Vedanta Resources Plc Q3 FY18 Conference Call

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Moderator: Good day, ladies and gentlemen and welcome to the Vedanta Resources Plc Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an 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. Arun Kumar – CFO. Thank you and over to you, Mr. Kumar.

Arun Kumar: Thank you, operator. Good morning. This is Arun Kumar - CFO of Vedanta Resources. Thanks for joining us today to discuss our 'Production Results for Q3 FY 2018'.

Let me introduce the management team members we have with us today; we have our CEO – Mr. Kuldip Kaura and several of our business leaders; we have Sudhir Mathur from Cairn India; Sunil Duggal from Hindustan Zinc; Deshnee Naidoo from International Zinc Operations; Steven Din from KCM Zambia; Samir Cairae - CEO of Aluminum and Power, Abhijit Pati – CEO of Aluminum Jharsuguda, and Ajay Dixit – CEO of Alumina and Refinery. We also have Kishore Kumar from Iron Ore.

I am glad to introduce, we have with us Ms. Rashmi Mohanty - our Group Treasurer, who will now hereon also start heading our Investor Relations function.

As most of you are aware, Ashwin Bajaj has moved out of the group to pursue other opportunities. We thank him for his contributions and wish him very well in his future endeavors.

Rashmi, would you like to say a few words?

Rashmi Mohanty: Thanks, Arun. Good Morning, everyone. This is my fourth year with Vedanta and I am very excited about this new opportunity as the group embarks on its growth path and I look forward to interacting with all of you in the days ahead.

Arun Kumar: Thanks, Rashmi. So with that, I would like to hand over to Mr. Kuldip Kaura.

Kuldip Kaura: Thank you, Arun. Good Morning, Ladies and Gentlemen. I am pleased to welcome you to Vedanta Resources Third Quarter Production Conference Call.

To start off, we saw further improvement in the commodity prices in the last quarter and that strength continued into the New Year with Zinc at a 10-year high and Brent and Aluminum crossing their three to four year highs. While a few input commodity inflationary headwinds took away part of the price upside, the overall resilience of the diversified portfolio which has been a cornerstone of our investment case has played out very well over the cycle. The sentiment around global growth remains strong and with China's supply side reforms underway, we think that the base is set for a strong Calendar Year 2018.

First on Safety: We are conscious that in our journey of zero harm we have to cover some distance. Vedanta remains focused on a zero harm, zero waste and zero discharge culture. During

the quarter, we bolstered our HSE organization by induction of additional HSE experts with global experience. The Executive Committee has increased its involvement in some key areas of visible leadership, risk identification and control, and closure and corrective actions.

I am also happy to report that our subsidiary Hindustan Zinc is one amongst the nine Indian companies to make it to Global Sustainability Yearbook and the only Indian Company in Metal and Mining sector.

With that, let me take you through some of the Operational Highlights of our Third Quarter Performance: We have delivered strong volumes in the quarter and continue with production ramp ups. At Zinc India, we had a higher production over previous two quarters, and we remain on track to achieve our 1.2 million tonne target.

At Zinc International we had strong production at BMM and Skorpion. Our Gamsberg project is on track to commence production in mid-calendar year 2018.

At Alumina, we are continuing to ramp up and exited Q3 at a run rate of 1.8 mtpa. Our plant at TSPL had a record plant availability of 97%.

In our Iron Ore business, an additional 3 mt of capacity was allocated to us in Goa for the current financial year. The Supreme Court also increased the mining cap in the State of Karnataka and the increased cap allocation across companies is in progress now.

At KCM, we have made progress on several improvement initiatives which is contributing to volumes picking up.

We are also progressing well on our growth projects announced last quarter. Contracts have been awarded for the new projects in the Oil & Gas segment and at Copper India for the 400,000 tonnes smelter expansion.

Talking about the Financial Highlights, I am happy to report that Q3 EBITDA was $1,068 million, up 21% YoY, driven by higher volumes and commodity prices, though partially offset by input commodity inflation. We reduced our gross debt by $2.9 billion in the first nine months of FY18.

Let me now take you through the performance in each business: First, Oil & Gas. I am pleased to share with you that we have commenced our journey to achieve our vision to contribute to 50% of India’s crude oil production.

We plan to achieve this through three key actions: First, we have commenced work on immediate opportunities to increase volumes through infill wells and debottlenecking facilities which has a potential to add around 20,000 to 30,000 bpd.

Secondly, we have awarded contracts to key global oil field service providers for the growth projects which we announced in Q2.

Thirdly, we are rejuvenating our exploration portfolio through investments in the prolific Barmer and KG Offshore basins and participation in OALP rounds.

