



“Vedanta Resources Q1FY2016 Production Release
Call”

July 31, 2015



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Vedanta Resources Plc
July 31, 2015

**MR. ASHWIN BAJAJ – DIRECTOR, INVESTOR
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Moderator: Ladies and Gentlemen, Welcome to Vedanta Resources Q1FY2016 Production Release Call. As a reminder, all participant lines are in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwin Bajaj. Thank you and over to you, sir.

Ashwin Bajaj: Thank you, Operator. Ladies and Gentlemen, Good Morning, Good Afternoon. I am Ashwin Bajaj – Director of Investor Relations for Vedanta. Thank you for joining us today to discuss our results for Q1 for the Financial Year 2016.

Let me introduce the management team present with us today: We have with us Mr. Tom Albanese – CEO of the Group; Mr. DD Jalan – Group CFO; Ms. Rashmi Mohanty – Group Treasurer; and we also have leaders from several of our businesses on the phone line, we have Mr. Mayank Ashar and Sudhir Mathur from Cairn India; Mr. Steven Din from KCM, Mr. Abhijit Pati from Aluminium and Mr. Kishore Kumar from Iron Ore.

So, with that I will hand it over to Tom.

Tom Albanese: Thank you, Ashwin, and thank you, operator. Good Morning Ladies and Gentlemen. I am pleased today to present our Q1 Fiscal Year 2016 Production Results. I do not need to tell you as you are in London that the resources sector has been witnessing a very challenging period due to the decline in commodity prices, which we have seen in both the Metals and certainly the Oil side, a fall in demand from China, and new supply additions that continue to come in place in almost all the commodities with the exception of Zinc. This is reflected in the performance of mining & oil equities over the last one year. While the macro risks to commodities from US dollar strengthening, China’s recent equity sell-off, the Shanghai Exchange, the concern regarding additional oil supplies coming in from Iran with the lifting of Iran sanctions and again, the ongoing Greece tragedy, leading to fiscal problems or fiscal concerns in Europe have all been recently adding to this uncertainty. So, from our perspective, we are aware of this and we are very-very mindful of the backdrop but again we are continuing to follow a disciplined approach to capital spending, focused on cash management, focused on our cost-to-operations, our efficiency of operations which we believe is the key to managing during this period of volatility.

From our perspective, at Vedanta operationally, we have had a good quarter with higher production at Zinc India, Copper India and Aluminium & Power compared to last year and stable production at Oil & Gas. We have also started pre-stripping at the Zinc Gamsberg project, in Iron ore, we started sales at Karnataka and are well positioned to start mining in Goa after the monsoons. I think Din will talk a little bit later but certainly, we have continued in the progress of the turnaround at KCM which I have been pleased with that progress.

Financially, the EBITDA was marginally better quarter-on-quarter, in spite of an adverse effect of US\$65 million due to provisions for the Renewable Power Obligation in India for previous years.

During the quarter, of course, we also announced the merger of Cairn India Limited and Vedanta Limited in line with our stated strategic priority of simplifying the group structure. And I believe this merger is a win-win situation for the shareholders of both Vedanta Limited and Cairn India. With this transaction, we will reinforce our position as the only large-tier diversified Indian natural resource major, with a suite of Tier-1 asset across a number of commodities. The scale and diversity of the asset base will reduce earnings volatility and increase the stability of cash flows through the cycle. And of course, as you would expect, we would continue to maintain our ongoing dialogue with all the shareholders until voting takes place which we would expect to be in the last quarter of this calendar year and we remain confident the transaction will be completed successfully by the first quarter of calendar year 2016.

So, let me briefly touch upon the operational performance of each segment: In Oil & Gas, while the Rajasthan production was relatively flat quarter-on-quarter, the gas production grew by 20% quarter-on-quarter averaging 19 million standard cubic feet per day. On the cost side, substantial savings were attained and continue to be attained in key high-value contracts through negotiations, optimization of field operations and improvements in well drilling time. As we said before, we continue to invest in our core fields and drive growth projects. Just as some examples: the polymer injection rate at Mangala has been ramped-up and progressive production impacts will begin to show up later on in the year. We are also preparing for further growth at the Raageshwari Deep Gas Field via a new terminal and pipeline, work on which is progressing well.

