Vedanta Resources Plc

vedanta

Refinery Scorpion Zinc

TAX TRANSPARENCY REPORT | 2017-18

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Chairman's Value Statement

It has been another successful year for Vedanta as we continue to deliver across our strategic priorities. We stay focused on contributing by way of economic value creation for our shareholders and building trustworthy relations with the governments and other stakeholders. With these values being ingrained in Vedanta's DNA, we are proud to share that we have contributed **35% of our turnover, i.e. US $ 5.4 bn,** to the public exchequer of the various countries where we operate.

Anil Agarwal
Chairman, Vedanta Resources Plc.

Group Revenue
$15.4 bn

Contribution to Public Finances
$5.4 bn
in FY 2017-18
$35 bn
for last 7 years

Dividend declared
$65 cents
per share

Employees
71,350

Economic value generated
$15 bn

Operator of
25%
of India's crude oil production

78%
of market share in India's Zinc

No. 1
private sector exporter of Aluminium in India

Economic Responsibility

Thermal Power Plant at Jharsuguda

Vedanta Resources is a London Headquartered, globally diversified natural resources company with interests in

Zinc | Lead | Silver | Copper | Power
Aluminium | Iron Ore | Oil & Gas

Vedanta Limited's (India) resolution plan to acquire Electrosteel Steels Limited was approved by NCLT[#]. This acquisition, complements the Group's existing iron ore business through vertical integration.

Our operational footprint spans four continents i.e. Asia (India & Srilanka), Africa (Zambia, Namibia, Liberia & South Africa), Europe (Ireland), Australia (Tasmania).

Vedanta is a globally diversified natural resources company with low-cost operations. The resources we process are used to improve and enhance people's lives and deliver long-term value. We empower our people to drive excellence and innovation to create value for our stakeholders. We demonstrate world-class standards of governance, safety, environment, sustainability and social responsibility.

We operate as a responsible business, focused on achieving zero harm, minimising our environmental impact and promoting social inclusion across our operations. We put management systems and processes in place to ensure our operations create sustainable value for our stakeholders.

We have a long-standing commitment to transparency. We are proud of the value we generate and how this contributes to building trust with the communities in which we operate.

FY 2017-18

Contribution to Public Finances

$5.4 bn

(35% of turnover)

Over the last 7 years

Contribution to Public Finances

$35 bn

(38% of turnover)

Building Public Trust in Corporate Reporting

Vedanta Plc's Annual Report 2017 has won Gold at the LACP Vision Awards*

*[#]National Company Law Tribunal. *League of American Communications Professionals LLC (LACP) is a forum within the public relations industry that facilities discussion of best-in-class practices and recognises those who demonstrate exemplary communications capabilities.*

ECONOMIC VALUE GENERATED

US $15 bn

Suppliers

Payments made to our suppliers for the purchase of utilities, goods and services

US $11.7 bn

Employees

Employee expenses for salary, wages and incentives

US $630 mn

Shareholders, lenders and investors

- Dividend payments
- Interest payments

US $1.6 bn

Total payments to governments

- Corporate Income taxes

US $567 mn

Community Investments

- Voluntary donations
- Investment of funds

US $38.7 mn

ECONOMIC VALUE DISTRIBUTED

US $14.5 bn

ECONOMIC VALUE RETAINED

US $526 mn

SKM - Beneficiation Plant

Tax Governance and Strategy

Operations underway at an offshore platform in Ravva, Andhra Pradesh

Substance, Transparency and Arm's length Principle

Transparency is our core value as we firmly believe in long term sustainable value creation for our multiple stakeholders, including the government and society at large. We remain at the forefront of tax reporting by managing our tax affairs in a succinct and straightforward manner.

We understand 'substance' as economically owning an asset, and actively taking and executing decisions that entail management of risks associated to any taxable result. All transactions have a commercial and business reason, and we adhere to the arm's length principle.

Tax Risk Management

In line with our tax governance model of being tax transparent,

we maintain internal controls in the form of compliance calendars, internal audit process by MAS (Management Assurance Services) teams, and authorisation matrix under maker-checker concept.

These systems, processes and controls enable the Group to fulfill its tax compliance obligations and mitigate associated risks.

The Group strives to ensure that commercial transactions are structured in tax-efficient ways where credible technical analysis and interpretation are available, and that they are in full compliance with the law. We claim tax incentives and exemptions as legitimately available in the countries where we operate.

Material tax risks or disputes are reported to the Audit Committee for their consideration. This review includes probabilities of different outcomes as well as the cash flow and reputational impact. The Audit Committee then updates the Board on any relevant matter.

Dynamic Tax Environment

We strive to strengthen our systems, processes, group structures, transactions, etc. to comply with changing tax laws across the globe. A classic case in point was the advent of Goods & Services Tax (GST) in India, where majority of our business operations are located, and the Group managed to smoothly transition over to the new GST law with no transitional issues.

Relationship with Tax Authorities and Dispute Resolution

We maintain an open, honest, transparent and constructive relationship in all our dealings with the tax authorities in the jurisdictions of our operations. Our dealings are based on mutual trust in line with Vedanta's Code of Business Conduct and Ethics.

