometimes such information is not clearly explained (the use of language is sometimes confusing). We would also propose that additional columns be added to record 'lessons learned' and whether incidents are considered 'open' or 'closed'.

*Please see Section 6 for an in-depth appraisal of the social, environmental and H&S incidences that have been registered since the new arrangements were put in place.*

We also examined the investigation procedure that has been introduced to determine the cause of serious incidents (fatalities and other recordable injuries) and found this to be of a very good standard. For example, the investigation of the May fatality at SILL involved a robust root-cause analysis and the detailed report into the incident resulted in a range of recommended actions, including changes to the permit to work system at the plant and contractor safety procedures.

***We consider that good progress has been made in regard to addressing the requirements of this Recommendation, although we propose some refinements to the register to facilitate its analysis. We are confident that the combination of improved information flows and a robust approach to incident investigation can result in improved safety performance; we would also like a similar link with corporate communications functions in regards to the handling of any reputational risks from all types of incidents.***

***Subject to implementation of the above-mentioned minor amendments to the register and continuation with the robust root-cause analysis of fatalities and other major incidents, we consider that this Recommendation will be 'on track' for close-out in during the review of Vedanta's next submissions in December 2011.***

#### 4.4 Recommendation 2.5.12 Environmental communications

- ***Communicate environmental monitoring regime at plants and regularly report to stakeholders, including local communities, on their environmental and social performance, benchmarking this against international standards (e.g. IFC Guidelines) and reporting in their 2012 Sustainability Report (Original target = November 2011).***

Vedanta's progress report states that Lanjigarh has implemented a new monitoring routine (e.g. actual, on-line ambient quality air monitoring and disclosure on a panel at the refinery's gate) but other specific actions are only going to be covered through implementation of the new sustainability framework; no other information was provided for our review.

In addition, participants at the stakeholder meeting on the 26<sup>th</sup> of July expressed the view that there should be periodical meetings/workshops at which they could receive information about the plant and related development activities and some capacity building to improve general awareness. Improving general awareness in the surrounding community may also help to allay stakeholder concerns (e.g. such as the incident when discoloured run-off from the red mud pond following heavy rains in April 2011 was mistaken for an overflow or breach of the facility – see comments in Section 7).

Consequently, we believe that additional time will be required for full close out of this Recommendation. We recommend that overarching, formalised Stakeholder Engagement Plans be prepared for all operational sites that includes stakeholder mapping and analysis; identification of vulnerable stakeholders; and new forms to capture information consistently. These Plans should also establish a format for reporting environmental and social performance to local stakeholders - i.e. which benchmarks to use; what performance indicators to disclose; and how to ensure effective communication etc. – in accordance with clause 26 of the 2006 version / clause 37 of the 2011 version of PS 1.

An early draft of a Lanjigarh Stakeholder Engagement Plan was provided during the field visit during week commencing 25<sup>th</sup> July; this identifies 5 focus areas, the relevant stakeholders, and an outline of mode of engagement and the expected outcomes but will need further work.

We would also like to see the knowledge and enthusiasm of the local CSR teams in Lanjigarh and Chanderiya, which have looked at the IFC criteria, harnessed in this exercise. This supplementary requirement will also help formulate the corporate Management Standards and associated Technical Standards / Guidelines so we suggest that the first drafts or even mock-ups of Stakeholder Engagement Plans are made ready for our review at the end of the year – i.e. by the November 2011 target.

***Although we acknowledge that some progress has been made in relation to the core requirement of reporting to local stakeholders as set out in this Recommendation, some remedial actions are needed to ensure that Vedanta returns 'on track' by the December 2011 reporting deadline.***

***Accordingly, we will require the following for our review:***

- a) Evidence that Stakeholder Engagement Plans are being actively developed (e.g. at least an updated example of the Lanjigarh example) and preferably harnessing internal CSR personnel. These plans should also set out instructions (e.g. frequency, which languages/dialects, minimum content and benchmarks) and give an indication of the format for reporting environmental and social performance to local stakeholders; and***
- b) At least one mock-up of an environmental and social performance report for local stakeholders and schedule of awareness meetings and/or stakeholder capacity-building workshops.***

## 4.5 Recommendation 2.5.17 Consultation for new sites

- ***Develop a standardised approach to community consultation for new developments which responds to IFC guidelines and communicate this to all stakeholders via its web site (Original target = November 2011).***

Vedanta's intention is to address this recommendation through the draft Social policy statement and accompanying Technical Standard for Stakeholder Engagement, which introduces a standardised requirement for Stakeholder Engagement Plans. The company's Implementation Progress Report stresses the importance of following international standards for EIAs and public consultation for new projects.

The examples provided appear generally satisfactory although, as mentioned before, these documents would benefit from being more closely aligned to the requirements of IFC PS 1. In this regard, we would also like to draw Vedanta's attention to the 2011 revision of PS 1, which will be published on August 1<sup>st</sup> and which articulates the IFC's requirements in a clearer, more detailed approach to the subjects of public consultation and disclosure in support of project developments. In particular, we advise that careful consideration is given to ensuring that the Technical Standard imposes suitable metrics to provide an indication of 'broad community support' for new projects.

We also note that the particular requirements of Indian legislation in relation to pre-public hearing consultation (i.e. the company is not allowed on / near site until it has received formal clearance for the project).

Apparent 'conflicts' between host country legislation and international requirements are relatively common, but never insurmountable with a good understanding of the IFC standards and careful planning. For example, there are often significant variances between the national, legally-established compensation rates for loss of assets due to a development project and those that would be needed to satisfy international standards. Whilst due legal process has to apply and the government compensation rates must be used, project proponents usually find an acceptable mechanism to make a supplementary payment that bridges any shortfall in the official rates.

In specific regard to pre-hearing consultations in India, Vedanta should consider how it can support both the government-led process through capacity building and provide appropriate information about the proposed project and its positive and adverse impacts. A similar approach may also be applied to partner organisations, such as state-owned mining companies.

Accordingly, the sustainability framework may require separate corporate guidelines for managing Indian and overseas projects (see also our Recommendation 2.5.9 on professional competencies and 2.5.15 on international best practice).