The capital investment requirement for Bhagyam EOR has been substantially optimized over the last few months through value addition and value engineering by our teams. Based upon the success, we have recently submitted a revised Field Development Plan to our JV partner, ONGC. At Barmer Hill we have recently taken our first big leap with a finalization of the development concept for Aishwariya-Barmer Hill, and that is again the portion of the Barmer Hill formation overlying our existing Aishwariya operating field. We have also embarked on a 20-well infill program at Aishwariya to ramp up existing production volumes. Overall, in FY 2016, we aim to at a minimum maintain the fiscal year 2015 Rajasthan production levels of 176,000 boepd.

Moving on to Hindustan Zinc: The first quarter was a very good quarter for Zinc India as mined metal increased, driven primarily by higher ore production from Rampura Agucha, Kayad and SK mines. We lowered our cost of production to US\$802 per tonne in spite of higher fuel and power costs on account of externally imposed water cess and electric duties and renewable energy purchase obligations (RPO). Rampura Agucha and SK shaft projects are continuing to progress well, with no further delay in the Rampura Agucha shaft. Pre-stripping for further development of Rampura Agucha open pit is under progress. So FY2016, we expect

the mined and refined production to be higher than in 2015 and costs to remain stable. The silver production is expected to be 350,000-400,000 tonnes due to better grades and production at the SK mine.

At Zinc International, production was affected by lower grades at Skorpion and ramping down of production at Lisheen, which will now end production in November of 2015. So, overall, we are on track to produce about 220,000-230,000 tonnes in FY 2016. At Skorpion, pushback is in progress for extension of pit from FY2017 to FY2019. At Gamsberg, the pre-stripping has commenced, with the first Ore production expected in FY2018. A ground breaking ceremony was held earlier this week to mark the start of the project. The project is being developed using a modular approach with the current focus being on initial mining activities and this will allow us flexibility to adapt the CAPEX to the current market and Zinc environments.

Moving on to Iron Ore: At Karnataka, Ore sales commenced during the quarter; production was 0.2 million tonnes, constrained by existing ore supplies which will be liquidated by the Q2 FY2016. Currently, there is a production cap of 2.3 mtpa and we remain engaged with the authorities to relax and increase this cap.

At Goa, the remaining approvals are expected in early August and mining is expected to resume post monsoons.

At Copper India, our smelter in Tuticorin, in the first quarter Copper cathode production at Tuticorin was stable and near its capacity. The smelter continues to maintain strong operational efficiency taking full advantage of the higher TCRCs and the sulphuric acid prices. Copper prices of course have been falling; however TC/RCs are expected to reasonably robust in the near term.

Moving on to Zambia: At Copper Zambia, mined metal production at KCM was in line with the corresponding prior period quarter, despite power interruptions in April and May. In Q1, mined metal production from the Konkola mine were higher on account of improved equipment availability and the resumption of hoisting a Shaft #1 after completion of the first phase of the rehabilitation work. We have also managed to contain costs at lower levels by intensive cost control measures. Of course, more recently, among all these other positive operational developments, we have to unfortunately deal with the unstable power situation in the Zambian Copper Belt. On 29 July 2015, KCM received a force majeure notice from CEC (Copper Belt Energy Corporation PLC), the power supplier to KCM, notifying the company that its supply of electricity would be reduced by up to 30%. Any reduction in power supply has not commenced at this stage and KCM's operations have not been affected. KCM is working in close consultation with both the CEC and the Zambian Government in relation to the timing and magnitude of the power reduction.

In Aluminium, production at the Jharsuguda-I & Korba-I smelters were stable and we continue to operate the Lanjigarh refinery at a high utilization rate. Aluminium prices and premiums have witnessed a steep decline in the last quarter whereby our EBITDA margin has declined

from \$490/mt in Q4 FY2015 to \$ 177/mt in Q1FY2016. As you would imagine, we have put in place several measures to deal with this challenging market backdrop: The cost of production currently at \$1689 per tonne is being optimized by reviewing the higher cost operations within the group, improving the domestic sourcing of bauxite and reducing specific consumption of inputs at the smelter. Ramping up of the Alumina refinery to 2 million tonnes upon receipt of approvals from the state government is quite important particularly as we see a drop in Aluminium prices, as the central government has already approved the expansion to 4mtpa in Phase-1.

From a business perspective, increasing the proportion of value-added products adds to overall sales in SR. And we have been in discussion with the government to control the dumping of Chinese aluminium and scrap into the Indian markets.

