Vedanta Resources plc and Lanjigarh Alumina Refinery

REVIEW OF PROGRESS ON RECOMMENDATIONS

Final Report
March 2012

Prepared for
Standard Chartered Bank
As Agent to the Lenders
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 Wilson¹, 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 February 2012 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.

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1. Note that following its acquisition by URS and consequent integration into the main Group, the ‘Scott Wilson / URS Scott Wilson’ brands have now been discontinued and the company that undertook the original Sustainability Review is now named URS Infrastructure and Environment UK Ltd. The URS Scott Wilson name has been retained in this Report to ensure continuity of the ongoing monitoring.

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1 Executive Summary

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

The first review of progress was undertaken in July 2011 and involved visits to the Vedanta Aluminium Limited (VAL) alumina refinery at Lanjigarh, the Sustainable Development department at its former location at Udaipur and the Hindustan Zinc Limited (HZL) plant at Chanderiya. As before, Vedanta submitted their own Second Progress Report, which was used as a basis for discussion during our visits to the VAL Lanjigarh, Bharat Aluminium Co. Ltd (BALCO) and Sesa Goa operations and the Sustainable Development office, which has relocated in Delhi.

Arrangements for governance and centralised day to day management of sustainability issues are now in place and functioning well. The range of policies, management and technical standards that form the new Sustainability Framework are now substantially complete, with only Guidance documents still awaiting official sanction and dissemination. It is intended that these will expand upon the process requirements and address any minor shortcomings in the main suite of documents identified as a result of this Review. In addition, an extensive training programme is being rolled out across the Group to support the implementation of the Sustainability Framework and is being complemented by a combination of self assessment and internal audit and assurance activities.

We are therefore pleased to confirm that overall satisfactory progress has been made - see section 6 of this report for an overview – and all the remedial actions set at the first review have been duly actioned. As a result, Vedanta is now able to demonstrate solid progress at Group, Subsidiary Company and Lanjigarh project levels, although some elements are still to be fully completed. The Company anticipates that the necessary actions for the outstanding recommendations will be completed by June 2012.

The current situation in regard to the Recommendations is briefly summarised as follows:

Corporate level:

- Two Recommendations were previously closed out
- A further five Recommendations are considered as being effectively ‘closed out’
- Four more are ‘on track’ to achieve closure within 6 months
- One, External Audits, is not yet due although we believe that a further extension is needed so that the Sustainability Framework has sufficient time for bedding-in to ensure that the exercise has full value for Vedanta.
Company level:

- Three Recommendations are now considered as being effectively ‘closed out’
- The remaining four are ‘on track’ to achieve closure within six months

Lanjigarh:

- One Recommendation was previously closed out
- Six Recommendations are considered as being effectively ‘closed out’
- Three are ‘on track’ to achieve closure within six months
- One, the Expansion Project, is ‘pending’ (i.e. dependent on the eventual Court decision) although the plant is already committed to developing an integrated Environmental and Social Action Plan which will include new Stakeholder Engagement, Biodiversity and Tribal Development Plans

We are pleased to acknowledge the full cooperation of all managers and staff involved and their helpful and comprehensive responses to requests for information.
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, in power generation and in oil.

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, Anglo American’s Lisheen Mine in Ireland, the Skorpion mine in Namibia and the Black Mountain Mines in South Africa. In 2011, Sesa Goa acquired Bellary Steel & Alloys Ltd and, following the granting of official approval, the Group acquired a significant stake in Cairn India Limited, which includes India’s biggest onshore oilfield in Rajasthan and 9 other properties in India, plus one in Sri Lanka where a gas discovery was recently made.

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 2

- Review the preliminary Implementation Progress Report 2 and supporting documentation and provide a list of queries and/or requests for additional information prior to the Site Visit.

2.2.2 Site Visits

- Conduct a short site visit to Lanjigarh to gain first hand insights regarding the implementation of the recommendations;
- Conduct a short site visit at two of Vedanta’s other operations – at BALCO and Sesa Goa - with the aim of reviewing how the Corporate and Company recommendations are being implemented at operational level; and
- Meet Vedanta’s management in charge of addressing the recommendations of the 2010 Independent Review Report at Vedanta’s Sustainability office in Delhi.
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 not been materially completed or 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.

- For Recommendation 2.5.24, opine on whether the proposed 30 June 2012 commissioning date will give Vedanta sufficient time to fully integrate the recommendations prior to an independent audit taking place.

2.3 Approach

The URS team to undertake the 6-monthly review of progress comprised three consultants, two of whom were involved in the original review in 2010 and the 6-monthly review in July 2011.

Three team members undertook site visits in India, visiting the Lanjigarh refinery including a review of stakeholder perceptions on issues at the Lanjigarh project, the BALCO industrial complex and a representative selection of Sesa Goa’s mines and process plants as well as the Sustainable Development unit which is now located at Delhi.

Findings were presented to and discussed with the COOs and senior management / staff of VAL-Lanjigarh, BALCO, Sesa Goa and Vedanta Resources during the visit, with a telepresence meeting with the Group CEO and CSO on March 2, 2012.

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’s review of the recommendations for the Lanjigarh alumina refinery;

- Part 6 is a tabular representation of progress against recommendations for Group, company and Lanjigarh levels. The tables included in part 6 present an overview of our assessment of
Vedanta’s current progress in implementing our recommendations, together with brief details of any outstanding issues due to be checked in the next 6-monthly Review and our appraisal of the outlook for successful close-out; and

- 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 any further actions and/or revised timings.

We discussed the degree of progress against each recommendation with Vedanta’s Chief Sustainability Officer and, where appropriate, indicated what refinements we believe may be needed to achieve full closure. Implementation of the various actions is now considered to be substantially on schedule and we anticipate that almost all of the remaining actions can be accomplished by the next 6-monthly review in June 2012.

There are however two outstanding recommendations which are dependent upon external actions and continuing implementation of the Sustainability Framework; these may require further consideration at the next progress review:

- **3.4.3 Proposed expansion**: Closure is at least partially dependent upon external action, namely the Court decision regarding the Lanjigarh refinery expansion project; and

- **2.5.24 External audit**: Where the optimum timing for the independent audit of the Sustainability Framework should allow for a suitable bedding-in period following full implementation; the timescale for this may extend beyond that of our monitoring and review programme.
3 Corporate Recommendations

This section comprises the Recommendations proposed for the establishment of an overarching 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 impacts.

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 its Mandate for the Sustainability Committee in March 2011 and designated the participants. The Mandate and the associated management standard for Leadership, Responsibility and Resources define the Committee’s scope, composition, levels of authority, meeting protocols and a remit that covers occupational health and safety, the environment, human rights, vulnerable social groups, cultural heritage, sustainability risks, corporate responsibility, stakeholder engagement and product stewardship. We are satisfied that the composition of the Committee is appropriate and that the Committee has the necessary access to and influence on the Main Board.

A review of the minutes of all meetings held so far demonstrates that the Committee has assumed full ownership of the Sustainability Framework and has reviewed and authorised the various policies, management and technical standards. It has sanctioned the various actions needed for addressing and closing out the actions required to address both the original recommendations of the 2010 Independent Review Report and the remedial actions stipulated in our 2011 Monitoring Review Report.

*As the Committee’s composition and remit to direct implementation of the Sustainability Framework across all Group companies is fully consistent with the original objective of this recommendation, we consider that it is now effectively closed out.*

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 its Chief Sustainability Officer (CSO) in November 2010 who reports directly to the Group CEO. The Company has appointed a very knowledgeable, experienced and enthusiastic team which currently comprises Heads of: Safety and Crisis Preparation; Environment and Conservation; CR and Human Rights; Sustainability Data, Reporting and Analysis; and Sustainability Assurance; we understand that a further two appointments may be made. Job descriptions and (the organisation chart in page 7 of Vedanta’s own progress report) define the areas of competence and responsibilities and show how the CSO and the team fit into the overall organisation.
The CSO benefits from a clearly defined job description, which sets out how the position relates to both the Executive Committee (EXCO) and the various subsidiary companies including the overseas operations and mergers and acquisitions. In keeping with its mandate, the EXCO focuses on occupational health and safety management and, amongst others actions, has initiated a robust programme aimed at identifying and addressing near misses and potentially unsafe conditions.

_We consider that a suitably talented and experienced centralised Sustainability team is in place and that its role and interfaces with other components of the Group have been clearly defined. Accordingly, we consider that this recommendation is now effectively closed out._

### 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).

The required amendment to the Sustainability section of the Value Statement adding the above clause was approved by the Vedanta Board in March 2011. The revised Value Statement remains publicly available on the corporate web site, albeit in a more prominent position where it is easier to find using the search facility, at

http://www.vedantaresources.com/sustainability/our_policies.html


We confirm that this Recommendation remains 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 the required amendment in December 2010 and produced a revised Code of Conduct with a new section dealing with Human Rights (a new Human Rights policy has also been articulated as stipulated by Recommendation 2.5.6). The Code remains published on the corporate web site at

http://www.vedantaresources.com/sustainability/our_policies.html


We confirm that this Recommendation remains closed out.