***We acknowledge that some progress has been made against this Recommendation; however, the packaged approach with other elements of the sustainability governance means that successful achievement may be dependent upon implementation of the complete framework by the December 2011 reporting deadline.***

***To ensure due focus on the actions needed for eventual close-out, we propose that Vedanta present:***

- Its corporate standards and guidance documents, duly aligned with the IFC's revised requirements for public consultation and disclosure, and an implementation plan detailing how and when the new corporate requirements will be rolled out across the Group;***

- b) ***Evidence that Stakeholder Engagement Plans are being actively developed, at least for key projects. These plans should also set out instructions for public consultation activities for new projects where relevant; and***
- c) ***At least one mock-up of either a stand-alone public consultation and disclosure plan or the equivalent section from a Stakeholder Engagement Plan (see also 2.5.3 above).***

#### 4.6 Recommendation 2.5.20 Vulnerable social groups

- ***Adopt a specific policy in relation to engagement with and assistance for social groups that may be vulnerable to change and communicate this to all stakeholders via its web site (Original target = November 2011).***

Vedanta intends that the draft policy on Human Rights (which recognises indigenous peoples as a potentially special case) will address this recommendation and implementation is due to commence once the policies are approved in July; similarly we recommend that the management system documentation supporting this policy is aligned with the requirements of IFC PS 7.

Gaining a clear understanding within the Group of the intent and requirements of PS 7 is considered essential (see our comments in regard to 2.5.9 Professional competencies) in order to break down apparent confusion and/or resistance on this specific issue (e.g. at Lanjigarh). *Consequently, comprehensive guidance on applying the IFC's definition and the correct handling of potential issues associated with 'indigenous peoples' may be required for successful implementation of the sustainability framework guidance.*

*Further, as discussed with the CSO during our visit to Udaipur, we would like to draw Vedanta's attention to the evolving international laws and standards on human rights issues, especially the United Nations Declaration of Rights of Indigenous Peoples and the IFC's adoption of 'FPIC consent' for indigenous peoples in its revised Performance Standards. Vedanta may wish to review the possible implications of such international laws and standards in the context of both future projects and potential 'grandfather' issues associated with acquisitions.*

***Whilst some progress has been made, our view is that achievement of this Recommendation is largely dependent upon successful completion and implementation of Vedanta's sustainability governance framework by the December reporting deadline.***

***At that time, Vedanta should present:***

- a) ***Its corporate standards and guidance documents, duly aligned with the IFC's revised requirements for managing issues potentially involving indigenous people, and an implementation plan detailing how and when the new corporate requirements will be rolled out across the Group; and***
- b) ***A specific communications plan detailing how it will convey its new policy and any supporting commitments to all stakeholders.***

#### 4.7 Recommendation 2.5.22 Cultural heritage

- ***In developing new sites adopt a standardised approach to the identification of sites of cultural heritage value involving formal documentary sources, site surveys and community consultation (Original target = November 2011).***

Vedanta intends that, once approved in July, the draft Technical Standard for Cultural Heritage will address this recommendation. A copy of the draft document was made available for review; although generally of a good standard, it too would also benefit from closer alignment with the revised IFC PS 8 - particularly in relation to any proposed removal of non-replicable Cultural

Heritage (clause 8), any adverse impacts upon 'critical' Cultural Heritage (clauses 9-11) and the Group's proposals for a suitable mitigation hierarchy (clause 13).

***Our considered view is that achievement of this Recommendation is – as is the case for several other Recommendations such as the above example for consultation - largely dependent upon successful completion and implementation of Vedanta's sustainability governance framework by the December 2011 reporting deadline.***

***At that time, Vedanta should present its new corporate standards and guidance documents, duly aligned with the IFC's revised requirements for managing risks associated with potential impacts upon cultural heritage, and an implementation plan detailing how and when the new corporate requirements will be rolled out across the Group***

## 5 LANJIGARH RECOMMENDATIONS

This section deals with the specific recommendations for the Lanjigarh refinery. Although some good progress has been made in regard to some of our recommendations, some of which can be closed out, the imposition of a court order prohibiting any work on the Expansion Project has had an impact on the overall position. Notwithstanding this imposed embargo, our view is that more effort could have been made to address the recommendations which the refinery believed to be subject to the court order restrictions without compromising its compliance requirements. Accordingly, we have set some remedial actions and interim targets to help Lanjigarh get back on track with these recommendations. Our commentary is summarised in section 6.3 below which includes a table showing overall progress in addressing the Corporate Recommendations.

Nevertheless, we would like to generally commend Lanjigarh on its achievements in regard to Zero Discharge, the resource efficiency programme to eliminate wastes and the CSR commitments in regard to stakeholders affected by the refinery.

We used our visit to the Vedanta's Chanderiya plant to calibrate the Lanjigarh facility against an established operation. We are pleased to report that we have no material concerns with anything we saw there and we would also commend Chanderiya generally on both its HSE and CSR commitments and achievements.

### 5.1 Recommendation 3.3.20 Environmental management

- ***Undertake a systematic gap analysis of its EMS against the Industry Best Practice Criteria and update it accordingly (Original target = April 2011).***

The company assigned this gap analysis to a consultancy that was familiar with the Lanjigarh operations. We reviewed the information supplied for our review and discussed its contents with Vedanta and VAL management. We can confirm that some progress has been made based upon the submitted documentation; however, based upon what we received, there were a number of potential issues with both the methodology and the outcomes of this analysis.

Firstly, that analysis does not address all of the environmental Industry Best Practice Criteria as defined in our original review. It focuses entirely upon the 2006 edition of all 8 IFC Performance Standards (i.e. not just the environmental ones) and some detailed requirements appear to be omitted altogether from the list of checkpoints. Missing topics include for example consideration of the Indian Ozone Depleting Substances (Regulations) Rules, 2000, and the requirement for managing issues relating to invasive alien species. It is not clear whether such topics were originally considered and immediately discounted as not applicable, or were simply omitted in the section of the report we were given.

Secondly, the analysis did not take full account of the IFC EHS Guidelines which contain specific environmental performance criteria. The information supplied states - at 3.5 - that a "detailed assessment with regards to the EHS Guidelines is presented elsewhere in this report" but this was not included in the copy supplied for our review. We are therefore not aware of any detailed comparison between the detailed IFC and Indian legal standards "to determine which are the more stringent" and should therefore normally be applied to EIA processes.

Finally, the refinery's own response to the gaps in the checklist, in terms of the assessment of current status and whether further actions were needed often appeared to be downplayed or wrongly dismissed. This appeared to be due at least in part to an inadequate understanding at Lanjigarh of the meaning and intent of the detailed IFC requirements and supporting EHS Guidelines and how they can fit with national legislation. For example, PS 7: Indigenous Peoples was assessed as being "not applicable as there is no indigenous community as per Constitution of India" and no account was taken of the IFC's definition of what constitutes

'indigenous people' (PS 7, paragraphs 3-6); this is a potential disconnect with the group level Recommendation on Vulnerable Social Groups (2.5.20). We ascribe this to a lack of awareness training as discussed in regard to Recommendation 2.5.9 in the Corporate Section

The analysis provided did not adequately define what specific IFC requirements should be applied at Lanjigarh, and how they can be implemented in a way that is both straightforward and effective for the refinery and considers the obligations of national laws and regulations (see also comments below for Recommendation 3.3.63 on health and safety).