In terms of a further ramp up of our Aluminium smelters, we will follow a disciplined approach and ramp up only if there is positive cash generation. Accordingly, due to higher costs and these weak markets, a further ramp up of pots at BALCO-II smelter has been now temporarily put on hold. Meanwhile, at Jharsuguda-II smelter, we are in discussion with the government authorities for using power for the 2400 MW power plant and expect to ramp up of the remaining pots in the first line of 312 kt in Q3 FY2016. In view of these deferred ramp ups, our Aluminium production for FY2016 is expected to be lower than the guidance given in May 2015.

Notwithstanding these measures, we are very mindful of weak Aluminium prices and premiums, so at the moment we are looking at all parts of our Refining and Smelting business. We are prepared to make difficult decisions, even reducing production, if necessary, to protect cash flow.

We are going to start talking about our Power vertical. We have been making references before but during the quarter, we have actually formalized the Power vertical and appointed Mr. Ajay Dixit, a seasoned professional in the power industry to point synergies and consolidation benefits among the portfolio of our 9,000 MW of power assets. He has been on board for two months now, he is now responsible for power plant operations as well as coal purchases and power sales. As we ramp up our 2400 MW Jharsuguda power plant and the TSPL units, we are also participating in new round of coal auctions to secure captive coal supplies.

Before I close my comments and turn it over to DD, let me just reemphasize that we are mindful of the current challenging commodity price environment. We have been implementing a series of initiatives to reduce capital and operating costs across all our businesses to maintain financial strength and a strong balance sheet with a focus on maximizing free cash flows.

With that I will now request our CFO – Mr. DD Jalan to give a brief Financial Update following which we will take questions from the audience. Over to you, DD.

DD Jalan: Thanks, Tom and Good Morning, Ladies and Gentlemen. We have delivered a good financial and operating performance in the first quarter of FY16 in the midst of a volatile commodity environment as Tom was talking about. On the balance sheet front, we maintained strong liquidity, with Cash and Liquid Investments of \$8.2billion, and undrawn committed lines of \$1.1 billion. Our debt as at 30th June was \$300 million higher during the quarter, primarily due to the funding for TSPL and Aluminium projects and temporary working capital requirements of around \$200 million, which will unwind in coming quarter.

On debt maturities, during FY2016 we have debt maturities of \$350 million at Vedanta plc, for which the refinancing is already in place. At the subsidiaries, we have \$2.1 billion due, refinancing for which is partly tied up, and the balance being short-term loan is to be rolled over or refinanced through longer-term debt. During the next financial year, that is FY17, Vedanta plc has \$2 billion worth of maturities, the first one being the \$750 mn straight bonds due in June 2016, around a year from now. As we communicated in May, we aim to tie-up the financing for FY2017 maturities by the end of the calendar year, and we are making a good progress on the same. In India, we are benefiting from a declining interest rate environment, which would lower our funding costs at the Indian subsidiaries. The aim is to extend maturities and reduce interest cost. Our covenants are tested at the half year and full year on a trailing 12-month basis and we have headroom in our covenants even at these prices. Overall, we continue to focus on improving our cash flow by better working capital control, continuous review and control of CAPEX spend as well as improving efficiencies and bringing cost savings. We remain committed to deleveraging and maintaining the progressive dividend policy.

With that, we will open the floor for the questions. Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take our first question from Anna Mulholland of Deutsche Bank. Please go ahead.

Anna Mulholland: Firstly, on the Zambian Power situation. Obviously, you are busy talking to the suppliers having received the force majeure only yesterday. Could you maybe give us an idea about what the timeframe is for when the reductions in supply could come in – is it going to be phased, is it going to give you a chance to try and control when you are receiving electricity, etc., and so any more detail you could give us would be really useful? And then just my second question is on your Aluminium guidance. Obviously, at the Investor Day, you were talking about exiting fiscal '16 with a run rate of 1.7 million tonnes. What do you think that will be now that you have gone slow on the BALCO-II pot line?