Now on the Q3 Operational Performance: Our core fields continue to deliver along expected lines with gross production of 184,000 barrels. Our world-class operational capabilities have kept operating costs at the lower end among our global peers. Rajasthan water flood OPEX was at $4.3/barrel. Blended operating cost for Rajasthan was at $6.4/barrel.

For Q4FY2018, we are targeting to exit with gross production volumes of 200,000 bpd. This ramp up shall primarily be driven by infill and debottlenecking activities such as drilling of 15 infill wells at the Mangala field which is progressing as per plan with eight wells online and the balance to be drilled during the quarter. In order to boost volumes from satellite fields, we have commenced eight wells drilling campaign. Raageshwari Deep Gas Phase-1 ramp up to 45 mmscfd got completed during the Q3 as planned. We are upgrading our infrastructure at the Mangala Processing terminal to increase liquid handling capacity by around 30%. We have also commenced an infill drilling campaign at Cambay to monetize around 7 million barrels of reserves.

We have a rich set of growth options in our portfolio and I will take you through the details: The success of the Mangala Polymer EOR is being replicated in the Bhagyam and Aishwariya fields. An integrated contract for this project has been awarded with rig mobilization expected in the current quarter. Raageshwari tight gas project is expected to increase the overall Rajasthan gas production to over 150 million scfs per day and condensate production to about 5,000 bopd. In the Tight Oil project in Aishwariya Barmer Hill, we estimate an ultimate recovery of 32 million barrels. The integrated contract for Tight Oil & Tight Gas wells has been awarded and rig mobilization is expected in the current quarter.

We are also working on the ASP project to boost the recoveries further. This project aims to monetize over 100 million barrels of oil. The contract for this is expected to be awarded in the current quarter

Rajasthan block provides us with a unique proposition of singular access to the full Barmer basin with its multiple play types. We shall shortly award the contract for an integrated exploration and appraisal drilling campaign in Rajasthan.

In the KG Offshore, the contract is in place for an exploration campaign from the current quarter. The target of this program is to add 300 million barrels of contingent resources.

As mentioned in the past, our development projects generate an IRR in excess of 20% at Brent of $40 per barrel and provide free cash flow post CAPEX every year.

Moving to our Zinc Businesses: At Zinc India, we are progressing well to achieve our FY'20 guidance of 1.2 mt and significant milestones have been achieved. I am happy to report that the underground mines are ramping up strong and contribute 85% of total production in the last nine

months and we are now in the last year of transition. In Q3, we achieved mined metal production of 240,000t, refined zinc-lead production of 245,000t and refined silver production of 4.3 million ounces. Our cost of production was higher due to high input commodity prices such as met coke and imported coal and also lower overall grades in Q3.

Moving on to update on our journey to 1.2 mt: Rampura Agucha underground mine crossed a 2 mtpa run rate of ore production last quarter and with the commissioning of ventilation shaft now, the rate will significantly accelerate in Q4. The off-shaft development is on track to take total production capacity to 4.5 mt by Q3 FY2019. SK mine has crossed 4.5 mtpa ore production run rate in Q3 which is 75% of its planned capacity of 6 mtpa which will be achieved progressively and the key milestone in this are the equipping of main shaft which is expected to complete in Q4 FY'18. The new mill of 1.5 mtpa is expected to commission in Q2 FY'19. The necessary permits for this expansion are in place. Post completion of the Zawar debottlenecking to 2.7 mtpa in Q3, the commissioning of the new mill of 2 mtpa by Q319 will enable the ramp up to its design capacity of 4.5 mt.

We are happy to report that we have the necessary permits to expand ore production at our Rajpura Dariba and Kayad mines from 0.9 to 1.08 and from 1.0 to 1.2 mtpa respectively.

In Q4, mine production will be higher than Q3 due to higher production from Rampura Agucha and higher overall grades. We are confident of meeting our earlier guidance of mined metal production to be higher than FY17, refined zinc-lead metal production of around 950,000t and silver production of over 500 tons. We expect FY18 cost of production to be in the range of $950 to $975/tonne with the Q4 cost less than Q3 as we will benefit from higher volumes and cost efficiencies like usage of linkage coal, etc.

Moving on to Zinc International: We had a strong quarter with a total production of 47,000 tons, mainly due to higher blended grades and operating efficiencies. Cost of production was $1,383/ton lower than last quarter. At Skorpion, the pit expansion is progressing well with full ramp up of contractor mining. 25% of waste stripping has been completed and full completion is expected by Q4 FY19. We have also extracted the first ore in November 2017, slightly ahead of schedule. This project will extend the mine life to 2.5-years and produce 250,000 of metal. Our FY18 production guidance remains unchanged at 160,000 tons.

