

AUDIT COMMITTEE REPORT

Dear shareholder,

I am pleased to introduce this report which sets out how the Audit Committee has discharged its responsibilities during the year.

The Audit Committee's remit falls into four main areas: oversight of financial reporting, risk and the internal control environment, external audit and internal audit processes. The Committee is responsible for ensuring that sound risk management and internal control systems are in place throughout the Group.

FINANCIAL REPORTING

The Audit Committee oversees the integrity of the Company's financial reporting process in order to ensure that the information provided to the Company's shareholders is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. As detailed below, the Audit Committee addressed and challenged the key accounting and other judgements presented by management throughout the year and for the preparation of the Annual Report and Accounts FY2017. As a result and as supported by the high standard of reporting by management, the Audit Committee concluded that we have discharged our responsibilities effectively. I am pleased to confirm on behalf of the Audit Committee that the Annual Report and Accounts FY2017 including the financial statements are considered fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

RISK AND INTERNAL CONTROL ASSESSMENT

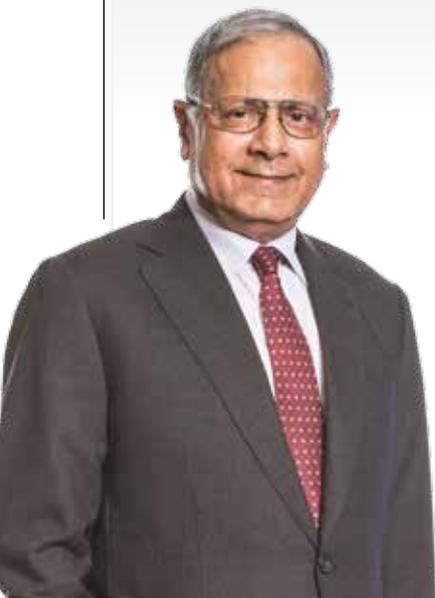
During the year, the Committee continued to monitor the market conditions, risks and uncertainties relevant to the Group, reviewed the risk management framework and reported to the Board on relevant risks affecting the Group. The Committee received regular updates from management confirming that risks relevant to the Group were appropriately categorised to ensure that the Committee understood the potential impact to the Group and adequate resources were allocated to manage the risks.

AUDIT COMMITTEE COMPOSITION

During the year, the Audit Committee's composition was refreshed following the retirement of Mr Euan Macdonald from the Board in August 2016. I am pleased to confirm that the Audit Committee meets the requirement of the UK Corporate Governance Code to have at least one member with competence in accounting. Mr Edward Story will be appointed as a member of the Audit Committee to enhance its composition with natural resources sector experience and meet the enhanced requirements of the Code for the Audit Committee to have competence relevant to the sector as a whole.

UK TAX STATEMENT

During the year, the Group Head of Taxation led the preparation of the Group's Tax Strategy including the UK tax arrangements in accordance with the new tax governance measures in the UK Finance Bill 2016 which came into force on 15 September 2016. Vedanta's UK tax strategy has been reviewed by the Audit Committee and will be published on the Company's website following approval by the Board.



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The Audit Committee's remit falls into four main areas: financial reporting, risk and the internal control environment, and oversight of the external and internal audit processes.

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MEMBERSHIP AND ATTENDANCE

The Audit Committee comprises the following independent Non-Executive Directors who met on four occasions during the year based on appropriate times in the financial reporting calendar. The Group Company Secretary acts as Secretary to the Audit Committee and attends all meetings. The Executive Directors, Chief Financial Officer, Director, MAS, other members of the senior management team and the external auditor regularly attend meetings at the invitation of the Audit Committee to report on issues and facilitate discussions with the external auditor. The Audit Committee also meets with representatives from the external auditor without management being present bi-annually. The Chairman of the Audit Committee reports to the Board on the Audit Committee's activities following each meeting. The external auditor attends meetings of the Audit Committee to ensure effective communication of matters relating to the external audit of the Group's full year and interim financial statements.