Tom Albanese: I will start with some comments on Zambian Power and I think Steven is on the ground and he is in the midst of these discussions out, he can provide some more color and then of course with Aluminium maybe I will just turn it over to Abhijit to talk about what we are looking at doing in terms of ramp up. First of all, I personally had the opportunity to be in Zambia last week as this issue had been emerging and again there has been a longstanding concern about power shortage due to the drought in Zambia. I had the opportunity to be with many of the

ministers and with our own engineers in terms of what we are doing on a proactive basis. So, as you can imagine, there is quite a bit of effort that is involved in looking at what the reduction could be, whether it is some portion of the 30% at different stages what are the least affecting parts of the business, certainly, first and foremost to protect the safety of all our employees, second to minimize the production and then third to minimize any cash effects from this as it would take place. We are working in close consultation with the CEC and the Zambian government and again certainly in my own meetings with the Zambian ministers, they are quite sensitized to the negative effect that a severe cut into the Zambian copper belt would have on not only foreign receipts but the overall effect on their currency. So, they are quite interested in finding a way that we can all manage this power crisis in the country as best possible. And again, as you would imagine, we are keeping our unions, the local officials of the unions and our employees, all well informed about developments, it is safe to say as I was in Lusaka or elsewhere in the country and you see rolling brownouts in the country that all the citizens of Zambia are aware of what is going on and quite sensitized to it. But, with that maybe, Steven, if you can be more specific about any individual component.

Steven Din:

I think Tom said it all actually because he was down in Zambia, we had some very close discussions around this potential issue. I think the key thing that I would like to communicate to you at this particular stage is that we have not been load shed at KCM. Although the force majeure notice came through on the 29th of July in fact, we have not had any interruption to our power, we were in very close discussion with CEC and even the other mines and yesterday I had a number of calls with various ministers, and as Tom has indicated, the government realize it that any load shedding on the mines would have a severe impact. So, everything is being planned very carefully. In fact, tomorrow, we are going to be sitting down as the CEOs in the mining industry in Zambia, certainly with CEC to see what other measures are possible to try to reduce any requirement as a result of the drought. I think that is probably would I can say which is factual for now, but I am not concerned at this particular stage.

Tom Albanese:

As you would imagine, the things that we can do that would be voluntary and conserving power like lighting, air-conditioning, heating, all unnecessary use of power has already been implemented and we are looking at a number of things that we can also do on a voluntary basis to help the country out. But, I thought before I move on to the Aluminium question, Steven, you have actually made some progress in the last quarter on the overall turnaround of the business and I know it is overshadowed at the moment by the power issue in Zambia, but can you say a few words of what you are doing on the ground in terms of improving the overall efficiencies of the operations.

Steven Din:

First of all, on the production side, as we have been talking on the various calls, we have had a number of initiatives in place particularly at the Konkola underground to make sure that the equipment availabilities, hoisting, constraints through lifted and just on the equipment availabilities for the mobile fleet at Konkola, and within the last year we have now managed to move that overall equipment availability from around 50-55% which is where we were in May of last year and we are now in the 65-70%. That is certainly a considerable positive impact on

the production at Konkola. The other thing that we have managed to alleviate as a constraint is the hoisting capacity that we had last year where we took down one of the shafts as a result really of some incidents, we took down one shaft at the Konkola mine and we rehabilitated and repaired it changing the timbers mainly and some of the steel batons, and that shaft came back into production in March of this year and we are seeing the full benefit of being able to hoist from there. So, then that gives us some more possibility around doing the repair work from four shaft, which is the new shaft. So we are not hoisting constrained either. I guess the third area around Konkola is that we have now managed to focus on the development meters, we have renegotiated the contracts with most of the development contractors and the folks are readily available and the ore is flowing much freer than it was this time last year. On Konkola, we are pleased and in fact quarter-on-quarter just the Konkola we had a 7 or 8% increase in production. On the Nchanga side, we have managed to reduce some of the unprofitable areas, we have been speaking about the pivots, the pivot is not just Konkola and the sections there, but it is also across the business, so we have reduced some of the unprofitable production. And in the leach plant which is another very important part of our business we have managed to increase the levels of reliability. So, everything is moving in a positive direction and we are hoping that we can manage the current power issues that we have.

Tom Albanese:

Maybe now on Aluminium, we will just have Abhijit speak about what we expect is the exit rate, I just want to qualify this all by saying that it is not our intent to run any pots on a negative cash flow basis. So as we watch the Aluminium prices move up and down, we will be appropriately disciplined on that basis, recognizing that when you look at this on a pot-by-pot basis, you got to take into account the cost of bringing the pot down and the cost of rebuilding and relining that section. But with that maybe Abhijit, you can talk about what you have going on?