Although the nine months cost of production has been at $1,495/t in line with our full year guidance, Q4 cost of production will be temporarily higher at about $1,700/t due to re-allocation of stripping cost of Pit-112 as we had early ore production and also because of local currency appreciation. We are operationally on track and are only seeing a temporary spike in COP due to early production from Pit-112.

At Gamsberg we are on track with our guidance. Construction of the concentrator is underway, with full contractor strength mobilized to site. The ball mill shell and crusher mechanical erection has been completed in Q3. Power and water pipeline infrastructure is around 90% complete. We are expecting cold commissioning of the concentrator plant to start in Q1 FY19.

Iron Ore: In Goa, we have commenced production of higher quality ore in Q3 through beneficiation and blending which is resulting in improved realizations and margins. We sold some of this high quality ore in Q3.

At Karnataka, we achieved production of our annual allocation of 2.3 mt. We continue to have strong realizations of $28/t in Q3 at Karnataka. We are working towards improving these realizations in the domestic market.

We continue to engage with the respective state governments for increased mining allocations in both states. In January, we were granted an additional allocation of 3 mt in Goa for FY18. We expect to produce saleable high-quality ore of 2 mt in Q4 FY18.

At Karnataka, the Supreme Court has increased the state's cap from 30 to 35 mt; company wise allocation is in progress.

Now talk about Copper India: Production at 101,000t of cathodes was marginally lower than the previous quarter due to an unplanned plant shutdown of about eight days. The smelter is now operating at high efficiency and we maintain our guidance of 400,000t during fiscal year 2018. Tc/Rcs have been marginally lower than the previous quarter at USc20. 8/pound. The decrease was on account of lower spot Tc/Rcs. About 90% of our concentrate requirements are sourced through long-term agreement. Benchmark Tc/Rcs for CY18 are about 11% lower than CY17 which were USc 21.3/pound. Our net cost of conversion was higher quarter-on-quarter mainly on account of higher coal and input commodity prices and lower volumes. Our 400,000t expansion project is progressing well. The EPC contract has been awarded and site mobilization and civil work has commenced. The project is expected to be completed by Q3 FY20. Completion of this project will place Tuticorin smelter as one of the world's largest single location copper smelting complexes.

Moving on to Copper Zambia - I will now request Steven to take you through the progress and performance at KCM. Steven?

Steven Din: Yes, thank you very much, Kuldip, and good morning, ladies and gentlemen. So at KCM, the mined metal for the quarter was slightly lower by 2% compared to Q2 of FY18. However, YoY we are seeing 12% increase in Q3. Now, we are making a number of operational improvements in a phased approach and our Phase-1 target is to reach 400 tons a day of copper production and currently against that target we are running at around 300 tons a day. So we are starting to see the benefit of a phased systematic approach to be able to increase the overall volume at KCM.

If I can just explain to you what the key elements are of our Phase-1: The first pillar of the phased approach is that we are looking at outsourcing with partners, significant part of our operations with operations and maintenance contract. At the Konkola underground mine, we have awarded three contracts to partners for development and production, with clear end-to-end responsibility. At the moment, the mobilization of key equipment is underway. From the perspective of the mobile equipment underground, we have also finalized contract with OEM manufacturers to

maintain our equipment and thereby increase the availabilities and also the reliability. QoQ we have already seen an improvement in availability by about 10%.

At the Tailing Leaching plant, we have finalized the contract - operations and maintenance contract - with a processing company who is actively working on preventive maintenance programs and have clear direction to improve the overall plant reliability in the next 3-6 months. These are just a summary of the initiatives which we are undertaking to be able to achieve our target of 400 tons/day at which point we will then complete the Phase-1 turnaround.

From the Smelter side, our utilization has improved and that is on the back of strong third-party concentrate purchases. We also have a clear focus on cost reduction to try to achieve around $5 million reduction each month through focused initiatives. Also, we looked at the organizational structure at KCM and we have empowered the lowest levels of the operating unit to make decisions, take responsibility and have accountability.

Once phase-1 is complete, we are also very much focused on moving into Phase-2 which will allow us to realize the full potential of the Konkola mine and the Nchanga operations and discussions are already underway with various subject matter experts on mine design, de-watering, development rates, de-bottlenecking and the potential is clear.

With regards to costs, Q3 recorded C1 costs of 251 cents per pound. This was 9% higher QoQ mainly as we saw lower cobalt credit which was as a result of mine plans and not having the cobalt available in the mined material, which is temporary. It was also on account of higher cost for secondary development at Konkola underground mine which will pave the way for future production ramp up and also we had some one-off costs associated with pump chamber maintenance and an improvement in the overall de-watering efficiency at the underground mine.