### 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 has now largely completed the process of developing its Sustainability Framework, which consists of Group level Policies, supported by a suite of Management and Technical Standards (see page 10 of Vedanta’s report). The policy statements have been published on the corporate web site (http://www.vedantaresources.com/sustainability/our_policies.html) and are being adopted at each of the subsidiary companies (NB - at some sites, existing approved HSE policies are an integral component of permitting arrangements and have to follow a specific process in order to be supplanted by a revised version). At the time of writing, the final core documents were due for issue although work continues on a series of Guidelines that will provide further guidance to support implementation. This process is on-going and the Company anticipate that all the documentation will have been completed by the next review in June 2012.

We have now reviewed all the available issued copies and drafts of the policies and the management / technical standards. These are considered to be of a generally high standard, although we have suggested some minor refinements to the documentation on conducting ESIAs and undertaking sustainability due diligence on mergers and acquisitions (see below - 4.1 Recommendation 2.5.15: International best practice). We will however need to review examples of the Guidance documents - particularly those dealing with Human Rights, Vulnerable Social Groups / Indigenous Peoples, and Biodiversity – at our next review in order that we can close out this recommendation.

We also confirm that an implementation programme is now under way with training modules being rolled out extensively across the Group’s subsidiary companies. Training is being complemented by a gap analysis self assessment process and an internal audit / assurance programme to facilitate full and correct implementation.

The company states that this analysis process is also likely to be largely completed within the next 6 months (e.g. the internal audit programme will extend beyond that timescale). This claim might be considered as slightly ‘ambitious’, but substantial effort has been expended to date and, if it continues at a similar rate, we consider that it is ‘achievable’.

We can confirm that significant progress has been made since our previous visit and that the remedial actions we requested in our last Monitoring Review Report have been duly completed to our satisfaction. Accordingly, we consider that Vedanta is on track to be able to demonstrate sufficient progress to achieve close-out by June/ July 2012.

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 confirmed that the new Social policy statement commits the Group to inform stakeholders and consult with them on material issues that affect them. The policy is supported by the new Sustainability Framework documentation, including the technical standards on Stakeholder Engagement, Employee Consultation and Participation, etc. Stakeholder engagement plans are being prepared or developed to reflect the new requirements at the corporate level, in all subsidiary companies and for new projects.

The centralised system (email address of sustainability@vedanta.co.in via the corporate web site) that was set up to capture stakeholder enquiries is now fully functional. The analysis of
enquiries received to date shows that a large proportion of the logged emails relate to job-seekers, offers to provide services and requests for speakers at seminars / participate in surveys etc., rather than genuine requests for information.

We are able to confirm that a process is in place to register stakeholder enquiries including those channelled via the Group’s Investor Relations department and we are assured that so far there have been no instances that give rise to any material concerns. It may be useful to consider integrating data from other communication channels (such as press relations and direct approaches to management from NGOs) in the analysis of enquiries.

Vedanta is also in the process of commissioning an external study of its stakeholder engagement objectives and methodology through a survey of a select sample of stakeholder representatives from government, shareholders, employees, communities, customers / suppliers, the media, NGOs, and the financial sector. The study aims to confirm the suitability of corporate objectives for stakeholder engagement and benchmark the Company’s methodology against recognised best practice. It will involve the selection of a small but representative sample of targeted individuals from each of the above categories who are capable of providing objective and qualitative feedback on key questions about Vedanta’s stakeholder engagement.

We reviewed the proposal for the survey from the preferred service provider and are satisfied with the scope and methodology to be used (the same service provider is also being considered for a benchmarking exercise as set out in section 3.7 below).

We consider that sufficient progress has now been made to permit close-out at this time, although we will still need to review the results and recommendations of the external study during our next review.

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 is currently aligned with the Group’s financial year and we have previously reviewed the 2010-2011 Sustainable Development Report, which we found to be satisfactory. The contents included a section on the Scott Wilson Recommendations from our 2010 Independent Review Report, which addressed the 20 corporate and company-wide examples and gave an indication of status and comments (5 were considered ‘complete’, the remainder were categorised as ‘under way’ at the time of that publication).

The Sustainable Development Report was subject to independent assurance by Det Norske Veritas (DNV) and met the criteria for the Global Reporting Initiative’s GRI G3 application level B+. It was confirmed that actions are in hand to apply the criteria to achieve an A+ GRI G3 rating, including the additional criteria set out in the mandatory Mining and Metals Sector Supplement (MMSS). The Supplement sets reporting criteria for key issues in this sector that are of material interest to Lenders, including: Biodiversity / Ecosystem services; Labour; Indigenous rights; Community; Resettlement; Closure planning; and Materials stewardship.

In order to develop the Group’s reporting and meet the requirement for benchmarking performance against industry best practice, Vedanta is commissioning a gap analysis study
against the GRI G3 and the MMSS requirements and a comparison against a sample of 10 mining and metal companies’ sustainability reports by an independent service provider.

We reviewed the proposal for the survey from the preferred service provider and are satisfied with the scope and methodology to be used. We note that the proposed sample includes a mixture of companies including several from the precious metals sector, which usually involves different metallurgical processes to those used by Vedanta in its iron and base metals portfolio. Accordingly, if feasible and the quality of the sustainability reports permits, we would recommend that the number of precious metal mining companies in the survey sample should be reduced to ensure maximum comparability.

Vedanta considers that they are currently ‘on track’ to complete the actions required by this Recommendation by June 2012.

We can confirm that significant progress has been made since our previous visit and – subject to satisfactory completion of the proposed benchmarking exercise - we consider that Vedanta is on track to be able to demonstrate sufficient progress to achieve close-out by June / July 2012.

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 both the Sustainable Development and the EXCO Committees and our review of the meeting minutes of both committees demonstrates that a suitable and sufficient degree of oversight is being applied to performance monitoring, lesson learning and the dissemination of best practice.

We note that a relatively high incidence of fatalities was reported between April and December 2011 – see Section 7 below.

However, we also note the explicit policy commitment to “prevent injury and ill health to employees and contractors by providing a safe and healthy working environment and by minimising risks associated with occupational hazards” and that an improved fatality investigation and reporting procedure has been adopted. More significantly, further robust measures have been/are being implemented with a view to identifying potential hazards and rectifying them; these include a systematic series of targeted plant and equipment audits and improved ‘near miss’ and ‘unsafe condition’ reporting and follow-up actions that will quickly contribute to risk reduction.

The number of reported fatal accidents up to December 2011 is disappointing, however we consider that significant progress has been made in regard to the oversight and we consider that this Recommendation is currently suitable for close out. (We will however continue to review the Group’s safety performance and major incidents through appraisal of Company-level Recommendation 2.5.23 Incident register).
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).

Since our last visit, an extensive training and awareness programme has been developed and is currently being implemented across the Group. The total number of planned participants is 923, of which 251 have undergone the allotted modules; a train-the-trainer approach has also been applied to facilitate the roll-out within the targeted timeline.

Excluding specialist training for the Sustainable Development team and wider skills development training (i.e. through Human Resources, ISO certification requirements for training and competency, etc.), the Sustainability Framework programme consists of a number of modules including:

- Senior Management briefing (2 hrs), which has been attended by all CEOs and senior managers;
- Sector specific - Key Decision Makers (16 hrs);
- General Awareness on Vedanta Sustainability Framework and the IFC Performance Standards (PS) (8 hrs); and
- A separate module on the detailed IFC EHS Guidelines (8 hrs).

We reviewed the training course materials, which we found to be satisfactory in relation to each of the modules' topics, and interviewed participants to check their understanding of the Sustainability Framework's requirements and the IFC performance standards and the relevant EHS Guidelines.

We noted that, as the Guidance documents are still being prepared, there may be further scope for focused training. There is a need for more training on new project ESIA, particularly related to initial screening, and there is a similar need for more training on environmental and social due diligence for mergers and acquisitions – see Recommendation 2.5.15 International best practice (see below).

Vedanta anticipates that the training roll-out will be completed within the next few months.

We can confirm that Vedanta has made good progress on training and we consider that the Company is back on track to be able to demonstrate sufficient progress to achieve close-out by June / July 2012.

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).

A Human Rights policy statement with the specific commitment to the UNDHR as required above has been articulated and has been published on the corporate web site with the other new policies.
We also note the inclusion of a competent specialist (Head of CR and Human Rights) in the central Sustainability team with a remit to identify potential concerns or reputational risks related to this issue.

We consider that this Recommendation is now suitable for close out.

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 and 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 still anticipates that this Recommendation will be addressed following full implementation of the Scott Wilson recommendations and the Company’s Sustainability Framework. It has suggested an extended timescale in order to give them sufficient time to fully integrate the Recommendations prior to an independent external audit taking place.

We currently estimate that full implementation is likely to be achieved by the end of 2012 at the earliest, when global roll-out of the new policies and management / technical standards will be completed, the training programmes delivered and the first internal audit cycle will be well advanced if not fully concluded. Our considered view is that the new arrangements will need sufficient time to ‘bed down’ and that, to ensure the process adds real value to the Sustainability Framework, the external audit should not be undertaken until it can demonstrate that the recommendations have been satisfactorily implemented.

As we are now satisfied with the progress made to date, we would support an extension of the deadline for the external audit until June 2013.