Abhijit Pati:

So far as over the progress on ramp up is concerned that Tom is right because we have been very closely considering the overall business dimension of ramping up and obviously with the LME the way it has come today as on today definitely the BALCO ramp up Phase-II is on hold because we have definitely no intention to make that cash burden by out of simple ramp up. The issue which was there so far as the power stabilization that has been completely recovered, we have fully stabilized the power plant of first 300 MW unit at BALCO. So it is all ready for the ramp up but unless and otherwise there is a positive outlay of the LME and as long as we consider there is a cash positive so far as this ramp up is concerned, we do not intend to ramp it up in BALCO. So far as Jharsuguda is concerned, yes, the first line of the Phase #2 it is the final stage of the government, you know the approval and we are expecting that any time in this Q2 maybe in August or September we should be in a position to definitely ramp up the first line. So, with this the present outlook, though initially, we estimated that the sector will produce around 1.4 million tonnes of Aluminium but with the present strategy and the way we look into the entire year we should be in a position to touch base around 0.95 to 1 million tonne of the production at the end of the year.

Moderator:

Thank you. The next question is from the line of Danielle Chigumira of UBS. Please go ahead.

Danielle Chigumira: I have a couple of questions if I may: Could you give some color around what the cost benefit from starting up the Chotia coal block would be to Aluminium cash costs? On KCM, could you remind us what is the current outstanding balances on VAT receivables?

Tom Albanese: Danielle, maybe just have Abhijit again talk about the overall coal block. When we talk about the coal block, it is not just in terms of the current effect on cost of coal but it is also providing security for the future in terms of knowing where coal policy will be and the ups and downs I would like to take place. On KCM, maybe Steven you can talk about that and also talk about the difference between the amounts that were from pre-government change in law February 28, 2015 versus post that period. So, Abhijit, if you can start?

Abhijit Pati: I think coal block proposition is clearly to secure the long-term supply of the coal, that is what the objective is, and we have the Chotia which has come in our hand and we expect to start the coal mining any given point of time because necessary approvals are in place. Now, so far as the cash cost improvements are concerned, the mining coal will be to some extent at the same rate we get the e-auction coal. So definitely over a period of time, by improving the overall efficiency of the mining and also the efficiency of the power plant we should be in a better position to build that how much improvement it comes in. But so far as the coal supply is concerned, you will continue to understand that with the large volume of the Aluminium and supported by its captive power plant, the first phase of our coal security where you have relatively reliable supply which is basically meant for the acquisition of the coal block and supply and also it will give us a very stable operation on account of the right kind of quality because the mine can be done with the particular mix and the quality which can get supplied to the power plant. So, as of today, definitely, that is the state we are. So far as the cost is concerned of the coal it will be at par with the e-auction but over the years, if we perfect in the mining and also improve the efficiency of the mining as well as the power plant efficiency we should be in a better position to comment that how much it gives the positive impact so far as the cash cost is concerned.

Steven Din: Danielle, in total, there is about \$170 million of VAT which is outstanding, and of that \$170 million, there is about \$40 million which is due from the beginning of this year, so essentially from the change of government. Now, we have actually made some very good progress; we have had discussions with the Zambian revenue authority and we are expecting the refunds between March 2015 and May and they are roughly about \$8 million a month to be processed in August. Unfortunately, we were unnecessarily be getting a cash inflow to the business because some of that is going to be offset against the deferred mineral royalties. But certainly, from September onwards, we will start to get some cash refunds into the business. So we are very pleased about that. The second aspect is around the old VAT and that old VAT is related to the changes which were acquired in the Rule-18 if you may remember and we are still in consultation with the authorities to try to release those refunds. I hope that helps.

Tom Albanese: Danielle, I just would add that, these VAT Steven answered in US dollars, they are actually denominated in Kwacha, so as the Kwacha has depreciated against US dollar, the dollar-denominated equipment amount has gone down unfortunately.