Moving on to the outlook for the Year: The integrated volume guidance for the year, as we see the results of these initiatives starting to come through have been slightly delayed, so we are reducing the guidance for the year to a range of 95,000-100,000 tonnes; however, it is expected to improve systematically in Q4 as we see lot of these benefits coming through particularly at the mines with mobilization of new equipment. We are also accessing higher grade ore body following a significant period of waste removal in the open pit and we are starting to see the results of improved reliability at the surface plant.

We maintain the guidance for custom smelting at between 100,000-110,000 tonnes and our C1 overall cost for Q4 FY18 is expected to be between USc.200-220/lb. Thank you very much.

Kuldip Kaura: Thanks Steven, Now we move to Aluminum. Aluminum has been a strong ramp-up story this quarter with record quarterly production of 445,000t at a current run rate of 1.8 mtpa. We maintain our production guidance of 1.5-1.6 mt of Aluminum excluding trial run production in Financial Year ‘18. We are on track to exit FY18 at a run rate of 2 mtpa.

At the Lanjigarh alumina facility, debottlenecking initiatives were undertaken in Q3 to achieve design capacity; however, alumina production this quarter total 287,000t due to constraints in rail logistics. With the ramp up of the refinery and expected improvement in the logistics for bauxite, we aim to achieve a stronger Q4 and full year alumina production of 1.2-1.3 mt. Our cost of production in Q3 was $1,945/t. Higher input commodity inflation resulted in $160/t QoQ increase, partially countered by the offsetting impact of revival and power import costs due to operational improvement.

The cost environment for the aluminum industry is a point of concern primarily due to higher coal costs. Coal cost was higher because of lower realization from linkage coal, higher cost of e-auctions and GCV slippage. Other input commodities like caustic and CP coke were also up 35% and 15% respectively as compared to Q2.

We have secured an additional 2mt of coal linkage from the Tranche-III auction, where delivery should start in February. Effective January 9, Coal India announced an increase in coal prices across the number of grades, averaging 7 paise per GCV.

Domestic coal situation is a key focus area for the management. Towards this, we are driving quality control to eliminate GCV losses and targeting improved linkages which will help to marginally reduce the coal costs.

We have revisited our Q4 cost of production guidance to be in the range of $1,850-1,900/ton as input commodity prices continue to be high; however, lower than Q3 as a result of absence of one-off charges and anticipated better domestic coal situation.

On our Power and IPPs: Our 1.9 GW TSPL plant is running at record availability of 97%. We had another record quarterly EBITDA at TSPL of $66 million and maintain our target availability of 75% for the full year. BALCO IPP's PLF at 43% recovered QoQ, but remained low impacted by the high coal cost environment. Jharsuguda IPP continues to be adversely affected due to the closure impact related to ash dyke incident and temporary coal shortage. This is expected to recover in Q4 FY'18.

That covers an update on all businesses. I will now hand over to Arun to talk about the Financials.

Arun Kumar: Thanks, Mr. Kaura and once again good morning, everyone. As highlighted by Mr. Kaura, we have delivered another steady quarter and a strong set of numbers. This is driven both by higher volumes which reflect the operating performance as per plan and of course supplemented by a higher price scenario. Thus the EBITDA of $1,068 million represents 21% growth YoY and 17% growth sequentially despite few inflationary cost headwinds. EBITDA margins of course excluding custom smelting continue to be robust at around 34%. Balance sheet remains strong with cash and liquid investments of $6 billion. This is despite a repayment of gross debt by nearly $2.9bn during the last nine months, including the temporary borrowing at Zinc India which was about $1.2 billion. We also made a one-off investment of $158 million in a Japanese glass manufacturer which we had announced in the month of December.

We have made significant progress on our twin objectives on the balance sheet front - That is extension of our debt maturity profile and lowering our borrowing cost during the last nine months. As a result, the average maturity of debt at Vedanta Resources on a standalone basis has increased from about 2.6-2.7 years even the nine months ago to around 4.5 years as we ended December.

We also had Moody's upgrade our corporate family rating to 'Ba3' from 'B1.'

We continue to be disciplined in our capital allocation with all our CAPEX spends having planned (+20%) IRRs and we continue the same process as we sanctioned new projects. On a full year basis, the guidance was $1.1 billion for FY'18. We are likely to end the year marginally less mostly in related to timing.

The volume guidance for the year is largely unchanged, which means we expect good volume performance to continue into Q4 and beyond. We also see some cost inflation to ease especially domestic coal, we are already seeing alumina is at lower levels during January.

We are on track with our growth projects, executing on our current near-term volume and ramp up plan. All our earnings will self-fund these brownfield growth plans, thus obviating the necessity to borrow to fund any of our CAPEX. We expect of course that these will be well executed given our credible track record.