*No actions are currently required of Vedanta, although as part of our next review, we will want to discuss potential candidate service providers (i.e. preferably professional and/or civil society organisations that have not previously worked for the Group) and the scope and extent of the external audit.*
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. In addition to Lanjigarh, we have now been to plants and mines operated by HZL (Chanderiya zinc refinery), BALCO (Korba aluminium complex) and Sesa Goa (the Amona pig iron and coke plant, and the Sanquelim mine) and have gained a wider insight into the relative maturity of sustainability management across the Group.

Vedanta’s reorganisation plans and the creation of Sesa Sterlite were announced during our site visits, but have not been factored into our report. If deemed appropriate, we will assess any implications of the reorganisation upon the programme of actions being undertaken to address our recommendations during our next Monitoring Review.

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).**

Vedanta have identified 4 projects that are currently undergoing or will be subject to an impact assessment process; these include the HZL Zawar and Kayar mines, the ongoing BALCO Taraimar coal block project and the Sesa Goa Western Cluster Project covering 3 sites in Liberia.

A summary of the status and the sustainability risks associated with these projects was prepared and made available for review. Overall the quality of information initially supplied was variable and lacked granularity. For example, a proposed African project involves two brownfield sites and one greenfield site, although the document classes it as simply ‘brownfield’. Also, using the recently adopted I-BAT tool (see 2.5.11 Land management), it was easy to identify that the greenfield site is located close to the boundary of a National Park in a neighbouring country – yet the potential for transboundary impacts had not been included in the list of significant issues / risks / opportunities for that project.

An updated and improved summary of status and sustainability risks was provided by Vedanta before the conclusion of this element of the Review process, but we recommend that suitable explanatory notes should also be provided with future updates to the Lenders to ensure clarity.

**More robust initial screening and due diligence processes are however required for both new projects and merger and acquisition activities.**

Initial **screening** should take the form of a checklist comprising the most frequently occurring risks / opportunities with a requirement to identify each as ‘potentially / likely applicable’, ‘unknown’ (i.e. further information required) or ‘not applicable’ as appropriate and to provide supporting information.
In addition to use of the I-BAT tool, a number of other sources of information could be used to inform the initial screening process. These include such web sites as:

- The Lexadin repository of country legislation that allows free download of source laws etc. (http://www.lexadin.nl/wlg/legis/nofr/legis.htm) or similar;
- Internet lists of indigenous peoples and minimum wages etc.;
- The US State Department’s country reports on Human Rights Practices at http://www.state.gov/j/drl/rls/hrrpt/; and
- The Global Biodiversity Information Facility (GBIF) at http://data.gbif.org/countries/ (if not included in the I-BAT tool)

Once a suitable selection of tools has been identified, a training module should be developed for those likely to be involved in screening including practical application of the tools and interpretative exercises. Implementation of this recommended course of action will not only address Lender information requirements in a more detailed manner, but will also enable Vedanta to direct its impact assessment and M&A consultants to possible areas of concern thereby ensuring a more effective process.

Appropriate due diligence should be undertaken where the screening process has identified potential gaps in knowledge of sustainability issues relating to the site(s) in question. In particular, it is recommended that due diligence is carried out in relation to the specific situations mentioned in our previous Report - i.e. where:

- There is likely to be strong reliance upon government or public bodies for successful implementation of Vedanta’s Sustainability Framework;
- It is known or suspected that scheduled tribes or other potentially vulnerable stakeholders including those that may be categorised as ‘indigenous’ peoples using the IFC definition are present within or adjacent to the Project’s area of influence;
- There is a possibility of any involuntary resettlement and any resettlement of scheduled tribes or other categories of ‘indigenous’ peoples; and
- The Project site includes or is in proximity to protected areas or may result in adverse impacts on threatened or endangered species; and
- There is potential for transboundary issues due to proximity to international boundaries.

In regard to the core requirement for reviews of EIAs and given that Vedanta is still in the process of producing the Guidance documents, we would like to see more detailed information about how these four projects are addressing the IFC requirements as they progress before closing out this Recommendation. Specifically, some supplemental studies are being prepared for the BALCO coal block example and consultants have been engaged to undertake a scoping study of the African Project; the results of these exercises should be available at the time of the next review.

Although we acknowledge the progress made so far, we expect that this Recommendation may be suitable for close out in June / July 2012 when the suite of Guidance documents that will help ensure that new EIAs/ ESIAs adequately address the IFC requirements will be available for our review.
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 on this subject have now been developed within the overall sustainability framework and have been reviewed. A basic company-wide biodiversity review has also been undertaken to identify which operations already take these issues into account and/or what intentions they have in this regard.

In addition, the Company has acquired the IBAT mapping tool which can help Vedanta identify what species may be 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. A number of sites have been identified as being in close proximity (i.e. less than 10km, less than 5 km or within 1 km) to protected land and, as a consequence of the perceived higher risk, they are now required to develop Biodiversity Management Plans.

We have a couple of minor comments:

- The I-BAT mapping tool is configured to show the results within two concentric rings around the target site. This approach is acceptable in terms of rapid screening but does not always take account of geographical conditions such as river flow direction, catchment areas and migration routes; and

- Compared to the other disciplines covered by Vedanta’s central Sustainability Team, there is no apparent biodiversity or ecology specialist yet within the organisation. Given the growing importance of biodiversity issues amongst the Project Finance community (e.g. see the current Biodiversity for Business programme on the Equator Principles web site), the Company should consider the need resourcing such a specialist either within the team or via access to a suitable consultant.

Vedanta also supplied a copy of the Biodiversity Action Plan which had been developed for the Black Mountain Mine in South Africa (prepared for the previous owners, Anglo American); this BAP will be a useful template for the development of similar Plans for other sites.

Although some progress has been made thus far, the Company anticipates that it will have completed the follow-on actions from its biodiversity and water screening exercise by the time of our next review. We will review the Biodiversity Management Plans for the higher risk sites – especially those for the HZL Haridwar Zinc Plant, Debari Zinc Smelter and Maton Mines.

We consider that the Company is overall on track to be able to demonstrate sufficient progress to achieve close-out by June / July 2012.

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).
A Group wide incident register has been compiled on a monthly basis from April 1st 2011 (Lanjigarh commenced its register in November 2010). Health, social, environment, labour and other categories of events are recorded for each component part of the Group. A review of the April 2011 - June 2011 data formed part of the previous Vedanta Progress Report; incident records for the period July to December 2011 were provided to inform this review. The January – February reporting period was not closed out at the time of our visit so the combined Group Incident Register was still in the process of being compiled and was not available for review. Please see Section 7 for an in-depth appraisal of the social, environmental and H&S incidences that were registered between July and December 2011.

We confirmed that maintaining an Incident Register has become an integrated part of the Group’s Environmental Management System. Good progress has been made in the recording of each incident. We note that the increase in the number of Category 1 ENV incidents reported could be attributed to a more transparent and open reporting behaviour across the Group. The amount of detail recorded for each incident is generally good.

Some minor refinements are recommended to ensure that each incident is consistently assigned the correct Category and where there is an Environmental incident that involves a community protest or other disturbance, that a separate Social or Labour incident should also be recorded. All columns should be filled in and the information clearly explained (the use of language is sometimes confusing). The ‘Action Plan/ Way Forward’ column should be given particular attention to ensure that the corrective/ preventative measures/ actions are clearly explained and the incident closure justified for each incident.

All Group entities are now captured in the Combined Incident Register; however, given the complexities of each individual company, further refinement is recommended to determine which specific site each registered incident applies to (e.g. the register only identifies the ‘Company/Entity’ and not always the specific subsidiary or plant / mine involved). This will help to inform analysis of incident trends.

We also examined the procedure that has been developed to investigate and determine the causes of serious incidents (fatalities and other recordable injuries) and its corrective / preventative feedback loop; we found this to be of a very good standard. For example, the investigation of the two belt conveyor fatalities (at BALCO and KCM) involved a robust root-cause analysis and the detailed report into the incidents resulted in an appropriate range of recommended actions, including a belt conveyor guard replacement and/or sensor installation programme, changes to worker safety procedures and a revised training programme for roll-out across the Group. Similar Group-wide root-cause and corrective and preventative actions were demonstrated for cylinder handling and storage and diesel generator set operations following those fatal incidents.

We would like to see some further progress on the link with corporate communications over the handling of any reputational risks from incidents, but consider that this could be moved to Recommendation 2.5.12 – Environmental communications.

See also 3.3.79 Disaster management plan in Section 5 below in regards to the recent incidents relating to attempts to prevent continued public access through the red mud pond facility at Lanjigarh.

*Given the progress made by Group and the subsidiary companies, and subject to consideration of the above-mentioned refinements to the process and continuation of the robust root-cause analysis of fatalities and other major incidents, we consider that this Recommendation is now suitable for close out.*
In accordance with our remit for on-going monitoring of incidents, we shall however continue to scrutinise the register and investigate any significant issues on our next visit.

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 has issued its Technical Standard for Stakeholder Engagement and is currently in the process of developing Stakeholder Engagement Plans for each of the Group companies. The Company anticipates that this process will be completed by June 2012; however, only the Lanjigarh example was included in the appendices supporting the Vedanta progress report, so we will want to check examples from other parts of the business at our next review.