However, following discussions at site, Vedanta recognised the inadequacies of its exercise and agreed to both re-visit this gap analysis and fully address its shortcomings.

***In order to close-out this recommendation, inform full resolution of others and future-proof consequent actions at the refinery, as agreed, further efforts are required and a revised, interim target date of September 2011 has been set for completion of the following:***

- a) ***Update the submitted gap analysis using the revised 2011 versions of the 8 IFC Performance Standards and include any relevant requirements of the ICMM Principles that are not included in the IFC's documentation; and***
- b) ***Undertake a separate gap analysis of the environmental details in the relevant IFC EHS Guidelines, i.e. the General, the Base Metal Smelting and Refining, and Thermal Power examples at least. This should compare the refinery's environmental performance results against both the IFC and national legislation / permit standards and identify any parameters that require further research and/or corrective actions.***

***Progress addressing the identified gaps will be reviewed with Vedanta's December 2011 submission on progress.***

## 5.2 Recommendation 4.5.8 Grievance mechanism

- ***Establish and strengthen a simple and accessible grievance mechanism by which villagers can identify any concerns about the operation of the refinery by using the village coordinators already deployed by VAL (Original Target = May 2011).***

A new grievance system has been implemented at Lanjigarh to ensure the effective receipt, recording, resolution and monitoring of community grievances. This complements the existing Resettlement and Peripheral Development Advisory Committee (RPDAC) system operated by the government, which also refers stakeholder complaints to the refinery. We examined the system including records of individual grievances, the register and the analysis of grievances which functions well.

The system does not distinguish between grievances that need to be resolved by VAL and those that are managed by public agencies; as a consequence, the ultimate responsibility for any delayed or unresolved complaints cannot always be clearly discerned. The grievance register does not always record what specific actions have been taken and there should be additional columns to identify the date when complaints are transferred to the relevant public authority and the eventual date of closure. Periodic analysis of grievances could also be used to provide indicators of 'broad community support' for the refinery and/or its expansion programme.

In addition, it would be useful to identify any complaints arising from vulnerable communities or individuals (including scheduled tribes, one parent families, the disabled etc.) so that they can

be prioritised as /if appropriate. Once the amendments are completed, the Lanjigarh mechanism will be a good model for other sites to emulate.

Our field visits revealed that local stakeholder awareness of the process was variable; key people (representatives) in the villages and other stakeholders targeted by Vedanta knew about the system, but otherwise awareness was incomplete (e.g. nonexistent in Sindhibahal). Generally however most people knew that they could visit the Vedanta CSR office on Fridays to present their grievances and that they would be dealt with.

Most of the stakeholder grievances reported to us were in relation to job opportunities or one-off compensation payments, although we were also informed about roadside dust emissions – see Recommendation 4.5.5 below. Complainants were usually advised if their issue was being referred onto the relevant authority and that it would take time to resolve.

We can therefore confirm that good progress has been made and we recommend that a few minor refinements be made.

***As agreed, the following refinements are proposed for completion by the December 2011 reporting deadline:***

- a) ***The register should be amended to:***
  - i. ***Clarify those grievances that need to be resolved by the public authorities and those that VAL are accountable for;***
  - ii. ***Record any specific actions taken to resolve individual grievances; and***
  - iii. ***Add additional columns to the analysis to identify date of transfer to public authorities and date of closure.***
- b) ***The grievance procedure should ensure that any complaints received from vulnerable communities and individuals are clearly identified.***
- c) ***Additional awareness raising and/or capacity building is needed to ensure that all local communities know about the grievance process and how to use it.***

### 5.3 Recommendation 3.3.3 Housekeeping

- ***Notwithstanding the current problems arising from equipment storage, VAL seek to improve site housekeeping with particular regard to ensuring the correct segregation, collection and disposal of waste materials and the fitness for purpose of the refinery's storm water drainage systems (Original target = immediate).***

It should be noted that the Expansion Project is still subject to a court imposed embargo that effectively prevents any form of interference with the storage of its materials and equipment until the legal order is lifted (i.e. all expansion project materiel has been left in situ and photographed to preclude any removal or rearrangement). Nonetheless, a visual inspection of the site and a comparison of the current situation with photographs taken during our previous visit demonstrated that the refinery is maintaining a higher standard of housekeeping and that substantial progress has been made.

We are pleased to confirm that the internal road network has been upgraded, new storage facilities have been constructed for waste oils and chemicals, and waste segregation and storage have been improved generally across the active area of the site. Also, Lanjigarh's

storm drainage system is now included in the refinery's preventative maintenance programme and cleaning is regularly undertaken by contractors.

Typically in large industrial complexes, a few minor housekeeping issues were evident. There was one instance of a blocked drain which had been colonised by vegetation and wildlife (Lanjigarh has 22 km of surface run-off drains). Once the situation regarding the Expansion Project is resolved, the definition of a site-wide Waste Management Plan would be a useful addition to VAL's environmental management system.

***Overall there is sufficient confidence that an acceptable standard of housekeeping will be maintained. We therefore consider this recommendation can be closed out – no further actions or checks are required.***

## 5.4 Recommendation 3.4.3 Proposed expansion

- ***If the expansion of the refinery is to proceed, a supplementary report be prepared to augment and update the existing EIA, thus meeting international best practice. This report would be used to guide further development and would be made available to key stakeholders (No defined target date = dependent upon court approval to proceed).***

The Expansion Project currently remains 'on hold' and there is no certainty when the court order might be lifted. The company has committed to preparing a supplementary report, which should reflect the requirements of Recommendation 2.5.15 (company level example on international best practice) and the detailed findings of the updated gap analyses required for Recommendation 3.3.20 (Lanjigarh).

***This recommendation remains 'open' pending resolution of the Expansion Project's approval.***

## 5.5 Recommendation 3.3.79 Disaster management plan

- ***Review the Disaster Management Plan against recognised industry guidance (such as the ICMM / UNEP publication "Good practice in emergency preparedness and response", 2005) and upgrade its emergency prevention and response arrangements including improved drill and simulation exercises (Original target = April 2011).***

Alumina refineries are classed as potentially hazardous plants and are therefore obliged to have a Disaster Management Plan (DMP) that deals with any significant risks including those associated with 'off-site' facilities like red mud and ash ponds.