Our financial priorities remain consistent. As a summary, the focus on cash, capital allocation, volume growth and strong credit rating and balance sheet is expected to deliver consistent earnings into the near future, and self-fund the growth projects.

The diversified portfolio especially the base metals with Zinc and Oil is an important part of our growth strategy and we believe are playing a key role in ensuring the quality of earnings and operations and stable ratios that we see today.

The dividend policy put in place at both Hindustan Zinc and Vedanta Limited provides good visibility into the cash flows coming up to Plc - there is no change in that. I believe that we continue to be a compelling investment proposition for both our equity and our debt investors.

With that, I hand it back to Mr. Kaura for his closing comments.

Kuldip Kaura: Thanks, Arun. To summarize, Vedanta has a well invested asset base to deliver growth in each of our businesses. We will see higher volumes in Q4 as the ramp-ups across all our businesses are progressing well.

- We should see a good quarter at Zinc India business as Rampura Agucha increases its contribution in overall production and with improved grades.
- Aluminum business as we continue to ramp-up,
- at Oil & Gas from our debottlenecking initiatives,

- we have revisited our strategy in KCM and Steven has outlined some of the initiatives put in place. We see positive developments and we are on our way to progressively ramp up to 400 tons per day in the near future.
- At our Iron-Ore business, with better realization as we sell higher quality ore.

Secondly, commodity markets remain robust with a strong outlook whilst our costs are being impacted by high input commodity prices, especially in Aluminum, but we are working relentlessly to mitigate this in line with our low-cost philosophy.

On the back of this, we should deliver stronger performance in the last quarter and finish the year with robust cash flows.

In Financial Year '19, we expect our performance both in terms of EBITDA and cash flows to improve significantly as our capacities in zinc increase tremendously with Gamsberg coming on line, substantial increase in our oil production and Aluminum ramp ups to near full volume with better cost structure. This will enable strong cash flows which will not only fund our near-term expansion, but will also support our future growth.

With that I would like to thank everyone and pass you on to Arun.

Arun Kumar: Moderator, we can take questions now please.

Moderator: Sure. Thank you very much. We will now begin with the Question-and-Answer Session. We will take the first question from the line of Cedar Ekblom from Bank of America-Merrill Lynch. Please go ahead.

Cedar Ekblom: Two questions from me, gentlemen. Can you talk about the capital allocation decisions going forward? The reason why I am asking is there has been a lot of coverage in local press about Vedanta being involved potentially in bidding for some steel assets and that are up for sale. How do we interpret that considering that while the data balance has come down over recent years, it is still pretty high. Then secondly, can you just give us a little bit more color on what we should expect in terms of coal availability? I know you alluded to some increased linkages in the fourth quarter, but in terms of the quantum of that potential improvements in coal availability, are we talking about a significant improvement here or is it just at the margin, and obviously, how that has implications for costs?

Kuldip Kaura: As regards your first question on the capital allocation and the participation in the steel assets, let me say that we do not look at steel as a separate business really. We are currently the largest producer of iron ore in India and iron ore is our main business. In the growth of iron ore and allocation of mining leases, stipulation usually is put for value addition and our looking at some of the steel assets is actually in view of that. You maybe perhaps aware that we currently have 800,000t capacity in pig iron and any further acquisition of steel assets is really to grow our iron ore business. Arun, do you like to add anything to this?

Arun Kumar: No, I think well summarized by our CEO, and I would say that our priority is metal and mining sector, steel is just an add on for our iron ore.

Kuldip Kaura: Your second question regarding the coal availability. There are two aspects to the coal availability - One is the coal production by the mines, and second is the rail logistics. We were hampered quite a lot by the rail logistics which has eased of now, so that means we will get larger quantities of the linkage coal, but net-net what it means is that we have seen an increase in coal prices and we will have improvement. So overall improvement, one could expect at the cost level between 10% to 20%. That is the ballpark I can put looking at the conditions today.

Cedar Ekblom: Sorry, just back to your first question, I do not really understand what you are saying when you are saying you are interested in steel is relating to your iron ore business, does that mean that to the extent you are looking at these assets are up for sale that you would be only interested in the potential iron ore assets within those businesses or is it a case that you are looking for an avenue to find an alternate for iron ore?

Kuldip Kaura: If we are interested in Iron ore mine in let us say in the State of Jharkhand, so the government will also put a stipulation that you should be value adding in the Jharkhand state for the grant of those mining leases. So that is what I meant, that if you want to grow our iron ore business, then the rider comes with it, and then it becomes a combined kind of a package.