We confirmed that arrangements were in place to display the mandated environmental information (emissions) at the BALCO and Sesa Goa plants and confirmed that progress was being made on the Stakeholder Engagement Plans at BALCO and Sesa Goa.

We also reviewed a range of relevant documentation at Lanjigarh including:

- Socio-economic survey and needs assessment for the Lanjigarh Panchayat, which was prepared by the Human Development in 2011;
- The current VAL-L Stakeholder Engagement Plan; and
- Detailed environmental and social performance monitoring results.

These were generally of an acceptable standard but we note that, following the gap analysis by ERM (see Recommendation 3.3.20 in the next Section), further updates are planned to the Stakeholder Engagement Plan (e.g. integration of Disaster Management Plan consultations, strategy to include ‘local content’, etc.) which we will also want to review during our next visit.

Many of the original ‘problems’ at Lanjigarh seemed to arise from local communities (or NGOs on their behalf) alleging environmental damage which was not adequately countered. To be able to close this Recommendation, we will therefore need to see how Vedanta intends to satisfy the IFC requirement in clause 29 of the 2012 version of Performance Standard 1 in relation to the disclosure of information on project performance to affected communities (i.e. an example for Lanjigarh project and, preferably mock-up(s) for other plant(s), as well as suitable instructions in the Stakeholder Engagement Guidance document).

We can confirm that overall Vedanta has made good progress on environmental communications thus far and should allocate appropriate priority to addressing our specific comments on disclosure. Provided these actions are taken, we consider that the Company should be able to demonstrate sufficient progress to achieve close-out by June / July 2012.
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 their Social policy statement, the new Management Standard for the Project Planning and Site Closure Process and the Technical Standard for Stakeholder Engagement, which together introduce standardised requirements for public consultations based upon the IFC standards and the Company’s own experience in this field.

We acknowledge that progress has been made against this Recommendation; however, given the timeline of any consultation in regard to ‘new projects’ requiring an impact assessment, we recognise that producing actual examples demonstrating correct implementation of the new Sustainability Framework requirements within our overall review timeframe may be challenging.

Following our review of the documentation, we would like to suggest that Vedanta investigates ways to develop indicators of ‘Broad Community Support’ as a means of monitoring the success of its various consultation measures. It should also provide detailed guidance in regards to how it can support both government-led consultation processes and provide suitable and sufficient information about the proposed project and its positive and adverse impacts in regards to the Free, Prior and Informed principle for public consultation.

We intend to combine our assessment of this recommendation with that of the Stakeholder Engagement Plans required for 2.5.12 Environmental communications; accordingly, we consider that sufficient progress has been made so that this Recommendation can be closed out now.

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 state that its Code of Ethics, the new policy on Human Rights (which recognises indigenous peoples as a potentially special case) and the relevant management / technical standards for conducting ESIAs adequately address this recommendation, and that, following training roll-out, implementation of the Sustainability Framework will be sufficient to deal with the potentially complex issues that can arise in regard to the vulnerable and those classed as ‘indigenous’.

Whilst the aforementioned documents broadly treat the subject matter, we note that that the IFC Mapping Tool makes reference to the preparation of a Technical Standard on ‘Indigenous Peoples’ that is not included in the list of Sustainability Framework documents as per the current Progress Report. Whilst we accept that creating a further ‘standard’ within the management system is not essential, we would like to review the proposed supporting Guidance documentation on this subject before closing out this Recommendation.

In view of the circumstances that prompted our initial review, we reiterate our opinion from our previous review that:
a) “..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.”; and

b) In light of “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 ‘FPIConsent’ 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, we wish to reserve judgement on potential close-out until we have had an opportunity to review the Guidance documents on this subject. These specific Guidance documents need to be given appropriate priority to ensure that Vedanta is able to demonstrate sufficient progress by the time of our next review and achieve close-out at that time.

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 has developed a Technical Standard for managing Cultural Heritage issues which addresses this recommendation. We reviewed the document which sets out requirements for projects in terms of Feasibility Study, Desktop Study and Consultation, Baseline Surveys; Risks and Impacts Identification Process; and a Cultural Heritage Management Plan including a ‘Chance Find’ procedure. The content is in line with expectations and a range of useful sources of further information is included in the Technical Standard.

Given the apparent absence of any significant cultural heritage concerns at any of the current / future sites or projects, we consider that sufficient progress has been made so that this Recommendation can be closed out now.
5 Lanjigarh Recommendations

This section deals with the specific recommendations for the Lanjigarh refinery. We are pleased to report that significant progress has been made since our last visit and that the plant has embraced the IFC standards. We were impressed with the enthusiasm of those involved in implementing the Sustainability Framework and other initiatives here and we are pleased to be able to close out more recommendations. Our commentary is summarised in section 6.3 below which includes a table showing overall progress in addressing the Corporate Recommendations.

The court order prohibiting any work on the Expansion Project remains in force although management is optimistic that the situation can be resolved shortly.

We used our visit to Vedanta's BALCO and Sesa Goa operations to calibrate the Lanjigarh facility against an established operation. Apart from some relatively minor issues in relation to hazardous waste management generally and housekeeping / HSE arrangements at the Rodding Shop at BALCO, we are pleased to report that we have no major concerns with anything we saw at either of the other Group operations visited during this trip and we would generally commend them on their 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).

We can confirm that the systematic gap analysis of the Lanjigarh refinery against Industry Best Practice Criteria (i.e. all the requirements of the 2012 versions of the IFC Performance Standards and the relevant supporting EHS Guidelines, the ICMM Framework Principles for Sustainable Development and the OECD Guidelines for Multi National Enterprises, not just the environmental standards) and the available documents from Vedanta's own Sustainability Framework has now been completed. The analysis was undertaken by ERM and is documented in their Independent Environmental and Social Performance Review: 1 MTPA Alumina Refinery, Lanjigarh, Odisha (Final version dated February 2012).

We are pleased to confirm that the analysis is both extensive and thorough and fully addresses previously identified shortcomings as outlined in our first Monitoring Review Report as well as our findings during this visit. We have reviewed both the methodology and the findings and concur with the study’s conclusions and recommendations for further action, which dovetail with the plant’s programme to implement the corporate Sustainability Framework.

The main recommendations are presented in the form of an Integrated Environmental and Social Management Plan for the project (i.e. in regard to the current situation and any future expansion activities), detailing the proposed measures, anticipated outcomes, responsibility for implementation and timelines as appropriate. In addition to a range of minor HSE improvements (such as Sustainable Waste Management, the proposed measures include the development of:

• A new Resettlement Plan (to be developed before any new land acquisition or construction);
• A Traffic Management Plan;
• An Influx Management Plan;
• Biodiversity Management Plan;
Tribal Development Plan; and

An updated Stakeholder Engagement and Disclosure Plan, detailing recent changes to the grievance procedure and with enhanced attention towards ensuring ‘Local Content’ (local participation / procurement etc.).

The majority of the recommended actions have a 6-month or shorter timeframe and Vedanta expect that the work will be completed on time. We confirmed that Lanjigarh is already in the process of implementing the recommended actions from the gap analysis and we look forward to reviewing their progress during our next visit.

We can therefore confirm that significant progress has been made since our previous visit and we consider that Lanjigarh is on track to be able to demonstrate sufficient progress to achieve close-out by June / July 2012.

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).

The grievance system and Grievance Cell established at Lanjigarh to ensure the effective receipt, recording, resolution and monitoring of community grievances appears to be functioning well and has now been integrated with the Government’s Resettlement and Peripheral Development Advisory Committee (RPDAC) system, which also refers stakeholder complaints to the refinery.

We can confirm that good progress has been made to incorporate the recommendations made during the July 2011 Scott Wilson Progress Review. All the grievances are now compiled into the following categories: education, land, livelihood, financial support, employment etc. The Grievance Register has been further expanded to include additional columns that identify the date when complaints are transferred to the relevant public authority, as well as the date of closure. Further development of the register is however recommended to ensure that the justification for the eventual close out date is clearly documented within the register. (Periodic analysis of grievances to provide indicators of ‘broad community support’ for the refinery and/or its expansion programme has yet to be progressed).

An action plan has been established to ensure that the VAL operation-level mechanism can feed into the group-level procedure as documented in Technical Standard 4 – Grievance Mechanism. The systems for the receipt, recording and tracking of the process are auditable and the manual grievance registers are scheduled to be replaced with computerized documentation. Written procedures for handling grievances and conflict resolution with responsibilities assigned for each step as well as management oversight are also in place.

The identification of 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 has yet to be progressed.

Our field visits revealed that local stakeholder awareness of the process was still variable; key people (representatives) in the villages and other stakeholders targeted by Vedanta knew about the system, but otherwise awareness was incomplete. 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.
The focus of most of the stakeholder grievances reported to us is still job opportunities or one-off compensation payments. Complainants were usually advised if their issue was being referred onto the relevant authority and that it would take time to resolve. It was however noted that none of the protesters associated with the six ‘railway and road blockages’ (public demonstrations) around Lanjigarh from July through to December 2011 had previously raised a grievance through the current system.

Of note, there was an on-going right-of-way dispute with local villagers in regard to the East Cell of the red mud pond, which has featured in national and international media, including NGO web sites and various blogs. There has also been some confusion within the local community over the status of the land acquired for this facility.