In response to this Recommendation, VAL provided us with a copy of the DMP for the Expansion Project, which was dated September 2010 and was the same draft that was viewed in our 2010 review. There was no identification of what, if any, changes had been made (e.g. it contains the same error of including an MSDS sheet for Heptane instead of one for Heavy Fuel Oil) and it does not reference the ICMM / UNEP guidance cited in the original Recommendation. As this draft DMP was originally prepared for the Expansion Project, it cannot be corrected until the court order is lifted. Once that situation is resolved the draft will be updated and finalised in line with this Recommendation before being submitted to the competent authorities for approval.

However, it is important to note that Lanjigarh is not dependent upon this draft DMP. It has existing ISO 14001 / OHSAS 18001 management systems that cover emergency preparedness

and response for environmental and occupational health and safety incidents within the alumina refinery. Independent certification audits will have verified the fitness for purpose of the plant's emergency procedures for dealing with the consequences of any incidents within the refinery.

Our main concern here is that the refinery still needs to assess the potential effects of various emergency situations that extend beyond the site perimeter and may impact upon community health and safety, and then devise and implement suitable mitigation plans. The full range of potential incidents should be considered (and completely discounted or earmarked for further actions as appropriate) including, inter alia: river pollution and downstream impacts on water use; a release of a caustic gas cloud that extends beyond the refinery's boundary; and catastrophic failure of a pond embankment. Such incidents may arise from on-going operations and can be easily documented in a way that does not compromise compliance with the conditions of the court order (e.g. they could be added to the existing environmental management system documentation).

In preparing this documentation, it is recommended that, in regards to the red mud and ash ponds, Lanjigarh reference the original design standards, sign-off of satisfactory construction of the facilities, and the independent checks of dam integrity. Vedanta state that the draft has been submitted to the competent local authority for approval and that they will undertake further analysis of potential situations that will enhance emergency management provisions.

We would also point out that Vedanta should endeavour to prevent any significant growth of trees on the walls of its ponds as their roots may weaken the structure's integrity; some young trees were observed close to the main entrance.

We also note that there was an on-going right-of-way dispute in regards to the red mud pond, although it was anticipated that it would be resolved soon. A small number of villagers were continuing to use a portion of the 'kuttcha' road that passes through the facility which stores potentially hazardous materials. Some State and local government documentation has been reviewed which indicates that the Office of the Collector and District Magistrate Kalahandi is progressing advanced possession of the right of way for lease to Vedanta. Pending resolution of this dispute, Vedanta has been unable to undertake major work on the East Cell and has continued to provide access to the villagers. Further investigations on progress on this matter will be undertaken as part of the September interim review.

***In view of the important issues covered by this Recommendation, as agreed, further efforts are required and a revised, interim target date of the end of September 2011 has been set for completion. Vedanta Lanjigarh should undertake an analysis of potential emergency situations that pose potential risks to the local communities around the refinery and define and implement suitable and sufficient mitigation plans and procedures in keeping with the requirements of the original Recommendation. Additionally Government actions to take possession of the right of way adjoining the red mud pond will be further investigated as part of the end of September interim review.***

## 5.6 Recommendation 3.3.32 Retrenchment plans

- ***Develop suitable and sufficient retrenchment plans to mitigate the adverse impacts of future suspension or closure of the refinery on both direct and indirect employees (Original target = November 2011).***

The Vedanta Implementation Progress Report states that “All retrenchment has to be made only after obtaining approvals from the Government (except termination on account of disciplinary/integrity issues), the procedure set up by Government and jointly signed by VAL & the Director of factories, Government of Orissa is followed.” The procedure referred to is actually the Certified Standing Orders, which are part of Lanjigarh’s official license to operate and which define requirements for notice period and redundancy / lay-off payments.

We reviewed these orders and can confirm that the refinery complied with the procedure when the Expansion project was put on hold by court order. However, we do not consider that this satisfies the IFC requirement for a retrenchment plan – see both clause 12 of PS 2 and the IFC’s Good Practice Note on Managing Retrenchment. Lanjigarh should develop a plan that includes identification of possible causes and types of temporary retrenchment and what actions to take to mitigate impacts upon both VAL’s own and contractor staff (e.g. ensuring a fair and transparent process to select workers for retrenchment in situations in which only part of the workforce is being laid off).

In keeping with the guidelines contained in the Good Practice Note, we recommend that the refinery’s retrenchment plans should also address potential impacts of such loss of employment upon the local communities. The output should provide a useful model for use in new projects elsewhere in the Group.

***In view of the issues covered by the original Recommendation, as agreed, further efforts are required to develop retrenchment plans within the original timeframe of November 2011 (i.e. the December 2011 reporting deadline), which we consider to be still achievable.***

## 5.7 Recommendation 3.3.48 Contractor accommodation

- ***Undertake a gap analysis for contractors’ labour accommodation against IFC / EBRD guidance and address any serious deficiencies. VAL should therefore amend its contractual documentation to specify minimum expectations for contractors in regard to labour accommodation, and then enforce contractors’ adherence to its specified requirements (Original target = November 2011)***

Vedanta’s Implementation Progress Report states that the “labour colonies were built by contractors on private land and VAL cannot remove or dismantle these camps” and no evidence of a gap analysis or changes to contractual documents was available to demonstrate progress.

It should however be noted that many of the contractor sites were being abandoned at the time of our previous visit which was just after the Expansion Project was suspended by court order; most remain unoccupied. These abandoned sites generally present an adverse visual impact and, although VAL cannot currently intervene to improve the situation directly, it could consider some form of screening that does not affect private land or contravenes the conditions of the court order for the Expansion Project.

We found that the CSR team undertakes visits to contractor camps to ensure that basic hygiene and sanitation standards are met but that there is no specific Vedanta standard and no systematic records of such visits. We therefore recommend that Lanjigarh prepares a checklist to ensure its standards applied before / during contractor mobilisation and then throughout the construction period through to demobilisation of camp facilities. This should be applied when the Expansion Programme is reactivated if/when the court order is lifted; this may necessitate

some staff training. It may also be useful to include this checklist in the corporate sustainability technical standards and guidelines.