- Moderator:** Thank you. The next question is from Varun Ahuja of JP Morgan. Please go ahead.
- Varun Ahuja:** I actually missed the part on Aluminium which has been the recent concern in the market. Could you guide how you are seeing the premiums for the second quarter of this financial year and what is your expectation looking forward and how does it impact the production growth which I think is first time really coming this year from the Aluminium sector? Secondly, are you thinking, if you have any preliminary thoughts of any opportunistic asset sales like for example in the Power segment, given the otherwise low commodity environment just to deleverage? If there are any update on any progress or conversation with the government on Hindustan Zinc?
- Tom Albanese:** I will maybe ask Abhijit to talk about Aluminium pricing and premium. We did not in our text really give any forward prognosis but I am sure Abhijit, you can present your view on that, and then maybe DD, if you can just having a comment about the fact that we are not looking at doing any asset sales, then maybe something on power and then I will comment on Hindustan Zinc. So, first of all, go ahead, Abhijit.
- Abhijit Pati:** You see the outlook of the market has continued to be in the level where it is today. And so far as the premium is concerned that you understand this premium has laid down significant low at least from a level of around \$424 today we have on an average having a premium of around \$100 NGP. So, for the recent outlook of Q2 even Q3 and Q4 for this year, we do not foresee honestly that any further improvement so far as the premium is concerned. And that is the reason you will understand with the lower LME and lower premium that is the reason where we have to take those kinds of decisions for holding the entire ramp up. As indicated earlier, there is definitely a volume cut because ramp up is not going as per our original plan but so far as the premium is concerned, we do not foresee much of an improvement in this particular financial year.
- Tom Albanese:** Maybe Abhijit, you can talk about what you have been doing to improve your value add top of them and also the premium?
- Abhijit Pati:** I think the way we are now mitigating this entire challenge is basically getting into a more of a value-added product. I think you will understand and I think it is good to share with all of you that there is tremendous amount of value added product has been added to our kitty, our technical team has been really successful to create a lot of alloy ingots on ASC-562 and other alloy for which is basically meant for the wheel and other Aluminium silicon alloy slabs. That is the one segment which we are going. Apart from that our billet and wire rod production have also gone up significantly high. If you remember in the last year we were having a segment of around 43% of the value addition which we have already moved in Q1 to a level of around 62-63% because the basic objective is to really get a certain amount of additional money out of this value addition. So that is the way we were trying to really support the overall business and we will continue to produce our product profile little diversions so that wherever there is an additional premium and money comes in, those segments we will add back and that is the way we want to sell through.

Tom Albanese: Maybe DD, when you talk about what we are not thinking about asset sales, you can also talk on just reinforce the point about how we focus very much on strengthening the balance sheet maybe reinforce some of the points on the refinancing?

DD Jalan: Varun, there is no plan for sale of any asset and at the same time let me just try to reinforce the point that we are quite comfortable on the free cash flow what we are generating. Even at these commodity prices and we expect that we shall be in a position to reduce our net debt position from what we were as on 31st March last year. That is #1. #2, our refinancing maybe you missed earlier part of my comments that it is on track and we are quite progressing on the refinancing plan and as I said that for next year maturities we should be completing our refinancing within this calendar year and our objective remains on track that, #1, we want to deleverage our balance sheet; #2, we want to see that our overall maturity profile that gets extended and #3, our overall interest cost that comes down. So, we are looking at all the three aspects and we are reasonably progressing that. Hopefully, we should be in a position to share a good news in the next conversation when we have.

Tom Albanese: I just want to talk about in terms of our Power business. First and foremost, we bring in the vertical in place because I see huge opportunities for improving the value of our power generating assets but putting in place the types of systems, one would have if they had a fleet of power plants and we have 50 individual power generating units where we see substantial savings from that. Now, in this current market, power generating assets are not necessarily getting a lot of value in India because there have been a lot of investments made but because of that not a lot of new investments are being considered. So it is my own view as India continues to further its economic growth and GDP growth which as you know is on a pretty healthy track at (+7%) per year, there is not going to be a same follow up in terms of power generating capacity. So, current power generating assets now are going to be worth a lot more several years down the road. So, let us work on maximizing the value of these things. I do want to reinforce everything that DD said that from my perspective as CEO, from DD's perspective as CFO, we are hugely focused on cash generation, hugely focused on debt generation, hugely focused on bringing in the business that are making positive cash flow and for those businesses that were not doing everything we can to turn them the corner to generate positive cash flow even in these markets. So just as a reminder also that the Zinc business although everything else looks in a more volatile, darker mode, the Zinc business continues to look quite good in terms of the pricing and the fact that there is not a lot of new Zinc coming in the market while you see stock piles for Zinc dropping month-on-month. So, again, we are very mindful of markets, we are also very mindful of what we can do within our own control. Now, on Hindustan Zinc, not in our control, that is the government's decision to sell off interest in Hindustan Zinc. There has not been any real change nor any real progress. It is still in the government's list of divestments and we would still expect that at the time of their choosing when they consider divesting their share of Hindustan Zinc if we go through an auction process and that would be consistent with what we are seeing with every other type of asset divestment or transfer of assets from the state to the public.