These situations and other recent / current stakeholder issues investigated during our field visits are summarised below:

a) A 50-day protest outside of the main gate concerning the payments for land acquired to develop the red mud pond in 2003 and other additional benefits. Our understanding is that Vedanta had settled the community’s original demands (e.g. lump sum payments, training provision, CSR initiatives and some infrastructure development) and entered into an agreement with the villagers prior to the development of the red mud pond. However, the villagers sought a revised terms (i.e. Rs. 3 lakh as opposed to Rs. 5 lakh applicable from 2006 onwards) and Vedanta referred this issue to the Rehabilitation and Peripheral Development Advisory Council (RPDAC), which discussed the issue and found in favour of Vedanta. However, at the time of our visit, the local stakeholders had not yet agreed with the RPDAC findings;

b) Opposition to the construction of the red mud pond and, more recently, re-routing of the villagers’ access and closure of the direct route through the facility also continues. Following conclusion of the original resettlement agreement and acceptance of the community’s initial demands for a designated new route and for a school bus service, the villagers were allowed to continue using a portion of the ‘kutcha’ road between Rengopalli and Basantapada. The track was suitable for bicycle / motorcycle and pedestrian use, but development of the East Cell meant that this access had to be terminated on public safety grounds; the villagers objected and the issue was taken to court. The outcome of that process was that the land issue was referred onto the competent body, the Rehabilitation and Peripheral Development Advisory Council (RPDAC), while it was confirmed that the access track was to be closed on safety grounds. Vedanta then requested the protection of the police while it carried out those works and the competent authorities tried to enforce the closure. There was a 6-hour stand-off between some locals and the police on 21 January 2012 and following an alleged stone-throwing incident the police arrested 47 people who were later released on bail. We understand that permission to complete the works and deny further public access through the facility will be forthcoming after the local elections (which were being held during our site visit) have been completed. We also understand that the villagers’ concerns have been processed through the established grievance mechanism and resolved amicably;

c) During the legal process regarding the use of the ‘kutcha’ track, a minor discrepancy (2.5 acres from the 330 acres permitted for the facility) in the amount of land handed over to Vedanta by the responsible agency, the Industrial Development Corporation of Orissa (IDCO), surfaced and the issue was referred to the District Administration and the Collector. In general, IDCO acquires the land and leases it to the project proponent; however this land acquisition would result in the displacement of villagers.
in Rengopalli, Kothoduar and Bandhaguda settlements. The RPDAC has approved the relocation of the Rengopalli, Bandhunga and Kothodu ar villages and that process is on-going (we confirmed that the villagers were for example aware of the March 1st public meeting on resettlement and that, since our visit, the asset evaluation process is now underway);

d) There is ongoing, as yet unresolved, opposition to road repairs along a small stretch of road between the refinery and Lanjigarh due to villagers’ claims for payments; and
e) On the 18 October 2011, there was a 36-hour strike by a number of contracted workers which was quickly resolved through negotiation of higher payments until the end of their contract.

We also note that the facts surrounding the red mud pond / Rengopalli incidents are disputed by sections of the local community and elements of civil society. A yet to be validated claim was also made in the media relating to the arrests and meeting closures by police in the run up to a religious festival in the Niyamgiri Hills (Survival International, 24 February 2012). The IESC team did not witness any such actions whilst at Lanjigarh during this time.

Overall good progress has been made although there is scope to implement the minor recommendations made during our previous Progress Review. Of the specific refinements proposed for completion by December 2011, all are closed with the exception of the following:

a) The grievance procedure should ensure that any complaints received from vulnerable communities and individuals are clearly identified; and

b) 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).

This recommendation was closed out at our previous visit. Nevertheless, on a brief tour of the facility, it was evident that further improvements had been made on site, including additional waste storage amenities and we confirm that we require no further actions on this recommendation.

The Expansion Project is still subject to the 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).

We confirm that this Recommendation remains closed out.
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, although we understand that management is optimistic a decision may be forthcoming in April 2012. The legal issues are however complex and the processes for obtaining the necessary environmental clearance are somewhat convoluted and may therefore take a longer time to be determined definitively.

Development of the proposed Niyamgiri bauxite mine remains ‘on hold’ as a result of the imposed court order and Lanjigarh continues its suspension of any activities relating to Niyamgiri. Any future projects affecting Niyamgiri will be subject to the Lenders’ requirement to apply the Equator Principles and the IFC Performance Standards.

Lanjigarh also completed the systematic gap analysis required by Recommendation 3.3.20 (see Section 5.1 above), which recommended the development of an Integrated Environmental and Social Management Plan for the project. This will help align existing management systems with the adopted Industry Best Practice Criteria as well as new policy requirements on resettlement, human rights, and biodiversity.

We note the intention is to undertake an audit / assessment of the existing programmes and initiatives for tribal and vulnerable groups and communities in order to develop a road map/implementation plan for a new Tribal Development Plan and to update the existing Stakeholder Engagement Programme.

The proposed integrated Environmental and Social Management Plan (page 103 in the Final Report of the Independent Environmental and Social Performance Review, dated February 2012) recommends that:

“The Tribal Development Plan should not only mitigate impacts, but strategically should place a long term vision and development agenda for operating in an area where there is a significant tribal and hence vulnerable community. The plan should have the objective of providing long term benefits and (mitigating) development impacts on such communities, while also integrating measures to protect their rights, culture and internal organisations and structure. Livelihood enhancement and informed participation should be the core elements of such a plan. The Plan should be developed through intensive consultation with tribal groups and monitoring should include representation of these groups and their institutions.”

This work has been assigned to Lanjigarh’s Social Team and is anticipated that the work will take 6 months to complete.

In a similar vein, the Independent Environmental and Social Performance Review also recommend development of ‘broader Biodiversity Management in the project area of influence’. Whilst the Environmental and Social Management Plan section of the report does not detail what this will consist of, we note that in section 6.1 it states that “such a plan would include the mine area as well as land under the expansion plans”. It continues to say that the “plan should
include different values attached to biodiversity by specific stakeholders; impacts on eco-
system services; major threats to biodiversity” etc.

In the light of such commitments, we expect that Lanjigarh’s adoption of the Sustainability
Framework will “ensure compliance with the requirements of IFC Performance Standard 1 on
Social and Environmental Assessment” for the project as indicated in our original report in
2010. Also, given the sensitivity of these issues, we expect that the corporate Sustainability
Team will assume an oversight role in regards to both the implementation of the integrated
Environmental and Social Management Plan. We recommend that this oversight includes a due
diligence review as outlined in regards to 4.1: Recommendation 2.5.15 International best
practice (see above).

We are therefore satisfied that the Company is committed to applying the requirements of both
the corporate Sustainability Framework and the relevant IFC standards and guidelines to any
new or remedial baseline studies, impact assessments, management plans or other measures
needed to mitigate adverse impacts in line with our recommendations and those arising from
ERM’s gap analysis.

This recommendation remains ‘open’ pending resolution of the Expansion Project’s
approval to proceed. If a decision to allow the project to proceed is forthcoming before
our next progress review, we will need to examine any supplementary reports, the
evolving Environmental and Social Management Plan and corporate due diligence of the
ESIA process in some detail.

5.5 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).

We can confirm that the Disaster Management Plan (DMP) has been developed since our last
visit and that the DMP fully addresses our previous comments, the abovementioned industry
guidance and the provisions of Vedanta’s own Technical Standards, including TS 13:
Emergency and Crisis Management. We acknowledge that, following the ERM gap analysis,
further refinements to the DMP and implementation actions (including wider consultation) are
planned.

We also note that an on-going dispute in regards to the red mud pond is yet to be definitively
resolved and that a number of incidents and allegations have been reported recently, mainly in
relation to the development of the pond’s East Cell and its impacts upon the Rengopalli
villagers – see also Recommendation 4.5.8 Grievance mechanism (above).

We consider that Vedanta has completed the remedial actions and that this
Recommendation is now suitable for close out.

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).
We reviewed the new VAL Retrenchment Policy (dated December 2011) which sets out objectives, an assessment of the possible cause and types of retrenchment, and a range of actions to mitigate effects upon direct employees, contractors’ workforces and the local community. The document generally follows the guidelines contained in the IFC Good Practice Note, but whilst the Policy contains the essential strategies and commitments, the content is lacking in detailed plans.

Given the existing legal protections for direct and contract workers (as defined in the Annexure to the Policy), we are satisfied with arrangement for mitigating impacts upon the workforce; however, we consider that there are insufficient provisions to mitigate impacts upon the local community. For example, there are stated commitments to minimise the retrenchment of local employees, facilitate employment at other Group sites, provide alternative skills training and capacity building, and assist entrepreneurial start-ups; however, the Policy makes no reference to any consultation on retrenchment, a grievance / appeals process or the responsibilities for developing and implementing the mitigation actions.

We note that the ERM gap analysis report (para 2.8 on page 28 – see also our commentary on Recommendation 3.3.20 Environmental management, above) reached a similar conclusion following their discussions with the communities and workers’ families, although no further actions are included in their ESMP recommendations.

We can confirm that good progress has been made since our previous visit, but additional work is needed to develop the new Retrenchment Policy in line with industry best practice. Nevertheless, we consider that Vedanta is on track to be able to demonstrate sufficient progress to achieve close-out by June / July 2012.