***Pending lifting of the Expansion Project court order, further interim actions are required as agreed to demonstrate progress within the original timeframe (i.e. for the December 2011 reporting deadline), which we consider to be still achievable:***

- a) ***A company standard and/or checklist should be developed for contractors' accommodation and staff should be trained in its application ready for use at Lanjigarh;***
- b) ***Vedanta should define its minimum expectations for contractors' labour accommodation within its corporate Sustainability policies and management/technical standards; and***
- c) ***A timetable will be required to indicate when the various subsidiaries' contractual documentation is likely to be updated (i.e. if not covered already by actions for other corporate / company level recommendations).***

## 5.8 Recommendation 4.5.5 Dust emissions

- ***Review the issue of sporadic dust nuisance, seek to reduce such pollution and monitor both dust emissions and incidence of respiratory infections in the immediate locality of the refinery (Original target = within 12 months)***

Vedanta's Implementation Progress Report states that "in the last year, US\$10 million has been invested in regards to the installation of vacuum dust collection systems, bag filters, and various dust suppression systems such as, sprinklers, dry fog etc." We reviewed the actions taken and arrangements for ambient dust monitoring within and around the plant. We are pleased to confirm that a range of effective abatement actions have been put in place and that the plant has a suitable and sufficient system to monitor emissions in the areas most likely to be affected by dusts emanating from the refinery. Monitoring records also showed that particulate matter emissions are within the permitted limits.

There was however no evidence of any 'sporadic' emissions in the monitoring records; these may have been due either to the cessation of work for the Expansions Programme (i.e. construction activities may have been responsible for the dusts reported by stakeholders) or to specific occasions when windy meteorological conditions may have carried dusts off-site. Also, although the plant's new clinic is now operational, it is perhaps too early to detect any specific trends in the respiratory infections within the area.

Our research into stakeholder perceptions on this issue did not identify any apparent problems from dusts originating directly from the plant; however there does appear to be an on-going issue with dusts from haulage vehicles transporting bauxite to the refinery (i.e. due to a combination of overloaded lorries, uncovered loads, poor road conditions and excessive speed). It does not appear that affected villagers have sought to use the new grievance mechanism to bring this issue to Vedanta's attention (potential lack of awareness or understanding of arrangements – see also Recommendation 4.5.8 above).

Vedanta had awarded 3-year contracts for "sprinkling water" onto roads to suppress dusts in some roadside villages, but these were suspended in June (monsoon season) and may contribute to intermittent dust problems when road surfaces dry out.

Given the current condition of the local road network and the plant's limited ability to ensure suitable improvements (e.g. limited resources of the road authority plus some reported resistance to direct intervention in Asurpada village), resolving this (new) issue will be difficult within the original timescale. Nevertheless, Vedanta should determine what actions it could take to further mitigate dust nuisance in roadside communities (e.g. educate hauliers and enforce standards upon transport contractors and individual drivers, switch to rail transport).

We also note that currently more bauxite is being imported to the site by train so that Vedanta may also want to consider assessing whether any trackside communities are subject to dust nuisance and, if required, developing appropriate actions.

***Subject to inclusion of a reasonable action plan to mitigate on-going dust nuisance in roadside communities from vehicle transport to/from the refinery in its next reporting submission in December 2011, we consider this recommendation could potentially be closed out by the original target date.***

## 5.9 Recommendation 4.6.8 Livelihood support

- ***Give further consideration to accelerating livelihood training programmes for villagers via self-help and business start-up support, especially in those villages close to the refinery, and monitor local employment creation in these villages and the Lanjigarh block (Original target = November 2011).***

It is noted that most community initiatives come under the responsibility of the Lanjigarh Project Area Development Foundation (LPADF), a special purpose vehicle formed by the Government of Orissa, the Orissa Mining Corporation (OMC) and VAL. Lanjigarh deposits 5% of the refinery's profit or Rs. 10 Crore per annum, whichever is higher, through SILL for development within a 50 km radius around the Lanjigarh site.

A list of development projects was made available and it was confirmed that most initiatives are initiated by the LPADF and that there were no clearly established criteria or guidelines for identifying and prioritising new livelihood enhancement projects. The criteria selected for commercial vegetable cultivation were simply that the villagers had land with water supply or scope for water resource management.

Currently, VAL does not have system for monitoring direct and indirect employment creation associated with the refinery. Nevertheless, in addition to the 'spontaneous development' of retail businesses by the refinery's main entrance, it is noted that several new enterprises have emerged around the plant including: a new hotel, an English language school and an airstrip security service.

We confirmed that a range of projects have been implemented (in regards to health (e.g. mobile health services), education (e.g. construction and support for schools, IT training), infrastructure development (e.g. new bridge), livelihood promotion (e.g. brick manufacture, leaf-plate manufacture, agriculture, self-help groups, etc.) and so on. Currently there are some joint projects with the animal husbandry department (e.g. a vaccination programme and research into agricultural use of compost from the colony's new facility in Vermi-culture compost beds).

However, stakeholders from the surrounding villages reported that a number of self help groups that had been formed were no longer active, that agricultural projects were not always successful for a variety of reasons (e.g. reported problems in ensuring the timely supply of seeds, pesticides and fertilisers; failures in water supply; etc.) and that there had been no material changes since our visit in 2010.

Our field visit also confirmed that whereas the Vedanta CSR programme originally involved NGOs identifying income generation activities, and forming and supporting self-help groups, NGO participation in such activities has now been discontinued. At present, NGOs are only involved in health and pre-school initiatives; livelihood enhancement activities are directly managed taken by the plant's CSR section.

However, this Recommendation was originally formulated in response to stakeholder comment that such initiatives appeared to be uncoordinated and that peripheral communities did not understand how 'to get a project' (which lead to suggestions of favouritism or neglect).

We recognise that Vedanta's capacity to address this Recommendation may be constrained as a direct result of the suspension of the refinery's Expansion Programme (and the rejection of plans to develop the nearby Niyamgiri mine) which could be interpreted as limiting the refinery's zone of influence, Nevertheless, there are currently no clear proposals to counter peripheral communities' concerns of favouritism or neglect. An indicative plan should therefore be developed and set out how such communities can apply for projects and/or what additional livelihood initiatives Lanjigarh will consider if the Expansion Project is cleared.

***No new remedial actions are required but the original timeframe should stand. For the next 6-monthly check on progress in December 2011, we would like to see an indicative plan or proposals on how this Recommendation would be addressed in the future (e.g. if / when the court order on Expansion Project is lifted).***

## 5.10 Recommendation 4.6.12 Integrated development

- ***Work together with local government to develop and publicise an integrated rural development strategy for the area (Original target = November 2012).***

The good works of the LPADF and its coordination with the Dongria Kondh Development Agency and the Kutia Kondh Development Agency (KKDA), plus VAL's contribution towards local achievement of the Millennium Development Goals (see Appendix to the Implementation Progress Report), are duly acknowledged.