We actively participate in the tax authority's formal consultation processes on matters having material impact on the Group. We work with industry chambers wherever possible to contribute to the development of tax laws and attendant policies.

All dispute resolution mechanisms, arbitration & conciliation available under the various Double Taxation Avoidance Agreements are appropriately evaluated by engaging with the Government through industry groups or forums.

Our Code of Business Conduct and Ethics, which applies to all employees, sets out our zero tolerance policy on corruption and bribery. Vedanta requires its employees, tax advisors and suppliers of tax services to act with integrity and maintain high ethical standards in all activities.

The tax strategy is owned and approved by the company's Board, subject to annual review by the Board and an annual compliance report is submitted to the Board & Audit Committee. The Group's Chief Financial Officer holds the responsibility for tax at the Board level, and communicates with and advises the Board on tax affairs and risks with support from the Group's corporate tax team. The responsibility for tax governance rests with the tax function, in consultation with the Chief Financial Officer/Financial Controller.

Further to our approach to tax, we have documented a Group tax strategy statement which also complies with the requirements of the UK tax strategy legislation.

Guiding tax principle

1. To maintain high standards of integrity with respect to tax compliance and reporting
2. To observe all applicable laws, rules and regulations in the countries where we operate, including in respect to transfer pricing. To meet all tax compliance requirements in a timely manner, through a team of suitably qualified tax professionals and external service providers
3. To maintain the Group's reputation as a fair contributor to the economy where tax forms a part of that contribution. To disclose proactively detailed information about the overall tax contribution of the Group to the governments of the countries where we operate
4. To avoid transactions which will have tax results that are inconsistent with the underlying economic consequences unless there exists specific legislation designed to give that result
5. To ensure that all transactions and tax positions are properly documented. In completing the Group's tax compliance requirements, we aim to apply diligent professional care and judgment, including ensuring all decisions are taken at an appropriate level and supported by documentation that evidences the judgment involved
6. Working positively, proactively and transparently with tax authorities to minimise the extent of disputes, achieve early agreement on any disputed issues when they arise, and achieve certainty wherever possible
7. To identify tax risks in a consistent and formal manner and communicate these when appropriate to the Audit Committee and the Board
8. To actively participate in tax policy consultation processes where appropriate at a national or international level
9. To develop our people, through training, experience and opportunity

Our Contribution to Public Finances in FY 2017-18

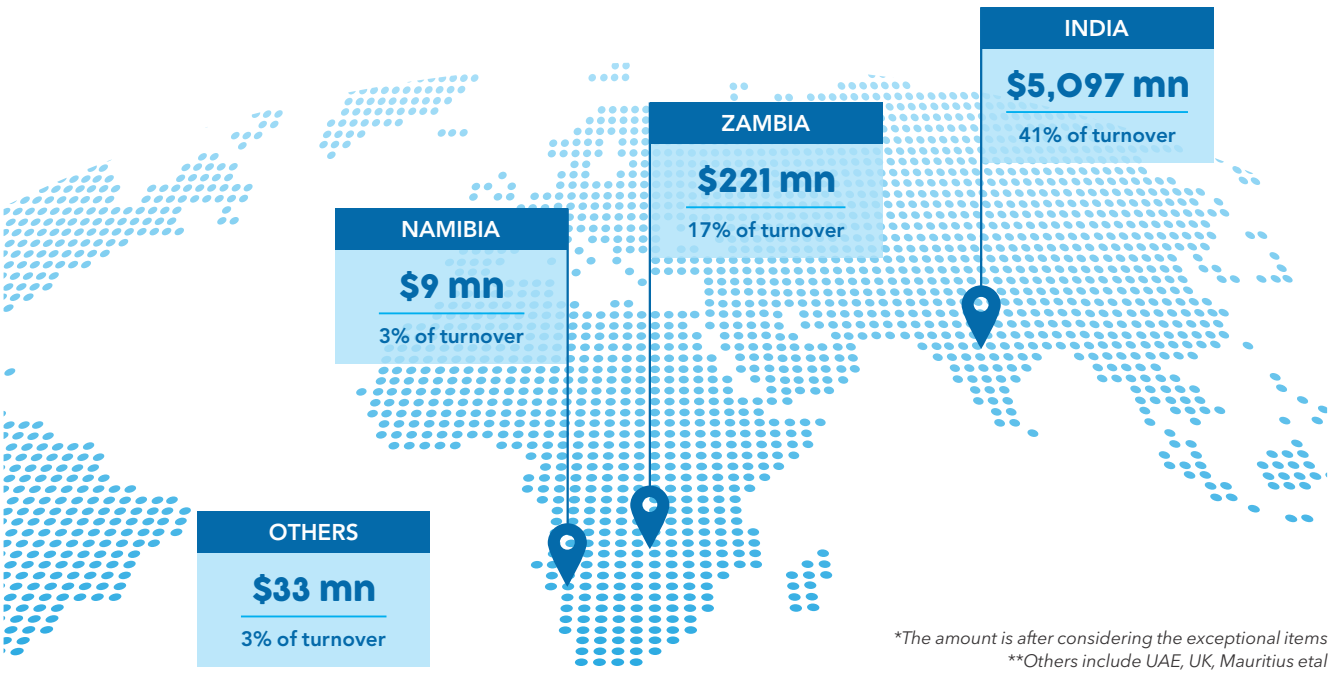
Mangala Processing Terminal, Barmer, Rajasthan