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)

We verified that the Lanjigarh CSR team undertakes inspections of existing contractor accommodation to ensure that appropriate standards are maintained and that the contractors’ employees can benefit from the Vedanta clinic and mobile health service.

We also reviewed the corporate Technical Standard on Supplier and Contractor Management and the Lanjigarh Standard Operating Practice for Contractor Accommodation (a checklist) and we are satisfied with their intent and content. We note that some of the existing and abandoned labour colonies were built by contractors on private land and that VAL cannot remove or dismantle them. The Company is however fully committed to applying its new requirements to any future contractor accommodation developed in support of the Lanjigarh project and at other sites throughout the Group.

We consider that this Recommendation is now suitable for close out.

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)
Following our previous visit, in addition to the plant’s considerable investment in dust mitigation technology, the majority of raw material and finished product shipments are now being transported by train. We confirmed that the remaining road transport of such materials is being progressively phased out and we believe that no further actions are needed in regard to dust abatement.

In regard to the incidence of infections amongst the local community, we note that the State Pollution Control Board has not identified any increase in skin complaints, respiratory or disease in the vicinity of the refinery. We also acknowledge Lanjigarh’s CSR focus on health camps and raising awareness, especially in regard to malaria. Although a Health Impact Assessment was undertaken in 2011, we concur with ERM’s recommendation that this assessment should be updated with specific health monitoring of the communities around the plant and along the Vamsadhara River (see 4.4 Community Exposure to Disease in their gap analysis report). This report was originally developed in response to Recommendations 3.3.20 Environmental management and 3.3.63 H&S management but has a wider application.

As Lanjigarh is developing an integrated response to the environmental and social management of such issues, we intend to assess the actions to address the update of the Health Impact Assessment in relation to Recommendations 3.3.20 and 3.3.63 at our next visit and consider that this Recommendation is now suitable for close out.

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).

We confirm that VAL remains engaged with the Lanjigarh Project Area Development Foundation (LPADF), a special purpose vehicle formed by the Government of Orissa, the Orissa Mining Corporation (OMC) and VAL, that provides alternative livelihood support to local communities and individuals within a 50 km radius around the Lanjigarh site. As per the previous review period, Lanjigarh deposits 5% of the refinery’s profit or Rs. 10 Crore per annum, whichever is higher, through SII to support local development initiatives.

Many of the livelihood projects are initiated by the LPADF, although Lanjigarh commissioned the socio-economic study and needs assessment for the Lanjigarh Panchayat, which was prepared by a local Kalahandi based specialist service provider, The Human Development, in 2011, which will inform the process for identifying new initiatives.

There is already a wide range of LPDAF / VAL development initiatives in regards to: health (e.g. new dispensary buildings); education (e.g. construction and improvement of school facilities); infrastructure development (e.g. new roads and bridges, electrification and piped water projects); livelihood promotion (e.g. brick manufacture, leaf-plate manufacture, agricultural projects, self-help groups, etc.); and so on. Currently there are also some joint projects with the veterinary department (e.g. duckling rearing self-help groups). Over and above the LPADF initiatives, VAL has undertaken further locally based initiatives in relation to health (e.g. the new hospital and mobile health service provision) and education (e.g. construction and support for schools, including the DAV Vedanta International School).

We reviewed a draft of the Integrated Development Plan of Vedanta Aluminium Limited, Lanjigarh (dated January 2012), which sets out the key elements for livelihood support and
enhancement and comprehensively addresses the recommendations from our last monitoring review.

Rightly, this focuses on agricultural projects which, with support for self-help groups, are widely regarded as the best means of securing sustainable development benefits for isolated rural communities. Three main livelihood agricultural projects are on-going:

- Project Sabuj (commercial vegetable cultivation) involving over 100 farmers;
- Project Jaibik (organic cotton cultivation and vermi-composting) covering circa 220 acres and 92 farmers in 7 villages with 10 vermi-composting facilities in 5 villages; and
- Project Samridh (Sunflower Cultivation) involving 105 farmers.

In addition, Project Sashakti (self help groups) seeks to improve income generation of local women through locally viable micro-enterprises and capacity building for financial management. So far, this project has involved 200 women in 14 villages and a range of start-up business activities such as phenyl making, tailoring/dress-making and leaf plate making.

We consider that this Recommendation is now suitable for close out.

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).*

Copies of the LPADF Memorandum and Articles of Association and Certificate of Incorporation as well as a status report on the organisation’s diverse initiatives (consisting of budgetary provisions and monies released to date for projects in Kalahandi and Rayagada districts) and letters of appreciation were made available for our review. Taking account of the socio-economic study and needs assessment for the Lanjigarh Panchayat and the Integrated Development Plan of Vedanta Aluminium Limited discussed in section 5.9 above, we are satisfied that the requirements of this recommendation have now been met.

We consider that this Recommendation is now suitable for close out.

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).*

This gap analysis was undertaken in conjunction with the exercise specified in regards to Recommendation 3.3.20 Environmental management. As stated in our commentary on that recommendation, we can confirm that the systematic gap analysis of the Lanjigarh refinery against Industry Best Practice Criteria (including the specified IFC EHS Guidelines) and the available documents from Vedanta’s own Sustainability Framework has now been completed and we concur with the findings and conclusions.

The majority of the recommended actions have a 6-month or shorter timeframe and Vedanta expect that the work will be completed. We confirmed that Lanjigarh is already in the process of
implementing the recommended actions from the gap analysis and anticipates that the work will
be completed by June 2012. We look forward to reviewing their progress during our next visit.

We can therefore confirm that significant progress has been made since our previous
visit and we consider that Lanjigarh is on track to be able to demonstrate sufficient
progress to achieve close-out by June / July 2012.
6 Overview of Progress and Remedial Actions

6.1 Group Level Recommendations

There were 11 Recommendations set for corporate level that required varying degrees of effort from Vedanta to address successfully and complete. An overview of our assessment of progress for these Recommendations can be seen in Table 6.1 below.

Two (2.5.4 Value Statement and 2.5.2 Code of Conduct) were closed out following our previous Monitoring Review and we consider that sufficient evidence of progress if not full completion allows us to view a further five as now being suitable for closure. These include: 2.5.7 Sustainability Committee (SDC); 2.5.8 Sustainability Officer (CSO); 2.5.3 Stakeholder engagement; 2.5.9 Sustainability oversight; and 2.5.16 Human Rights policy.

Significant progress has been made across the remaining Recommendations, and no items currently require either a higher priority and/or remedial actions to ensure close-out, although we have suggested some minor refinements that we believe will help the Company. Vedanta states that there is still some work to be done in order to complete the outstanding corporate level Recommendations, but it anticipates that it will by and large be completed by June 2012. We consider that timeframe to be achievable.

The remaining Recommendations and our comments regarding their progress are as follows:

- **2.5.6 Policies**: Although substantial progress has been made with the suite of Sustainability Framework policies and standards, we have yet to receive any of the Guidance documents which we understand are in hand. We would like to see copies, especially those dealing with Human Rights, Biodiversity and tribal / indigenous peoples, at the next visit;

- **2.5.13 Reporting**: The Company is in the process of commissioning a benchmarking study (proposal stage) and we would like to see the results and recommendations arising from that exercise at the time of our next visit;

- **2.5.9 Professional competencies**: An ambitious, wide-ranging training programme is currently being rolled out across the Group to support implementation of the Sustainability Framework; whilst progress so far is encouraging, there is still a lot to be done. We would also like to see a practical module on ESIA / M&A initial screening developed and delivered;

- **2.5.16 Human rights policy**: Although the Policy statement has been published and its requirements are reflected in the Sustainability Framework, there is currently no clear direction on what if any specific actions need to be taken when addressing this subject. Accordingly, we would like to reserve final judgement on this Recommendation until we have seen the Guidance documents (i.e. as per 2.5. 6 above); and

- **2.5.24 External audit**: Although not yet due, we currently estimate that full implementation is likely to be achieved by the end of 2012 at the earliest, when global roll-out of the new policies and management / technical standards will be completed, the training programmes delivered and the first internal audit cycle will be well advanced if not fully concluded. Our considered view is that the new arrangements will need sufficient time to ‘bed down’ and that, to ensure the process adds real value to the Sustainability Framework, the external audit should not be undertaken until it can demonstrate that the recommendations have been satisfactorily implemented. As we are now satisfied with the progress made to date, we would support an extension of the deadline until June 2013.
We wish to formally acknowledge the considerable effort and skill that the Company has put into the development and roll-out of its Sustainability Framework across the Group. We trust that it will continue to devote a similar level of effort and enthusiasm to addressing the remaining recommendations.

6.2 Company Level Recommendations

Seven Recommendations were initially set for implementation across the Group’s subsidiary companies in India and overseas. An overview of our assessment of progress for these Recommendations can be seen in Table 6.2 below.

At the time of our first Monitoring Review, many of these Recommendations were dependent upon Vedanta’s rate of progress in developing its Sustainability Framework which was behind schedule. Currently, we are pleased to report that significant progress is being made and we consider that sufficient evidence of progress, if not full completion, allows us to categorise three as suitable for closure at the current time. These are: 2.5.23 Incident register; 2.5.17 Consultation for new sites; and 2.5.22 Cultural heritage.