However, there are currently no clear proposals to deal with the specific outputs from Recommendation and / or deal with the underlying concerns (e.g. rivalry for project benefits between villages, lack of transparency as to why some villages apparently benefit more than others, etc.). We recognise that Vedanta's capacity to address this Recommendation may be constrained as a direct result of the suspension of the refinery's Expansion Programme; however there is still adequate time to develop and disclose an integrated rural development strategy.

***No new actions required and the original timeframe should stand. However we would like to see an indicative plan or proposals on how this Recommendation is to be addressed for the next 6-monthly check on progress.***

## 5.11 Recommendation 3.3.63 Health and safety management

- ***Undertake a gap analysis against the occupational and community health and safety requirements set out in the Lender's Industry Best Practice criteria (specifically the IFC's General and applicable sector EHS Guidelines) and take appropriate measures to address any outstanding gaps (Original Target = November 2011).***

No information on this Recommendation was provided in the initial draft of Vedanta's Implementation Progress Report; however it was agreed that the gap analysis will be completed by the original target date.

The primary intent of this analysis was to help the refinery improve by identifying any occupational or community health and safety topics (such as exposure of power station workers to electro-magnetic radiation) that may not be adequately addressed by existing arrangements, including VAL's OHSAS 18001 management system which caters for most obvious occupational safety risks.

We are satisfied that there are no major gaps in regards to occupational health and safety - although, as noted in regards to Recommendation 3.3.79 Disaster Management Plans, there is some residual concern about possible risks to communities in emergency situations. We confirmed that the site's OHSAS management system is being applied and that overall safety performance is being maintained.

In this case, the gap analysis should consider the General EHS Guidelines, plus the examples for Base Metal Smelting and Refining, Thermal Power and Railways sectors.

***Subject to satisfactory resolution of our updated requirements in regards to the DMP Recommendation by September 2011 and provision of the required gap analysis by the December 2011 reporting deadline, we consider this recommendation to be capable of close-out by the original target date.***

## 6 Overview of progress and remedial actions

### 6.1 Group Level Recommendations (see Table 6.1)

There are 11 Recommendations set for corporate level that require varying degrees of effort from Vedanta to address successfully and complete. We consider two (Value Statement and Code of Conduct) to be closed out; the two items dealing with the Sustainability Committee and CSO are regarded as substantially complete and should be capable of being closed-out by the end of September. Adequate progress has been made on three others (Reporting, Sustainability Oversight, and Human Rights Policy) and they are considered to be on track to meet their original target dates for completion. We accept that additional time is required to implement the Recommendation on Stakeholder Engagement and note that good progress is being made so that it should now be on track for close-out by the December 2011 when we will be able to scrutinise the register of stakeholder enquiries. One Recommendation (independent external audit) is not due until June 2012.

Two items require higher priority and/or remedial actions. Vedanta is expending substantial effort in the development of a suite of Group level sustainability policies and the supporting sustainability governance framework. However, we believe that the key Management Standards and Technical Guidelines need to be more closely aligned with the IFC's requirements to ensure that future EIAs fully meet the international standards that Vedanta has adopted. Whilst it is anticipated that the policies will be published before the end of the year, we would like to see an indicative schedule and implementation plan for roll-out included in the company's next report on progress in December to help it meet the June 2012 deadline.

The final corporate level Recommendation concerns professional competencies and training across the business. Vedanta had intended to address this once the sustainability governance framework was complete. However, whilst the use of external consultants has permitted access to considerable knowledge about the international standards Vedanta is adopting, there has been no significant knowledge transfer so far. We believe their programme would be helped by providing suitable awareness training to the core Sustainable Development team and key people at the Lanjigarh refinery as soon as practicable. Due to the linkage with the Recommendation on policies and the numbers of people requiring training Group-wide, we expect that additional time will be needed to fully implement this item.

### 6.2 Company Level Recommendations (see Table 6.2)

Seven Recommendations were set for implementation across the Group's subsidiary companies in India and overseas. However, many of these items are clearly dependent upon Vedanta's rate of progress in developing its sustainability policies and supporting management systems for dealing with the issues raised. Consequently, the additional time needed to address item 2.5.6 has had a knock-on effect on company level progress – two items are currently on track but the remainder will need higher priority and/or extended time to fully complete.

We consider that adequate progress is currently being made in regards to testing other EIAs against international standards and in developing a central environmental and social incident register. In addition some progress has been made on the item concerning Land Management, although Vedanta needs to follow up on its initial activities. More extensive remedial actions are required for the remaining four items (Environmental Communications, Consultation for New Sites, Vulnerable Social Groups and Cultural Heritage) to ensure they get back on track.

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### 6.3 Lanjigarh Refinery Recommendations (see Table 6.3)

Eleven Recommendations were identified for the Lanjigarh refinery although the on-going court order preventing any work on Vedanta's proposed Expansion Plans has had an impact on the programme. Delays in developing the Group policy statements and supporting sustainability governance management system may also have had a knock-on effect; however at the same time, delays implementing requirements at Lanjigarh may also have had a similar effect on the Group Recommendations (i.e. not able to pass on lessons learned to inform the corporate programme).

One item (Proposed Expansion) remains pending, awaiting resolution of that situation. It should also be noted that the suspension of the expansion project has directly affected local employment opportunities (retrenchment of construction jobs) with indirect economic and social consequences. Another two items - Integrated Development and Health and Safety - are not yet due, although we would have liked to see initial progress.

Nevertheless some good progress has been made with plant housekeeping, which is now considered to be closed out, and with the local grievance mechanism, which requires only minor tweaking and some improved communication to stakeholders. Adequate progress has been made dealing with dust emissions from the plant, although stakeholder concerns have been raised about dusts from vehicles delivering bauxite to the refinery and this needs further investigation.

With regards to the remainder, we believe that, notwithstanding the need to comply with the court order, some progress could have been made in regards to developing Retrenchment Plans (including consideration of community impacts), Contractor Accommodation and Livelihood Support plans. In addition, the site's Disaster Management Plans need to take more account of potential risks to community health and safety and what actions should be developed to mitigate against the more likely consequences. Remedial actions and interim targets have been agreed to put these items back on track.

Finally, the item dealing with Environmental Management was not completed to our satisfaction. This Recommendation was set so that the Lanjigarh Environmental Management System could be benchmarked against the detailed IFC standards as a means of informing the corporate sustainability programme and identifying some minor improvements (the refinery's EMS is considered generally fit-for-purpose and there are no major deficiencies or concerns with environmental performance there). Vedanta has recognised the inadequacies of its response to this Recommendation and have committed to re-visiting the gap analysis and addressing its shortcomings.