Meetings are scheduled to allow sufficient time for discussions of key topics and to enable early identification and resolution of risks and issues.

	Number of meetings attended	Percentage attendance
Aman Mehta, Chair	4/4	100%
Euan Macdonald ¹	2/2	100%
Deepak Parekh ²	3/4	75%
Geoffrey Green ³	2/2	100%
Ravi Rajagopal ⁴	3/3	100%

- 1 Mr Macdonald retired from the Board on 5 August 2016 and attended all the meetings of the Audit Committee which he was entitled to attend while a member of it.
- 2 Mr Parekh was unable to attend one meeting of the Audit Committee as he was a member of the business delegation supporting the Prime Minister of India for the state visit to Japan.
- 3 Mr Green attended all the meetings of the Audit Committee which he was entitled to attend since his appointment as a member of it.
- 4 Mr Rajagopal attended all the meetings of the Audit Committee which he was entitled to attend since his appointment as a member of it.

Mr Mehta has been the Chairman of the Audit Committee since 24 November 2004. As shown in his biography on page 104, Mr Mehta has extensive executive and non-executive experience with a strong financial background in large listed companies. The Board is therefore satisfied that Mr Mehta has recent and relevant financial experience as is required by the UK Corporate Governance Code. Mr Mehta will be retiring from the Board and as Chairman of the Audit Committee with effect from the conclusion of the Company's 2017 Annual General Meeting. Mr Ravi Rajagopal, who will succeed Mr Mehta as the Chairman of the Audit Committee with effect from the conclusion of the 2017 Annual General Meeting, also has recent and relevant financial experience as shown in his biography on page 105. The Directors who serve on the Audit Committee bring a wide range and depth of financial and commercial experience across various industries and their collective knowledge, skills, experience and objectivity enables the Audit Committee to work effectively and to probe and challenge management. With effect from 1 June 2017, Mr Edward Story will be appointed to the Audit Committee, thereby enhancing the Audit Committee's competence relevant to the sector in which the Group operates.

The Audit Committee assists the Board in the discharge of its responsibility for maintaining and monitoring the integrity of the Group's financial statements, assessing the effectiveness of the Group's system of risk management and internal controls and the independence and objectivity of the external auditor. Whilst the Audit Committee has very specific responsibilities as set out in its terms of reference, it serves a much greater purpose in reassuring shareholders that their interests are properly protected in respect of the financial management and reporting, on which the Audit Committee regularly reports to the Board. The Audit Committee has delegated responsibility to oversee the Company's procedures and systems in relation to risk management and internal control that is adopted by the Company. In order to carry out its duties effectively, the Audit Committee receives high quality and detailed information from management and the internal and external auditor which is reviewed regularly, discussed and challenged by the Audit Committee as required.

During the year, the Audit Committee reviewed the Group's financial results, including significant financial reporting estimates and judgements, as well as the financial disclosures in the interim management statements, monitored the Group's system of internal control and management of the Group's risks and oversaw the relationship with the external auditor and with the internal audit function.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Board has established formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's external auditor. The main responsibilities of the Audit Committee are included in its terms of reference which can be found on the Company's website at www.vedantaresources.com/committees.

AUDIT COMMITTEE ACTIVITIES DURING THE YEAR

The main areas covered by the Audit Committee during the year are summarised below:

Area of responsibility	Activities
<p>Financial reporting</p> <p>It is one of the Audit Committee's key duties to monitor the integrity of the Company's financial statements. As part of this process it reviews in detail the preliminary results statements, the Annual Report and Accounts and half-year report. The appropriateness of accounting policies used is considered, accounting judgements are reviewed and the external audit findings discussed. Details of financial reporting procedures in place are given on page 120 of the Corporate Governance Report.</p>	<ul style="list-style-type: none"> › Review and approval of preliminary announcement, Annual Report and financial statements; › Review of key significant issues for year-end audit (further detail on page 127); › Six-monthly reviews of significant accounting issues and receipt of reports on key accounting issues; › Review and approval of the half-year report; › Discussions on impairment reviews; › Review of pending tax issues; › Review of Audit Committee Report for the Annual Report and Accounts FY2016; › Review of legal cases to ensure appropriate provisions are made and disclosed; › Review of the going concern basis for the preparation of the financial statements including working capital forecasts, monthly projections and funding requirements.
<p>Internal controls, risk management and governance</p> <p>Details of the Company's internal control and risk management processes are discussed on pages 36 to 37. The Audit Committee reviews these processes and output from the regular review of risks carried out during the year by the internal audit function.</p>	<ul style="list-style-type: none"> › Internal audit review including reviews of the internal control framework, changes to the control gradings within the Group and whistleblower cases; › Review of the Group's risk management infrastructure, risk profile, significant risks, risk matrix and resulting action plans; › Review of reports from subsidiary company audit committees; › Review of feedback from the performance evaluation of the Audit Committee; › Reviewing the Group's cyber security controls; › Receiving updates on the implementation of the Vedanta Code of Business Conduct and Ethics and UK Bribery Act training across the Group; › Approving the updated terms of reference of the Audit Committee in respect of the requirements of the UK Corporate Governance Code 2016 and guidance for Audit Committees issued by the FRC.
<p>The audit and external auditor</p>	<ul style="list-style-type: none"> › Review of the significant audit risks with the external auditor during interim review and year-end audit; › Consideration of external audit findings and review of significant issues raised; › Review of key audit issues and management's report; › Review of the materiality figure for the external audit; › Review of the independence of the external auditor and the provision of non-audit services; › Approval of the revised Non-Audit Services Policy for the Group; › Performance evaluation of the external auditor and recommendation for re-appointment of the external auditor; › Consideration of the external audit fee; › Review of the management representation letter; › Review of the audit plan, scope of the 2017 external audit of the financial statements and key risk areas for the 2017 audit.
<p>Internal audit</p>	<ul style="list-style-type: none"> › Review of internal audit observations and monitoring of implementation of any corrective actions identified; › Review of the performance of the internal audit function; › Review of 2016-2017 internal audit plan; › Review of the Group's Anti-Bribery Policy and its implementation.
<p>Fraud and Whistleblowing</p>	<ul style="list-style-type: none"> › Receiving reports on fraud and monitoring the effectiveness of the whistleblower policy to ensure that it remains robust and fit for purpose; › Review of whistleblower cases across the Group.



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ANNUAL REPORT AND ACCOUNTS FY2017 REVIEW

At the request of the Board, the Audit Committee considered whether the Annual Report and Accounts FY2017 was fair, balanced and understandable and whether it provided the necessary information for shareholders and stakeholders to assess the Company's performance, business model and strategy. Such assessments are provided in the Chairman's and Chief Executive Officer's statements and the Strategic Report of this Annual Report and Accounts FY2017. The Audit Committee and the Board are satisfied that the Annual Report and Accounts FY2017 meet this requirement as both positive and negative developments in the year were considered at length. In justifying this statement, the Audit Committee has considered the robust process which operates in creating the Annual Report and Accounts FY2017, including:

- › Evaluation and verification of the inputs from the business functions, to include the well-established financial reporting system within Vedanta to ensure accuracy and consistency;
- › Progress through various levels of review, including review by the Executive Committee and senior management across the Group;
- › Consideration is given to the completeness of the information and to ensuring that there are no significant omissions to enable shareholders to assess the Company's performance;
- › Management Assurance Services conduct internal audit reviews with conclusions and recommendations presented to the Audit Committee;
- › Revisions to regulatory requirements are considered and incorporated;
- › Advice is also received by the Audit Committee from external advisers in order to make the recommendation to the Board that the Annual Report and Accounts FY2017 as a whole is fair, balanced and understandable;
- › Members of the Audit Committee received an advance draft of the Annual Report and Accounts FY2017 enabling them to assess and challenge whether the various reports within the annual report are consistent and in line with their understanding of the business;
- › A meeting of the Audit Committee is held to formally review and sign-off the draft Annual Report and Accounts FY2017; and
- › A meeting of the Board is held to review and provide final sign-off.