Arun Kumar: If I may also add there one other thing to also understand is these assets are really coming down at an absolutely written down value if at all one pursues them. So for us to realize that these are very low risk kind of bids because they are not new assets at all and they are coming through a bankruptcy framework. But fundamentally it is not the primary investment if any in that sector.

Cedar Ekblom: But you are basically saying that if you want to pick up the iron ore assets, it is likely that you would have to assume either upstream asset as well, is that the right way to interpret that?

Kuldip Kaura: Yes, I think more or less you got it.

Moderator: Thank you. The next question is from the line of Jatinder Goel from Citi Group. Please. Go ahead.

Jatinder Goel: Two Questions, please. On Aluminum you mentioned 2 mt exit rate in FY18. Is 2 mt a fair assumption for FY19 full year production and within that framework where do you see unit cost, and do you see any merit in aluminum hedging given unit costs are largely out of control in that business due to lack of integration or low integration? Secondly, on zinc international, when do you see Gamsberg being capitalized or into commercial production and related more to broader zinc business, prices about 15% or more above the previous hedging level that the company has done, do you see merit in doing hedging at either of the zinc businesses here at this price level may be low-cost out of money put options?

Kuldip Kaura: Thank you, Jatinder. For the aluminum businesses for the FY19 you should expect output beyond 2 mt, because this 2 mt is the result of commissioning of our five lines at Jharsuguda, and we are now getting ready to commission that sixth line also, and we have to put in place balancing assets for that, but it will get partly commissioned during the next year. So we will be adding volumes from that also. #2, the aluminum cost will improve further, couple of factors actually - One is that we will have better production from our own alumina refinery, because as we were saying earlier, we have now de-bottlenecked to run it at a full capacity, so we will deliver the full volume next year from this refinery, so that will contribute towards the input cost. We also expect some softening in the cost of imported alumina, and as I was saying we expect better coal availability of the linkage coal which is cheaper of the other alternatives. So, these are some of the factors plus of course the higher volume which will come and which also actually reduce the fixed cost burden per tonne. So these are some of the factors which will contribute to the better cost in aluminum. On the hedging for both your questions for zinc and aluminum, that is really not our policy of thinking to hedge metals, and I think I will let Arun elaborate on your Zinc International capitalization question and any more supplements.

Arun Kumar: Thanks, Kaura ji. I think hedging, absolutely, it is not our philosophy. We focus on volumes cost and efficiency that we can control so that we survive through the cycle, and if you see all our businesses perhaps barring aluminum at this point of time are in the first quartile of cost. So we are comfortable where we are and hedging is not our business, mining is. Gamsberg, perhaps our estimate will come on stream by middle of this calendar year and we continue to be committed to the timeline and capitalization will happen at that time. 100% of the CAPEX commitment have been made, it is a question of paying it out and passing the capitalization entry I guess when the commercial production comes on mid this year.

Jatinder Goel: Just a follow-up on capitalization of Gamsberg. When will it actually come through your P&L -- is that from the mid-year or will you take three to six months to ramp getting to say 60% of consistent production run rate and then starts flowing through?

Arun Kumar: We have Deshnee, our CEO from ZI, I am sure it is a proud moment to present this project for her. So, why do I not ask her to respond?

Deshnee Naidoo: Thank you, Arun. Very much along what Arun said, the plan right now we are kind of forecasting first ore feed through the plant at around May-June, and a month and half later we are expecting to fully capitalize the project, and thereafter into operations we are expecting 9 to 12-month full ramp up to the 4 mt of ore.

Moderator: Thank you. The next question is from the line of Menno Sanderse from Morgan Stanley. Please. Go ahead.

Menno Sanderse: I have got a couple I want to run through: First on the subject of ramp-ups and execution. Clearly, you have put out the stage gate that you want to get to very clearly, but in the past four or five years, execution has been a bit of an issue and some of these things have got delayed and delayed

and delayed. Can you just a little bit more color for may be, why this time around the company will be able to get to those targets when it wants to?

Arun Kumar: I think the ramp up we are talking at this point of time, from a project point of view they are in execution mode, and not contingent on regulatory approvals. If you see, Gamsberg is a project which has all the regulatory approvals even before first ground break. Similarly, if you see, all the oil projects that have been announced during the Capital Markets Day and since then from November-December as Sudhir would clarify to you, these are all contracts which have been awarded or just being awarded to global majors. So they are contingent on permissions here and there apart from some regular stuff. Unlike what is perhaps I think history at this point of time is the smelter or the power connection to the aluminum smelter, etc., In aluminum also all the pots are coming on line, 2 million exit rate is all the five lines, and our CEO talked about the sixth line also, none of them are dependent on any government approvals and luckily there is no shortage of free cash flow which self-funds all these projects in any case, and there is no need for borrowing either. So, you are not dependent on regulatory or financial markets to do any of your growth projects, and they are all at very good IRR as I pointed out earlier without exception they have all been cleared conservative plus 20% IRRs, some of them will be delivering more than what they have been cleared at, in fact, oil and gas and Gamsberg should come higher. That gives us all the confidence that FY19 should be a very turning point year with most of the ramped-up assets producing at their peak and generating a lot more cash for us.