Moderator: Thank you. The next question is from the line of Tim Huff of RBC. Please go ahead.

Tim Huff: I just have a three; two of them on cost with different timeframes. I guess firstly on Zinc in India, made some really good progress quarter-on-quarter on the cost of production. I was just wondering getting into the back half of the calendar year how sustainable you see those costs at around 800 bucks or do you see them coming down a bit further? I guess a little bit more medium-term. In Zambia, you guys were talking about the improvements that you have made on the efficiency of the ops. I guess going into calendar '16 or even your fiscal '17 where do you think you can get your cost down to on a sustainable basis within let us say a 12-month timeframe? And then the third question on free cash flow. You mentioned a lot about the focus on free cash on a divisional perspective, where do you see the greatest challenge over the next 6-12 months?

Tom Albanese: Let me start on Zinc India. What we see happening be it first half versus second half for this year in Zinc India is that this first half we are in as we previously flag and as the pit gets deeper and you are going in and out of higher grade zones of the pit and we are enjoying that in the first half, we are going to be facing out that in the second half of this year. So that is going to be of the headwind that we will be facing. At the same time, as we move from first half into second half, we are moving into the main production headings in Rampura Agucha underground as we have some new headings expected to be ramping up at the SK mine. So, what we would expect first half versus second half is probably less open pit metal-in concentrate half on half but more underground metal-in concentrate half on half and hopefully the cost effect will be somewhat neutral between the two. On Zambia, maybe ask Steven to talk on a forward-looking basis and just recognize that we have not been giving a lot of multi-year guidance on the Zambian operations up to now because the main focus as Steven and I have said is to bring the business into positive cash flow generation. I would say that we have a very clear plan if you look quarter-on-quarter, year-on-year, from this year to the next year and next year we see a very solid track of reductions in our cost of production as we continue that pivot process. So we have talked about phasing out of the higher costs copper tonnes and phasing into more of the lower cost copper tonnes. But, if you can shed more light on that Steven?

Steven Din: It is a difficult question. We have seen some clear benefit in this quarter and this quarter is benefiting partly from production increases at Konkola and as Tom said taking up the high cost production. But it is also benefiting from significant cost reduction programs we have had in place since the beginning of this year when we first saw the downturn in the copper price. The C1 cost currently is in the region of about \$4,700/tonne, that is \$2.13per pound. Once again, this is forward-looking, it depends on whether we can achieve all of the production improvements that we are forecasting, although at the moment there is nothing to say that we would not achieve those. I am hoping that we can get the C1 cost in terms of dollars per tonne in the 3,500-4000 range. It is a tough ask but that is what we are working to as a business. I think that is about it on your question.

Tom Albanese: I would say that on cost of Zambia this past quarter had the lowest quarter in terms of unit cost in the past 9-quarters. So, I think we have turned that trajectory which was going against us to one that is going in our favor and we are going to keep pressure on that. Of course, we are certainly cognizant of the negative effects that the power outage will have depending on how that gets implemented. Maybe DD, if you want to handle the free cash flow point. I will just start by saying though that if you ask for my perspective I would say that turning around the KCM business quite clearly has been top of my mind in this environment and I would say second is going to be the fact while I have been pleased with the progress we are making on Aluminium, clearly, we have a much lower net smelter return now for Aluminium that we would have had a quarter or two quarters ago. So, that has taken that business with something that was ready to be generating quite a bit of positive cash flow into one we are managing for cash flow. But, DD, if you have any additional thoughts?

DD Jalan: Tim, basically, we are getting a very good cash flow from our Zinc business, Cairn and Copper Smelter in Tuticorin and KCM, we are expecting commencement for refund of the VAT which is held up with the government so that should be starting coming as Steven said from September onwards. We are seeing that our Iron Ore mining at Goa. That should start post-monsoon. So that should start generating free cash flow. Then in Aluminium and Power business, we saw that there was increase of about \$200 million of working capital in the first quarter, so we expect release of that and then we expect a few more working capital releases from the businesses. So, this is what is the free cash flow what we are expecting and we are quite comfortable, last year we had generated free cash flow of more than a billion dollar post-CAPEX and we expect that in the challenging environment today also we should be generating a very healthy cash flow.

Moderator: Thank you. The next question is from the line of from Cedar Ekblom of Bank of America-Merrill Lynch. Please go ahead.