Significant progress has been made across the remaining Recommendations, and no items currently require either a higher priority and/or remedial actions to ensure close-out, although we have suggested some minor refinements that we believe will help the Company. Vedanta states in its progress report that there is still some work to be done in order to complete the outstanding corporate level Recommendations, but the Company anticipates that it will be completed by June 2012. We are confident that the Vedanta timeframe is broadly achievable.

The remaining Recommendations and our comments regarding their progress are as follows:

- **2.5.15 International best practice:** Although substantial progress has been made so far, we believe that a more robust initial screening mechanism is needed. Given the current status of projects requiring impact assessments, we would like to undertake further checks on the Liberian Western Cluster Project EIA / BALCO coal block extension EIA against IFC standards at our next visit. We also recommend that the New Project Risk Assessment should be amended to provide Lenders with more comprehensive and granular information about each project requiring an impact assessment;

- **2.5.11 Land management:** Similarly, we would like the opportunity to review a wider range of Biodiversity Management Plans, particularly those being developed for the higher risk sites (i.e. the HZL Hardwar Zinc Plant, Debari Zinc Smelter and Maton Mines);

- **2.5.12 Environmental communications:** Again, good progress has been made and we were impressed with Sesa Goa’s Sustainability Report. We would however like to see further progress on the development of plant / mine specific Stakeholder Engagement Plans and some clarification in regards to the IFC requirement for disclosure of project performance information to affected communities, for example in Vedanta’s proposed guidance documentation;

- **2.5.20 Vulnerable social groups:** Once again, due to the complexities of evolving international legislation in regards to ‘indigenous peoples’ (such as the principle of FPI Consent), we are unable to close out a Recommendation as we need to review the detailed content of the associated Guidance documents which are yet to be finalised.

We have now had the opportunity to visit HZL, BALCO and Sesa Goa operations in addition to Lanijigarh. The exercise has been a useful way to confirm the underlying and prior commitment to effective sustainable development throughout the Group’s assets. It has also been very interesting to see the various levels of maturity, and to a certain extent confidence, in the
impressive range of environmental and social programmes undertaken across the Group. We also appreciated the enthusiasm, knowledge and skill with which the local teams are implementing the corporate Sustainability Framework.

6.3 Lanjigarh Refinery Recommendations

Eleven Recommendations were originally identified for the Lanjigarh refinery although the ongoing court order preventing any work on Vedanta’s proposed Expansion Plans did have an impact on the programme. An overview of our assessment of progress for these Recommendations can be seen in Table 6.6 below.

Presumably due to the not always justified substantial amount of criticism that had been levelled at the Lanjigarh project, we had discerned a degree of defensiveness towards some of the issues identified and the actions needed to address our Recommendations in our previous two visits to the plant. We are pleased to confirm that Lanjigarh now appears to have embraced fully the IFC standards and is actively engaged in the implementation of the corporate Sustainability Framework.

One Recommendation (3.6.3 Housekeeping) was closed out following our previous Monitoring Review and we are pleased to report that further improvements have been made since then. We consider that sufficient evidence of progress if not full completion (we have suggested some minor refinements) allows us to deem a further six Recommendations as suitable for closure at the current time. These include: 4.5.8 Grievance mechanism; 3.3.79 Disaster management plan; 3.3.48 Contractor accommodation; 4.5.5 Dust emissions; 4.6.8 Livelihood support; and 4.6.12 Integrated development.

Significant progress has been made across the remaining Recommendations, and no items currently require either a higher priority and/or remedial actions to ensure close-out, although we have suggested some minor refinements that we believe will help the Company. We are confident that the Vedanta timeframe is achievable for three of the remaining Recommendations.

Our comments regarding their progress are as follows:

• 3.3.20 Environmental management and 3.3.63 H&S management: Although the gap analyses have been completed, we would like to check the progress made in implementing the recommendations in the ERM report during our next visit; and

• 3.3.32 Retrenchment plans: Solid progress is evident but we believe that there needs to be more detailed in regards to consultation on retrenchment, appeals / grievance procedures and mitigation actions and responsibilities, especially with respect to mitigating local community impacts. The ERM gap analysis also identified that further improvements were needed; this may be due to the absence this far of detailed Sustainability Framework guidance on the subject.

The final Recommendation - 3.4.3 Proposed expansion – is dependent upon a Court decision which, despite current management optimism for speedy resolution, this is not yet certain. Accordingly, this item remains open although we will assess Lanjigarh’s progress and any Sustainability Team due diligence in our next Monitoring Review should the plant receive the official sanction in the meantime.

We would like to acknowledge the enthusiasm, effort and skill that the Lanjigarh team has put into its on-going programme of environmental and social management actions and its support for the Sustainability Framework. We trust that the team will continue with its endeavours in addressing the remaining recommendations.
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Vedanta status July 2012</th>
<th>URS-SW status July 2012</th>
<th>Vedanta status CURRENT</th>
<th>URS-SW status CURRENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5.7 Sustainability Committee (SDC)</td>
<td>Closed-out</td>
<td>Substantially complete</td>
<td>Closed-out</td>
<td>Closed</td>
<td>-</td>
</tr>
<tr>
<td>2.5.8 Sustainability Officer (CSO)</td>
<td>Closed-out</td>
<td>Substantially complete</td>
<td>Closed-out</td>
<td>Closed</td>
<td>-</td>
</tr>
<tr>
<td>2.5.4 Value Statement</td>
<td>Closed-out</td>
<td>Closed-out</td>
<td>Closed-out</td>
<td>Previously closed</td>
<td>-</td>
</tr>
<tr>
<td>2.5.2 Code of Business Ethics</td>
<td>Closed-out</td>
<td>Closed-out</td>
<td>Closed-out</td>
<td>Previously closed</td>
<td>-</td>
</tr>
<tr>
<td>2.5.6 Policies</td>
<td>Progressing</td>
<td>Needs some remedial actions</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>Still to see proposed Guidance documents (especially Human Rights, Biodiversity and IPs)</td>
</tr>
<tr>
<td>2.5.3 Stakeholder engagement</td>
<td>Progressing</td>
<td>Behind original schedule but adequate progress</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Sustainability Framework links to other communication channels (press / NGO)</td>
</tr>
<tr>
<td>2.5.13 Reporting</td>
<td>Progressing</td>
<td>Adequate progress</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>Results of the external benchmarking study</td>
</tr>
<tr>
<td>2.5.8 Sustainability oversight</td>
<td>Progressing</td>
<td>Adequate progress</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Level of fatalities of concern, although implementing a suitable range of actions to address occupational H&amp;S</td>
</tr>
<tr>
<td>2.5.9 Professional competencies</td>
<td>Progressing</td>
<td>Needs higher priority</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>Some practical training still needed on implementing IFC requirements for M&amp;A and new ESIAs</td>
</tr>
<tr>
<td>2.5.16 Human rights policy</td>
<td>Progressing</td>
<td>Adequate progress</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Guidance documents being prepared as per 2.5.6 Policies</td>
</tr>
<tr>
<td>2.5.24 External audit</td>
<td>Not due yet</td>
<td>Not due yet</td>
<td>Anticipate full closure by suggested timeframe (June 2013?)</td>
<td>Uncertain that Framework will be suitably developed for meeting original deadline</td>
<td>Agree suggested extension to deadline needed to ensure exercise has full value. VR to prepare shortlist of potential service providers and consider scope / extent of the audit.</td>
</tr>
</tbody>
</table>
### Table 6.2 COMPANY LEVEL

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>URS-SW status July 2012</th>
<th>Vedanta status July 2012</th>
<th>URS-SW status CURRENT</th>
<th>Vedanta status CURRENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5.15 International best practice</td>
<td>Progressing</td>
<td>Adequate progress</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>VR need a more robust initial screening mechanism in their process. Also will need to check Liberia EIA / BALCO coal block extension EIA against IFC standards as they progress</td>
</tr>
<tr>
<td>2.5.11 Land management</td>
<td>Progressing</td>
<td>Behind schedule / needs higher priority</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>Still need to check BAPs available / being prepared for the high risk sites</td>
</tr>
<tr>
<td>2.5.23 Incident register</td>
<td>Progressing</td>
<td>Adequate progress</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Notification procedure and corrective / preventive actions fatalities and other significant incidents</td>
</tr>
<tr>
<td>2.5.12 Environmental communications</td>
<td>Progressing</td>
<td>Needs higher priority</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>Available SEPs reviewed and generally acceptable, but will need to see VAL-L example once complete. Routine / annual ‘disclosure’ to project affected stakeholders still to be widely actioned outside of Sesa Goa.</td>
</tr>
<tr>
<td>2.5.17 Consultation for new sites</td>
<td>Progressing</td>
<td>Needs higher priority</td>
<td>Closed-out</td>
<td>Closed</td>
<td>VR should consider developing ‘Broad Community Support’ indicators to determine success of consultations</td>
</tr>
<tr>
<td>2.5.20 Vulnerable social groups</td>
<td>Progressing</td>
<td>Needs higher priority</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>Need for Indigenous Peoples or equivalent guidance and company procedure for dealing with complex issues like “FPICconsent”</td>
</tr>
<tr>
<td>2.5.22 Cultural heritage</td>
<td>Progressing</td>
<td>Needs higher priority</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Covered elsewhere (e.g. screening comments in 2.5.15 above)</td>
</tr>
</tbody>
</table>
## Recommendations