Menno Sanderse: That is very clear. Then going to phase-2 with 1.5 million tonnes of zinc and the extra barrels in Cairn India, and Tuticorin smelter for second phase, how much of that is still dependent on environmental licenses, operating licenses, and discussions with regional or local governments?

Kuldip Kaura: The copper smelter which I gave you an update, we have the requisite permits, and project has already been awarded and the construction work has commenced. This is two-year project duration; this should have the project commissioned towards the end of financial year '20. As regards to zinc expansion to 1.5 mt, this is fundamentally all brownfield expansion, and our initial feasibilities have been done, and we are very clear which are the mines and what is the expansion potential, so these have been worked out. As you have been watching us, this stage gating permits is not a problem in the brownfield side and these have been forthcoming, as you saw towards our 1.2 mt expansion also. For the oil 300,000 to 500,000 bbl, fundamentally again this will come out of the Barmer basin and also offshore production, and as I mentioned we are already starting the exploration efforts in both these areas, but at this stage I will request my colleague, Sudhir, also to put some color on that.

Sudhir Mathur: Thank you, Mr. Kaura. On the project front, as we have indicated earlier, we have five projects totally comprising over 100,000 barrels of production per day with the EUR for the next 12-years, around 120 million barrels. I will start with the ones which are contracted out; gas, the contract has been awarded, we expect to start drilling within the quarter in late February or March followed by Aishwariya Barmer Hill, which is our tight oil project, again same timelines to start drilling, the contract has been awarded out. Then we have got another contract for Bhagyam and Aishwariya polymer flood, again contract given out, expecting to start production drilling in Q1

next year followed by ASP which is yet to be contracted. But we are expecting to award the contract within the quarter. It is quite a large project which is advanced form of the polymer project that we have executed at Mangala, so this is Mangala, Aishwariya as well as Bhagyam. On that we would expect to start drilling in Q2 next fiscal for us. In addition to that, we would start drilling from a slightly medium term production, we have completed seismic at Rajasthan, and we have identified 13 prospects, which again we have awarded the contract and we expect to start drilling the 13 prospects within the next 45-days. The larger block in which we have 100% is the prolific KG basin. Again, the contract for drilling has been awarded; expect to start drilling next quarter on that. So the complete line up, contract awarded, starting drilling end of this month or early March. So, we would see the production ramp up as we go along. In addition to that we are doing the infill programme, which is a 15-well programme at Mangala for shorter-term production as well as the fluid handling capacity, in which we are expecting to raise our total fluid handling capacity from a million to 1.3 million barrels of fluids per day which will de-bottleneck the plant, and more importantly get the wells which we are having to optimize, bring most of the wells online. Cambay, which we mentioned, which is our offshore field, on the west coast, we have drilled - very happy with the results and we are expecting production of 1500 barrels from the first well, but we expect it to be significantly be more than that, and that should be coming online next week.

Menno Sanderse: On ASI, clearly, it was a small purchase of a glass business in Japan, which seems to be slightly outside the existing scope of activity, two questions; one, how much debt still has to be consolidated from that business, there were some reference yesterday on the conference call, that the debt is not in the balance sheet, so what is the billion dollar or million dollar figure that would come on to the balance sheet? Secondly, is the group looking at more diversification in what is already a very diverse group, and why is Glass a good business for Vedanta?

Kuldip Kaura: ASI was a very small and unique technology-oriented opportunity, this was a small one-off investment and I think it should be viewed as such. Arun, can you clarify the balance sheet question please?

Arun Kumar: As Mr. Kaura clarified, it is one-off investment - its also viewed as small raw material and came at a very attractive price of external debt which was purchased at 50%. So, we paid about $158 million which is directly added to our net debt, because we paid cash to the external parties, and the balance sheet of the company carries another 150 million approximately debt. So the effect of both these come under consolidation, which is really the difference in the debt level if you see in the last three months since the interim, otherwise, we were doing a fairly good job on controlling, reducing and de-levering as well as increasing the tenor of our maturities.

Menno Sanderse: Just to be clear, $150 million of debt on the balance sheet of the vehicle is already in the third quarter balance sheet of Vedanta?

Arun Kumar: That is right.