Recommendation	Vedanta status	URS-SW status	Remedial actions	Interim / revised target	Outlook
<b>Table 6.1 CORPORATE RECOMMENDATIONS</b>					
2.5.7 Sustainability Committee (SDC)	<b>Closed-out</b>	<b>Substantially complete</b>	Minutes of 12 <sup>th</sup> July meeting and update on action points arising	Sept 2011	Achievable
2.5.8 Sustainability Officer (CSO)	<b>Closed-out</b>	<b>Substantially complete</b>	Approved CSO job description and organisation chart	Sept 2011	Achievable
2.5.4 Value Statement	<b>Closed-out</b>	<b>Closed-out</b>	Not applicable	-	Complete
2.5.2 Code of Business Ethics	<b>Closed-out</b>	<b>Closed-out</b>	Not applicable	-	Complete
2.5.6 Policies	<b>Progressing</b>	<b>Needs some remedial actions</b>	Align management standards with IFC requirements; finalise/publish policy statements and prepare implementation plan / schedule	Sept and Dec 2011 / complete in June 2012	Achievable
2.5.3 Stakeholder engagement	<b>Progressing</b>	<b>Behind original schedule but adequate progress</b>	Ensure registration process rolled out and provide an analysis of stakeholder enquiries	Dec 2011	Achievable
2.5.13 Reporting	<b>Progressing</b>	<b>Adequate progress</b>	(On-going process of improvement regarding reporting metrics and benchmarking)	Jun 2012	Achievable
2.5.8 Sustainability oversight	<b>Progressing</b>	<b>Adequate progress</b>	Dependent upon achievement of remedial actions for Recommendation 2.5.6 Policies	Sept and Dec 2011	Achievable
2.5.9 Professional competencies	<b>Progressing</b>	<b>Needs higher priority</b>	Undertake IFC awareness training; define competencies; interim implementation training plan	Sept and Dec 2011/ complete in June 2012	Achievable
2.5.16 Human rights policy	<b>Progressing</b>	<b>Adequate progress</b>	New policy to be formally adopted and published (as per 2.5.6 above)	Sept and Dec 2011	Achievable
2.5.24 External audit	<b>Not due yet</b>	<b>Not due yet</b>	Dependent upon implementation of other Group level recommendations	-	TBA

Recommendation	Vedanta status	URS-SW status	Remedial actions	Interim / revised target	Outlook
<b>Table 6. 2 COMPANY LEVEL RECOMMENDATIONS</b>					
2.5.15 International best practice	Progressing	Adequate progress	Comprehensive list of all operational and project sites subject to EIA requirements, indicating stage of development and brief details of any potentially significant issues / red flags	Sept 2011	Achievable
2.5.11 Land management	Progressing	Behind schedule / needs higher priority	Follow-up actions on initial review, including prioritisation of any significant deficiencies; implementation plan	Dec 2011	Achievable
2.5.23 Incident register	Progressing	Adequate progress	Minor adjustments to register; continue investigations of major incidents	Dec 2011	Achievable
2.5.12 Environmental communications	Progressing	Needs higher priority	Preparation of Stakeholder Engagement Plans for Lanjigarh and the Durgapur / Taraimar coal project; mock-up environmental and social report for local stakeholder	Dec 2011	Achievable
2.5.17 Consultation for new sites	Progressing	Needs higher priority	Management system documentation and implementation plan; examples of Stakeholder Engagement Plans; mock-up of public consultation plan or equivalent	Dec 2011	Achievable
2.5.20 Vulnerable social groups	Progressing	Needs higher priority	Dependent upon achievement of remedial actions for Recommendation 2.5.6 Policies (management system documents / implementation plan); communications plan for new policy	Sept and Dec 2011	Achievable
2.5.22 Cultural heritage	Progressing	Needs higher priority	Dependent upon achievement of remedial actions for Recommendation 2.5.6 Policies (management system documents / implementation plan)	Sept and Dec 2011	Achievable

Recommendation	Vedanta status	URS-SW status	Remedial actions	Interim /	Outlook
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				revised target	
<b>Table 6.3 LANJIGARH RECOMMENDATIONS</b>					
3.3.20 Environmental management	<b>Closed-out</b>	<b>Behind schedule / needs remedial actions</b>	Revisit gap analysis (use revised IFC PS); undertake separate gap analysis on detail of IFC EHS Guidelines (i.e. general, smelting/refining, thermal power examples at least)	Sept 2011	Achievable
4.5.8 Grievance mechanism	<b>Closed-out</b>	<b>Substantially complete</b>	Minor adjustments to register and process; additional awareness / capacity building needed	Dec 2011	Achievable
3.3.3 Housekeeping	<b>Closed-out</b>	<b>Closed-out</b>	Not applicable	-	Complete
3.4.3 Proposed expansion	<b>Pending</b>	<b>Pending</b>	Pending = Dependent upon lifting of court order preventing any work on Expansion Project	-	TBA
3.3.79 Disaster management plan	<b>Progressing</b>	<b>Needs remedial action</b>	Analysis of emergency situations that may impact health and safety of surrounding communities	Sept 2011	Achievable
3.3.32 Retrenchment plans	<b>Pending</b>	<b>Pending - but could make some progress</b>	Develop retrenchment plan to identify possible scenarios and impacts, especially any adverse impacts on local communities	Dec 2011	Achievable
3.3.48 Contractor accommodation	<b>Pending</b>	<b>Pending - but could make some progress</b>	Pending lifting of Expansion Plan court order; define standards / checklist; roll-out plan for new projects (if not covered elsewhere by corporate or company level recommendations)	Sept 2011	Achievable
4.5.5 Dust emissions	<b>Progressing</b>	<b>Adequate progress</b>	Can be closed out with submission of action plan to deal with roadside dust nuisance from the transport of materials	Dec 2011	On track
4.6.8 Livelihood support	<b>Progressing</b>	<b>Needs higher priority</b>	Provide plan / proposals as to how will address suggestions of favouritism / neglect once Expansion Project approved to recommence	Dec 2011	Achievable
4.6.12 Integrated development	<b>Not due yet</b>	<b>Not due yet but could progress</b>	Provide plan / proposals as to how will be addressed to meet Nov 2012 target	Dec 2011	Achievable
3.3.63 H&S management	<b>Not due yet</b>	<b>Not due yet but could progress</b>	Provide gap analysis against IFC EHS details as per original recommendation	Dec 2011	Achievable

## 7 SOCIAL, ENVIRONMENTAL AND H&S INCIDENTS

All Group companies were required to implement an incident register and report monthly from April 1st (Lanjigarh commenced its register in November 2010). Results to date have been provided for each component part of the Group for April, May and June in regard to environmental, health, social, labour and other categories of events.