Cedar Ekblom: A question on the planned merger of the subsidiaries. I know you say those things are progressing as per plan and you expect the vote in Q4, etc., but we have obviously seen press coverage of the largest minority shareholder in Cairn India saying that they are not happy with the deal. Can you provide some color on this because it is obviously a risk in contrary to your comment?

Tom Albanese: First of all, nobody is yet making a vote and we are not going to be in a position to have the shareholders vote until later this year. So, if you look at what has been in the press either in India or in the UK media, it is about reports of what shareholders would make, not shareholders making the quotes. So, I think from our perspective, it is still early in the process. Anything at this stage I would still put it in the category of speculative. Clearly, market price volatility will have a play in this one way or the other and we have had quite significant reductions in oil prices. Just as we have announced the merger back in June and again that just reinforces the benefits that if you are just in a single oil play that you have in terms of having that diversified pure play. So, our expectation or our plan is to continue with engagement, continue to go through all of the processes for regulatory clearances and then again it is going

to be up to the minority shareholders both of Cairn and Vedanta to vote for this merger to be effected. So, we will continue on that plan.

Cedar Ekblom: Just a follow-up. So if we look at the original terms, it is obviously 1:1 and if we look at how shares have traded since you have announced the planned merger, it is obviously a significant discount now prices into Cairn India shares assuming the deal goes through on the original terms. Is there any thoughts on potentially shifting the terms of the acquisition so that it becomes more reasonable in the eyes of the minority shareholders of Cairn India? Basically, would Vedanta do the deal if it is more than 50% or is that a hard and fast requirement you have to get more than 50% of the combined entity?

Tom Albanese: I just want to emphasize it is early days and again we are mindful of market movements, we are also mindful that the markets not voting, it is the shareholders that will be voting and so they will vote when we were ready for that to be in that place. I would remind you from a technical perspective, under UKLA that for Vedanta Plc to be seen as a premium listing it would have to have (+50%) of Vedanta Limited.

Moderator: Thank you. The last question is from Anna Mulholland of Deutsche Bank. Please go ahead.

Anna Mulholland: I just had a follow up question on your Renewable Purchase Obligations you have taken the provisions across Aluminium, Zinc and Copper India. Could you just explain a little bit about the background of that because my understanding was your Wind Power business was part of meeting those obligations. So, I am reading into that you have not done enough to meet the minimum 5% of your energy that is supposed to come from renewable? And then just to clarify, maybe a question for DD, but your guidance is this is going to cost you 6 million per quarter across the three different product divisions. Is that 6 million in total or 6 million for each of Aluminium, Zinc and India?

Tom Albanese: I will start off with the RPO from my perspective then DD comment that but I am looking at from a broader perspective, this goes back to litigation that has been running for several years now and it is not just related to Vedanta, it is all of basically Indian industry and it is overall transition overtime to renewable obligation. And this Renewable Purchase Obligations would be requiring alternative energy with some component being mandatory of solar power, that would be for the purpose of delivering power into the facilities. And again, it would be on a business-by-business basis. The Wind Power we have put in place is sold into PPAs, so it is not for captive purpose, within Hindustan Zinc and it was actually done within the Hindustan Zinc business. So that would not be a part of that Renewable Power Obligations. I would say just on a going forward basis, that we will look at this and we will probably have some influence on how we consider future investments in alternative energy particularly solar and we are mindful of the fact that within the technologies of solar power just over the past 2-years there have been a fundamental decrease in the cost of power from that. So we may find that attractive in its own right in addition to meeting these future obligations. That would certainly be a more attractive play of meeting this obligation than just find certificates. But, DD, anything you want to say particularly clarification on the annual cost?

- DD Jalan:** Anna, in the first quarter the total combined impact of RPO obligation was \$6 million, this is on quarterly basis and in the Q3 this obligation is likely to go up because when we start drawing more power and consuming more power for our Aluminium smelter ramp-up. So that could go up to somewhere around \$7-7.5 million per quarter. And that is how the more power we consume for our smelter the amount will be changing, but it will be somewhere between \$6-8 million per quarter.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Ashwin Bajaj for closing comments.
- Ashwin Bajaj:** Thanks, Operator and thanks, Ladies and Gentlemen for joining us. Please contact us if you have any further questions.
- Moderator:** Thank you, members of the management. Ladies and Gentlemen, on behalf of Vedanta Resources that concludes this conference. Thank you for joining us and you may now disconnect your lines.