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Vedanta status July 2012</th>
<th>URS-SW status July 2012</th>
<th>Vedanta status CURRENT</th>
<th>URS-SW status CURRENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.3.20 Environmental management</td>
<td>Closed-out</td>
<td>Behind schedule / needs remedial actions</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>Will need to check progress on new ESMP / SEP recommended by ERM</td>
</tr>
<tr>
<td>4.5.8 Grievance mechanism</td>
<td>Closed-out</td>
<td>Substantially complete</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Subject to CB finings re on-going local opposition etc</td>
</tr>
<tr>
<td>3.3.3 Housekeeping</td>
<td>Closed-out</td>
<td>Closed-out</td>
<td>Closed-out</td>
<td>Previously closed</td>
<td>-</td>
</tr>
<tr>
<td>3.4.3 Proposed expansion</td>
<td>Pending</td>
<td>Pending</td>
<td>Pending</td>
<td>Pending</td>
<td>May need to review depending upon Court decision (April?)</td>
</tr>
<tr>
<td>3.3.79 Disaster management plan</td>
<td>Progressing</td>
<td>Needs remedial action</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Need to check ongoing actions – e.g. public consultation and involvement</td>
</tr>
<tr>
<td>3.3.32 Retrenchment plans</td>
<td>Pending</td>
<td>Pending - but could make some progress</td>
<td>Closed-out</td>
<td>On track for closure in June 2012</td>
<td>Policy and annexure reviewed but could be developed more, especially in regard to mitigating local community impacts</td>
</tr>
<tr>
<td>3.3.48 Contractor accommodation</td>
<td>Pending</td>
<td>Pending - but could make some progress</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Existing situation validated and arrangements in hand to apply suitable standards to extension project contractors once given Court go-ahead</td>
</tr>
<tr>
<td>4.5.5 Dust emissions</td>
<td>Progressing</td>
<td>Adequate progress</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Rail freight progressively replacing road transport and reducing dusts</td>
</tr>
<tr>
<td>4.6.8 Livelihood support</td>
<td>Progressing</td>
<td>Needs higher priority</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Subject to CB findings on community perceptions of ‘livelihood support’ projects</td>
</tr>
<tr>
<td>4.6.12 Integrated development</td>
<td>Not due yet</td>
<td>Not due yet but could progress</td>
<td>Closed-out</td>
<td>Closed</td>
<td>Integrated development plan reviewed and generally acceptable</td>
</tr>
<tr>
<td>3.3.63 H&amp;S management</td>
<td>Not due yet</td>
<td>Not due yet but could progress</td>
<td>Anticipate full closure by June 2012</td>
<td>On track for closure in June 2012</td>
<td>As per 3.3.20 above</td>
</tr>
</tbody>
</table>
7 Social, Environmental and H&S Incidences

All Group companies were required to implement an incident register and report monthly from April 1st (Lanjigarh commenced its register in November 2010). Health, social, environment, labour and other categories of events were compiled for each component part of the Group. A review of the April 2011 - June 2011 data formed part of the previous Vedanta Progress Report; incident records for the period July to December 2011 were provided to inform this review. The January - February 2012 combined Group Incident Register was not available for review.

Incidence of particular note in the registers during this period included:

- There were six ‘railway and road blockages’ (public demonstrations) around Lanjigarh from July through to December. The causes ranged between: contractor worker stoppage due to wage disputes; claims for benefits by people that were not directly affected by the Lanjigarh project; Basantpada villagers protesting about rainwater flow entering their fields during the construction of the red mud pond; Kansari villagers protesting over allegations of theft; and in November 2011 youths requesting sponsorship for participation in a Football tournament. All matters are understood to have been resolved;

- Two fatalities involving belt conveyors; one fatality occurred at HZL in November 2011 during a visual inspection of a partially guarded belt conveyor, and the second involved a construction worker at BALCO who was operating an unguarded moving conveyor belt in August 2011;

- A bulldozer driver fatality that happened during cleaning of a pit haul road, HZL, December 2011;

- A fatality involving a worker who lost his balance and fell into the scrubber whilst repairing the wall of a PAP Flash Cooler at SIIL, November 2011;

- A fatality at Konkola Copper Mines (KCM) following the collapse of the plant roof due to an accumulation of slag feed on the roof of the building, July 2011;

- A fatality at KCM in July 2011 involving a non-blasting license holder scraper driver who was conducting secondary blasting without permission / authority;

- Two fatal electrocutions at KCM; one involving an electrical foreman during restorative works at an on-site interconnector follow a national power cut, and a second fatality involving an Artisan Electrician carrying out repair works of an incorrectly isolated inspection box, August 2011;

- A fatality at TSPL involving a ‘passenger’ who slipped whilst getting in to a dumper truck and got trapped under the wheel, August 2011;

- A Black Mountain fatality when a rock fall pinned a Shift Boss to the footwall during make-safe operations following a ground fall, September 2011;

- Zambia Supreme Court ordered KCM to pay US$ 2 million (10 billion Kwacha) as general and punitive damages to 2,000 Chingola residents who suffered consequences of the company discharging effluents from its operations into the Kafue River, recorded in December 2011;

- A Category 4 diesel spill at Black Mountain in November 2011 when an isolation valve was accidentally left opened prior to diesel offloading. This was a repeat incident;
Sesa Goa mining leases involving Mulgao village had the mandatory consent required from the Goa Pollution Control Board under the Air Pollution Act 1981 and the Water Pollution Control Act of 1974. However, the Consent was suspended by Directorate of Mines and Geology Government of Goa following a breach of the bund during the monsoon. All corrective measures are now in place and consent to operate the mining lease is expected shortly;

With reference to media reports regarding Sesa Goa Limited being named in the [Karnataka] Lokayukta report, it was confirmed in the media that Sesa Goa owned Karnataka mine had stopped operations in August 2011 due to imposition of a ban on all mine operators by the apex court due to large scale environmental degradation in the area;

A fatality at Sesa Goa in December 2011 when a night security guard got trapped in an unguarded DG set radiator whilst trying to keep warm;

A fatality at BALCO in October 2011 when a contract worker was electrocuted with a 440 V LT power cable was punctured by an excavator during the removal of non operating railway track;

A contract worker fatality at BALCO in November 2011 following a fall from height onto protruding rebar during concrete de-shuttering work;

A grievance was raised in August 2011 by local community regarding the construction of a cooling tower at BALCO. The matter was resolved amicably with no related media reports;

Two fatalities at HZL involving workers engaged in the loading, transportation and unloading of ‘Jarofix’ from the plant site to the SLF area. The July 2011 incident involving contract worker drivers engaging in horseplay involving a flexible high pressure hose within the leaching plant. The August 2011 incident occurred when the bucket of a JCB hit the chest of a sleeping dumper driver causing internal injury;

Sesa Goa Limited became the First Iron Ore Mining Company in the world to be awarded certification for SA 8000 (social accountability standard for fair employment and workplace health and safety);

In August 2011 Lanjigarh became the first Mining & Metal Industry in India to achieve ISO 50001:2011 certification from the British Standards Institution, for the management of energy and mitigation of the impacts of climate change; and

In December 2011 the MOEF issued a notice putting on hold the terms of reference (TOR) for the proposed expansion works at Lanjigarh, which are required for conducting an environment impact assessment and obtaining government approval.

We reviewed the Lanjigarh, BALCO and Sesa Goa and Group level registers of incidents in detail 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, as per the previous review, there were a few examples of ‘running stories’ on activist web sites in relation to the previous issues. No fatalities, Lost Time Incidents or significant Environmental Incidents were recorded within the Lanjigarh Incident Register or in the media between July and December 2011. Most of the earlier issues have now been resolved and/or are subject to appropriately robust remedial actions, whilst the more recent examples are also receiving suitable and sufficient attention.
Additionally, a Group-wide initiative has been implemented to ensure that following any significant incident (Environmental, Fatality, Major Injury, etc) the lessons learnt are disseminated across the Group (e.g. Guarding on all conveyor belts and supporting training following the incidents at HZL and BALCO, cylinder handling and storage following the incident earlier in the year, and DG Set guarding and Security Guard / worker training following the incident at Sesa Goa).

Further consideration is recommended to ensure that all registered incidents include a robust corrective and preventative action loop and a standardised close out procedure.

Incidents involving fatalities

We note that a total of 20 fatalities were recorded between April and December 2011.

The new Group HSE policy statement attaches “paramount importance” to the health and safety of employees and any other person impacted by the Group’s activities commits the business to a goal of “zero harm”. The EXCO and the EXCO Sustainability sub-committee are providing direction and oversight on health and safety performance and the Sustainability Team has the resources to give practical support to implementation and improve performance monitoring.

As noted in regards to Recommendation 2.5.23 (see Section 4.3), we consider that the new procedures being applied to the investigation and correction of the causes of fatalities and other major incidents are fit-for-purpose and capable of driving significant improvements in safety performance.

_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 thus far._
Please refer all questions on this report to the Agent for the lenders to Vedanta Resources – Standard Chartered Bank at feed.back@sc.com