Incidences of particular note in the registers included:

- There were a number of 'railway strikes' (public demonstrations) around Lanjigarh from November through to June; there was also a small demonstration at the airstrip and by the main gates during the period. These incidents were mainly about payments for land or demands for employment; many were subject to an amicable settlement or partial settlement (e.g. where full resolution falls under the responsibility of the GOO's RPDAC);
- A contract worker fatality (fall from height) at Shraven Kumar, BALCO, May;
- Rejection of the BALCO request to review coal production dates in Chhattisgarh, June;
- An alleged breach of the (hazardous) red mud pond at VAL-Lanjigarh following heavy rainfall in April (this was ascribed to run-off collection and pumping system; local authorities confirmed that there had been no contamination from the red mud pond). This allegation was repeated by Amnesty International in the press in May and June;
- A 'Railway strike' by villagers at Patrapada (Lanjigarh) in April (land losers not registered for compensation programme in relation to the railway construction project (which was not within scope of SW 2010 visit). Complaints were referred to the GOO Resettlement and Peripheral Development Advisory Committee;
- A 'railway strike' by PAPs at Ambodala (Lanjigarh) in May (referred to GOO RPDAC);
- A 'railway strike' at Jodabandh (Lanjigarh) (employment demands, settled amicably);
- VAL-Jharsuguda reported high emissions from Bake Oven and CPP stacks and discharges of untreated effluents, all in April;
- 2 fatalities and 3 LTIs following explosion at Rampura Agucha mines (HZL) in May (an accumulator wrongly charged with oxygen, not nitrogen);
- Violent protest by 300 people at Rampura Agucha mines, also in May. The investigation is still pending although it is believed to relate to a wage dispute, not in response to fatalities although occurred at the same time;
- A fatality at Chanderiya in June when a worker was struck on the head by metal plates when unloading a vehicle and while working a second shift. The lessons learned includes statement that "the main entry...needs to be made stronger in order to hold out an aggressive mob" – but there is no mention of that as a separate incident;
- IZA (new acquisition) reported a fatality in April and there was an official enquiry to determine cause of death (the Mine believed that a cardiac arrest led to fall into water and drowning, whereas the autopsy identified the primary cause as drowning, cardiac arrest was secondary);
- A derailment of two freight wagons carrying lead reported by IZA in April (no spillage);
- SIIL environmental audit undertaken by NEERI (with officials and petitioners in attendance) as part of an on-going legal process regarding pollution from the site in April - the next hearing is scheduled for July; and
- A fatality at SIIL (electrocution) during welding operations on the 31st May (failure to properly apply a permit to work / lock-out-tag-out system).

We reviewed the Lanjigarh and Group level registers(s) of incidences and checked them against reporting on Vedanta and its subsidiary companies in both the Indian national and international press.

We are pleased to confirm that we did not find any significant discrepancies between what Vedanta recorded and what appeared in newspapers and on the internet in regard to non HSE issues, although there were a few examples of 'running stories' on activist web sites in relation to the previous issues at Lanjigarh and the Niyamgiri hills. Most of the earlier issues at least have

been resolved and/or subject to appropriate remedial action, whilst the more recent examples are also receiving appropriate attention

In regards to health and safety, a number of fatalities have been recorded in the press - including the fatality reported at the Konkola mine on July 7<sup>th</sup> which was notified to us during the site visit. As external to the business, we found that it is not always easy to correlate press reports to incidences recorded in the register due to the complexity of the Group's ownership structure and, occasionally, delays between the incident and the press report (e.g. the fatal electrocution at a SILL plant on May 31<sup>st</sup> that was reported in London on the 2<sup>nd</sup> June); however, Vedanta are fully aware of the correlation.

Our research also uncovered some incidences that occurred prior to implementation of the corporate register in April. For example, there was an accident at the East Mill expansion project in March which involved 4 fatalities amongst contractor workers engaged in excavation works at Konkola. There was also a more minor incident there in January when smelter operations were temporarily suspended following a problem with the furnace (flash foaming).

As noted in regards to Recommendation 2.5.23 (see Section 4), we consider that the new procedures being applied to investigate fatalities and other major incidents are fit-for-purpose and generally capable of driving improvements in safety performance.

In environmental terms, the only significant incident of note consisted of an allegation of a 'breach' of the red mud pond's walls at Lanjigarh during a heavy rainfall event in April 2011; the allegations were repeated by Amnesty International and in certain sections of the press in both May and June.

The alleged breach was actually excessive surface run-off from the walls and the surrounding area which was coloured by the predominant soils in the area. The run-off was, as standard practice, collected in the refinery's drainage system and pumped back into its water circuits; there was no breach in the red mud pond and no contamination of land or the nearby Bamsadhara River. Independent verification was undertaken by the competent authorities from the State Pollution Control Board and the central Ministry of Environment and Forests (MoEF).

Their report confirmed that there had been no contamination from the red mud pond, and recommended some corrective / preventive actions to make the East Cell of the red mud pond impermeable (there had been reports of a possible tectonic fault under the wall which may have caused some seepage into the facility's secondary containment and drainage system). Lanjigarh had already commenced construction of additional pits and an overflow weir and with the exception of works on the East Cell have largely completed the remedial actions (as stated in regard to Recommendation 3.3.79 there is an on-going right-of-way dispute with local villagers there).

***In summary, based upon the information made available and our discussions with Vedanta management, we have no significant concerns regarding the Group's handling of social, environmental and H&S incidences to date.***

Please refer all questions on this report to the Agent for the lenders to Vedanta Resources – Standard Chartered Bank at [feed.back@sc.com](mailto:feed.back@sc.com).

### **Limitations**

The conclusions and recommendations contained in this Report are based upon information provided by others and upon the assumption that all relevant information has been provided by those parties from whom it has been requested and that such information is accurate. Information obtained by URS Scott Wilson has not been independently verified by URS Scott Wilson, unless otherwise stated in the Report.

The methodology adopted and the sources of information used by URS Scott Wilson in providing its services are outlined in this Report. The work described in this Report was undertaken before, during and after the site visits in India during July 2011 and is based on the information available during the said period of time. The scope of this Report and the services are accordingly factually limited by these circumstances.

Where assessments of works or costs identified in this Report are made, such assessments are based upon the information available at the time and where appropriate are subject to further investigations or information which may become available.

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