Menno Sanderse: Is the face value of the debt or is at the discounted value debt that you paid for

Arun Kumar: That is on the discounted value. The debt we bought is the different one, this already existing, and another debt. You can assume accounting is all done, P&L impact is virtually marginal, because two working days I think so, nothing much there, but the balance sheet is consolidated.

Menno Sanderse: First on KCM. It sounds like a slight change of tech in the last couple of months around the approach to try and get higher and more stable production. Could you slightly elaborate on the decision to outsource lot of work and why it was taken and if this is the method to take the mine towards full potential in phase-2 as well?

Kuldip Kaura: I think as Steven outlined, it is sort of a two-step approach, the phase-1 is what we can see as immediate potential with the level of developments which we have both at Konkola and Nchanga operations and also maximize our smelter output, our smelter has capacity of around 25,000 tonnes per month, and how we can be doing more custom smelting and using this. So, the outsourcing was always there in a certain way, but now strategically the responsibility structure have been realigned towards a definable output rather than activity based kind of thing and larger partners have come in where they bring in requisite kind of expertise, and as well as related equipment and so on and so forth. So, this model has been put in place, so we work with this partner along with our own facilities and workforce. The sign which we see up till now are quite encouraging. Then the second part is more important, that how fast we can really take Konkola assets to its full potential. We have of course some consulting companies helping us, and we are in the process of now looking at the various possibilities and plans for the next phase, then we will certainly move and our interest certainly is that how much we can accelerate this. Steven, can you kindly come in?

Steven Din: Sure, Kuldip, thank you very much. You have actually covered everything, but just to reiterate, first of all, I do not think this is a change infact; I believe this is refinement of how we want to achieve what is the primary objective for KCM and thats for us to be able to lift volumes quickly. The reason we have chosen to look at partner companies, outsourcing for the operations, is to be able to bring in expertise and skill levels in more quickly than if we decide to actually train our work force and potentially recruit into the workforce. So it is volume and time which are the drivers. The other thing we want to introduce into the KCM operations is much better levels of productivity. Whether the activity in relation to development rate in the underground mine or whether there will be on the production tonnages, or even there may be the possibility by going outside of existing KCM structure to bring in technology which is available in the mining industry right now which has not so far been used at KCM. So I would say it is more refinement of the same objective which is to get higher volumes quicker.

Menno Sanderse: Finally on energy and rising energy costs in general have been a big issue for the group in different silos. Could just remind us quickly what the costs are for energy in the operations across India ex-clearly the oil business and ex-power business, so what are the metal businesses expensing every quarter on electricity purely in total usd million, so we maybe get to some better sensitivities around the impact of coal for instance?

Kuldip Kaura: Different businesses get impacted differently on the energy cost because of the sourcing of coal and some imported, some different make, maybe we can send you this information, if that is fine.

Menno Sanderse: Whatever you think is possible, yes, please.

Moderator: Thank you very much. The next question is a follow-up from the line of Jatinder Goel from Citi Group. Please go ahead.

Jatinder Goel: Just on Zambia, you have mentioned about power situation that power cuts have gone but force majeure is still in place. How do you see the situation impacting you versus what you need to get to your phase-1 or potentially phase-2 as you progress through this calendar year?

Kuldip Kaura: Steven, please come in.

Steven Din: Thank you, Jatinder for the question. You are absolutely right; the Force Majeure which was put in place in September 2015 is still in place. So that was essentially a communication to all of the mining companies in Zambia, 30% of the power according to their last six months' consumption would be in Force Majeure. However, as we had better rainfall in the recent rainfall period, the dam levels are much higher, there is not so much power being imported in from high cost sources and the situation has very much stabilized. Also, with the excess in the South African power pool, the price which has been passed on to the industrial consumer in Zambia at this particular stage is also lower. So, therefore, in relation to us having enough power to be able to achieve our phase-1 objective, we are very comfortable in terms of not only the security of that supply but also the affordability of that supply. Now, for Phase-2, Phase-2 would mean that we would be moving in terms of maximum demand from around 200-220 MW in the region of 300. This is a much higher power requirement and we do have a coal deposit in the southern part of the country, which has a good calorific value, and we are talking to a number of experts in the power and energy field to see whether that coal can be bought to bear as part of a pit head power station which would then need to be transmitted about 400-500 Kms up to the copper belt. So we do have the future requirements in mind as well and this is the project which is being stage gated.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the conference to Mr. Arun Kumar for closing comments.

Arun Kumar: Thank you all for participating in the call. If there are any further queries or questions, kindly reach out to our IR Team. Have a good day.

Moderator: Thank you. On behalf of Vedanta Resources, that concludes this conference. Thank you for joining us and you may now disconnect your lines.