WHISTLEBLOWER POLICY

The Audit Committee is responsible for reviewing the adequacy of the Group's whistleblower arrangements and ensuring that all reported whistleblower incidents are appropriately investigated and actioned.

The Group's Whistleblower Policy forms part of the Vedanta Code of Business Conduct and Ethics and enables employees of the Company, its subsidiaries and all external stakeholders to raise concerns about suspected wrongdoing within the Group in confidence. The Whistleblower Policy has been extended to cover the requirements of the UK legislation covering slavery and human trafficking reporting. Further details of the Group's whistleblower arrangements can be found on page 121.

The Audit Committee regularly reviews the Group's whistleblower arrangements and monitors the outcome of investigations into whistleblower incidents received.

FRAUD AND UK BRIBERY ACT

The Company is committed to the elimination of fraud, with each suspected case thoroughly investigated and concluded. The Audit Committee reviews the actions taken by management in the elimination of fraudulent practices and to promote ethical working practices.

COMPETITION AND MARKETS AUTHORITY 2014 ORDER

During the year ended 31 March 2017, the Company was compliant with the Competition and Markets Authority 2014 Order on mandatory tendering and audit committee responsibilities.

EXTERNAL AUDITOR

Following the competitive tender process for the provision of external audit services in 2015 and approval by shareholders at the Company's 2016 Annual General Meeting, Ernst & Young LLP (E&Y) was appointed as the Group's external auditor with effect from the financial year which commenced on 1 April 2016. A resolution to re-appoint E&Y as the Group's external auditor will be proposed at the Company's 2017 Annual General Meeting.

THE AUDIT PROCESS

A detailed audit plan (the Audit Plan) is prepared by the external auditor, E&Y which is reviewed by the Audit Committee. The Audit Plan sets out the audit scope, key audit risks identified, materiality issues, the client team working on the audit and the audit timetable. The audit scope covers the significant components of the audit and audit plans for each component and geographical location. Each of the key audit risks and the external auditor's response on how it will investigate these risks is considered by the Audit Committee.

SIGNIFICANT ISSUES CONSIDERED BY THE AUDIT COMMITTEE

The preparation of financial statements requires management to make judgements, estimates and assumptions, that affect the application of accounting policies and the reported amount of assets, liabilities, income, expenses and disclosures of contingent liabilities at the date of these financial statements and the reported amount of revenues and expenses for the years presented. The Audit Committee reviews whether the Group's accounting policies are appropriate, and management's estimate and judgements applied in the financial statements are reasonable. The Audit Committee also reviewed the disclosures made in the financial statements. The views of the statutory auditor on these significant issues were also considered by the Audit Committee.

The significant issues that were considered by the Audit Committee in relation to the financial statements are outlined below:

Significant issues	How these issues were addressed
<p>Impairment assessment of:</p> <ul style="list-style-type: none"> › Rajasthan producing assets within the Oil & Gas business › Copper operations in Zambia › Alumina refinery assets at Lanjigarh › Iron Ore business at Goa and Karnataka › Assets under construction <p>More information is provided in Note 2(b) and Note 5 to the financial statements</p>	<p>Given the clarity on the policy for the grant of extension to Production Sharing Contracts (PSCs), other taxation clarity and changes to the decommissioning liability, Rajasthan producing assets within the Oil & Gas business were considered for impairment review. The Committee has reviewed the significant assumptions including the oil price, decommissioning liability and the discount rate. An impairment charge of US\$ 63 million has been recognised against these assets.</p> <p>Impairment assessment of copper operations in Zambia is considered a significant issue considering lower equipment availability, throughput constraints and other operational challenges including production ramp up. The significant assumptions of commodity prices, increase in production and discount rate were reviewed by the Committee.</p> <p>The partly complete Lanjigarh refinery expansion programme within the Aluminium business unit got regulatory approvals during previous year FY2015-16 to expand unconditionally up to 4mtpa. Impairment assessment of Alumina refinery assets at Lanjigarh is considered a significant issue due to delays in obtaining local bauxite mining approvals/gaining access to local bauxite. The significant assumption of timing of approval/gaining access to local bauxite was put through a stress test by the Committee and other assumptions of discount rates and commodity prices were reviewed by the Committee.</p> <p>The mining operations at Karnataka and Goa were resumed towards the end of February 2015 and October 2015 respectively. The significant assumptions of commodity prices and the cap on mining were reviewed by the Committee.</p> <p>An old item classified under 'Assets under construction' was impaired due to expiry of the legal agreement and a charge of US\$ 30 million has been recognised.</p> <p>The Committee was also informed that the impairment assessment approach and assumptions are consistent across all business segments. With the existence of sufficient headroom over carrying value of assets it was concluded that no impairment is required for Zambia copper operations, Lanjigarh assets and Goa and Karnataka iron ore assets.</p>
<p>Impairment assessment of evaluation and exploration (E&E) assets:</p> <ul style="list-style-type: none"> › Oil & Gas business <p>More information is provided in Note 2(b) and Note 5 to the financial statements</p>	<p>Given the clarity on the policy for the grant of extension to Production Sharing Contracts (PSCs), other taxation clarity and changes to the decommissioning liability, E&E assets in the oil & gas business were considered for impairment review. The significant assumptions, including for oil prices, decommissioning liability and the discount rate, were reviewed by the Committee.</p> <p>An impairment reversal of US\$ 76 million has been recognised against Oil & Gas and E&E assets primarily relating to the Rajasthan block.</p>
<p>Revenue recognition across the business:</p> <ul style="list-style-type: none"> › Provisional pricing for sale of goods › Oil & Gas revenue › Power tariff with Grid Corporation of Odisha Limited ('GRIDCO') › Power Purchase Agreement with Punjab State Power Corporation Limited ('PSPCL') 	<p>The Committee reviewed the process and compliance around the Group's revenue recognition policy and its consistent application. The Committee also sought management's view on revenue recognition principles. The Committee was satisfied that the cut-off procedures, transfer of risks and process followed for the pricing of goods were consistent and it concluded that these risks have been mitigated.</p> <p>Further, the receivables from GRIDCO (which is under appeal following a tariff determination assessment by the Orissa Electricity Regulatory Commission) was assessed by the Committee together with revenue recognition in terms of the requirements of IAS 18. The receivable from PSPCL were also reviewed for recoverability including revenue recognition in terms of the requirements of IAS 18. The assessment was supported by legal opinion from external legal counsel, wherever required. The Committee considered the revenue recognition and recoverability of receivables to be fairly stated in the financial statements.</p>
<p>Litigation, environmental and regulatory risks</p> <p>Refer to Note 38 to the financial statements</p>	<p>A comprehensive legal paper was placed before the Committee for its consideration. The mitigating factors were discussed by the Committee with senior management.</p> <p>The Committee also reviewed the probable, possible and remote analysis carried out by management and disclosure of contingent liabilities in the financial statements. In all significant cases, management's assessment was supported by legal opinions from external legal counsel.</p>
<p>Taxation</p> <p>Additional information on these matters is disclosed in Note 38 to the financial statements</p>	<p>A comprehensive tax paper outlining taxation disputes in respect of withholding taxes following past acquisitions, eligibility of tax incentives and output taxes and other matters was placed before the Committee for its consideration. The Committee discussed these tax issues and reviewed the assessment of probable, possible and remote analysis and the process followed by management.</p> <p>The contingent liability disclosure was also reviewed by the Committee. In certain cases, the views of tax experts supporting management's assessment were also provided to the Committee.</p>

EXTERNAL AUDITOR REMUNERATION

The Audit Committee is responsible for determining the external auditor's remuneration on behalf of the Board, subject to the approval by shareholders at the Company's forthcoming Annual General Meeting.

EXTERNAL AUDITOR INDEPENDENCE AND PROVISION OF NON-AUDIT SERVICES BY THE EXTERNAL AUDITOR

The Audit Committee is responsible for reviewing the external auditor's independence and assessing their continued effectiveness. The Audit Committee and the Board place great emphasis on the objectivity of the external auditor. There are two aspects to the external auditor independence that the Audit Committee monitors:

Firstly, in accordance with the Auditing Practices Board Ethical Standards, E&Y has to implement rules and requirements such that none of its employees working on our audit can hold any shares in Vedanta Resources plc. E&Y is also required to inform the Company of any significant facts and matters that may reasonably be thought to bear on its independence or on the objectivity of the lead partner and the audit team. The lead partner must change every five years.

Secondly, the Audit Committee considers and approves all the fees that the Company pays for audit, audit-related and non-audit services performed by E&Y.

The Group's policy on the provision of non-audit services by the external auditor specifies the services which the external auditor is permitted to and prohibited from undertaking in order to safeguard their objectivity and independence as such services present a high risk of conflict and could undermine the external auditor's independence. The Company's Non-Audit Services Policy was reviewed and updated in November 2016 to reflect the requirements of the FRC's revised UK Corporate Governance Code 2016, guidance for Audit Committees and the EU Audit Directive. Prohibited non-audit services include work relating to the financial statements that will ultimately be subject to audit, certain tax, consultancy and advisory services and the provision of internal audit services amongst others. The policy also identifies those services which the external auditor is permitted to deliver to the Group. These include work on mergers and acquisitions, regulatory reviews, any certification required under loan agreements or bond covenants and assurance work in respect of compliance and corporate governance amongst others.

Furthermore, auditor independence is also safeguarded by limiting the value of non-audit services performed by the external auditor. In accordance with the FRC's Ethical Standards 2016, a cap for non-audit services will be set at 70% of the average audit fees based on a three-year average and will first be applied from the fourth year commencing on 1 April 2020. The Audit Committee will monitor all non-audit services each year to ensure that they are in compliance with the requirements. Of the permitted services, any assignment in excess of US\$30,000 may only be awarded to the external auditor with the prior approval of the Audit Committee.

All permitted non-audit services and the fees paid to the external auditor for non-audit work are reported to the Audit Committee. An analysis of non-audit fees can be found in Note 11 to the financial statements.

The Company also has a policy on employment of former employees of the external auditor to maintain the auditor's independence.

PERFORMANCE OF THE EXTERNAL AUDITOR

The Audit Committee is pivotal in monitoring the performance of the external auditor and the Group's relationship with the external auditor. During the year, the Audit Committee reviewed the effectiveness of Ernst & Young LLP in its first year as the Group's external auditor using a survey comprising a range of questions covering objectivity, quality and efficiency. The Audit Committee concluded that the results of the survey were positive and considered that they had provided a high quality audit.

FRC'S CORPORATE REPORTING REVIEW

The Company's Annual Report and Accounts FY2016 has not been reviewed by the FRC's Corporate Reporting Review team.

AUDIT COMMITTEE PERFORMANCE EVALUATION

As part of the Board's annual evaluation of its effectiveness and that of its Committees, described on page 118, the Audit Committee assessed its own effectiveness. The members of the Audit Committee agreed that its overall performance had been effective during the year.

THE YEAR AHEAD

The Audit Committee's objectives for the forthcoming year include:

- › Working closely with E&Y to understand key areas for focus, to streamline the audit process including its automation and to enhance the Group's system of risk management and internal control; and
- › Consideration and implementation of arrangements to enhance the Audit Committee's effectiveness such as reconstitution of the composition of the Audit Committee, review of the Audit Committee calendar and agenda to enhance focus on risk and internal controls.

Aman Mehta
Chairman, Audit Committee
23 May 2017