Vedanta contributed US $5.4 bn to public finances through a wide range of contributions such as corporate income taxes, royalties, profit oil; significant indirect revenue contributions by way of withholding taxes and indirect taxes and also dividends paid to the government. With this edition, the Company is publishing its fourth Tax Transparency Report.

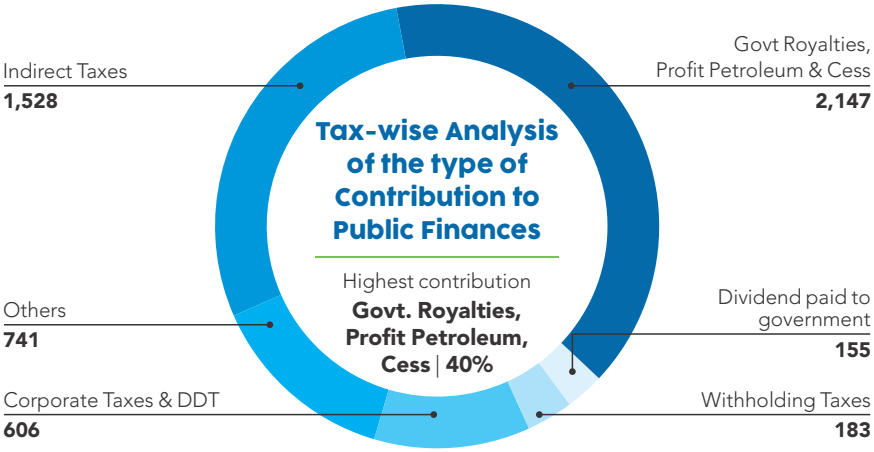
The Reports on Payments to Government Regulations (UK Regulations) came into force on December 1, 2014 and require UK companies in the extractive sector to publicly disclose payments made to governments in the countries where they undertake such operations. The contribution as per this report is US $2.8 bn, which include corporate taxes, royalties, license fees, production entitlements, bonuses and infrastructure payments. It does not include other taxes borne, indirect tax contribution and dividends paid to government as stated in this report.

Geographical Spread of Contritbution to Public Finances

We have collated total tax contributions made by the Company and its subsidiaries to their host governments. The distribution of taxes paid by the Group reflects the geographical spread of the Group's operations. Accordingly, the majority of the tax was paid in India. Although, the Group has headquarters in UK, the taxes paid in UK are not significant as the material operations and assets are located outside UK.



**The amount is after considering the exceptional items*
***Others include UAE, UK, Mauritius etal*



For the purpose of preparation of this table, we have shown the tax contributions under two broad categories of taxes i.e. taxes borne and indirect revenue contributions.

Taxes borne

primarily comprise corporate income tax (including corporate dividend tax which is profit based), royalty related tax payments, production entitlements, i.e., profit oil and other material payments made to the government such as production based oil cess, stamp duty payments, levies on import/export, local municipal taxes, green levies, etc.

Indirect revenue contributions

primarily comprise taxes collected and paid on behalf of our employees and vendors, i.e., withholding taxes, payroll taxes (professional taxes), payments of value-added taxes on sales and other social security contributions to fund the social security programme of the governments for the employees.

Consistent with the previous years, government royalties and profit petroleum are the largest contributors 40%, followed by indirect taxes 28.5% and corporate income taxes 11.3%.

The below table details the country-wise amount of revenue and profit before tax (PBT) contributions by the Company to public finances in FY 2017-18.

All amounts are in US $ million

Country-wise Operations	Revenue (External)	Profit Before Tax (PBT)	Taxes Borne				Indirect Contributions				Dividend paid to Govt.	Contribution to public finance
			Taxes on Income and Capital	Govt. Royalties & Profit Oil	Others	Total Payments Borne	Withholding Taxes	Indirect Taxes	Others	Total		
			A	B	C	I=A+B+C	D	E	F	II=D+E+F	III	IV = I+II+III
India	12,514	2,659	593	2,116	323	3,032	123	1,527	260	1,910	155	5,097
Zambia	1,283	-126	0.01	29	139	168	44	0.12	9	53	-	221
Namibia	277	82	-	1	-	1	5	0.67	2	8	-	9
Others	1,284	-133	13	1	2	16	11	0.11	6	17	-	33
Total	**15,358**	**2,482**	**606**	**2,147**	**464**	**3,217**	**183**	**1,528**	**277**	**1,988**	**155**	**5,360**

Basis of Preparation

BALCO Power Plant Korba

Note 1

Amounts reported in the table have been subject to external assurance and audit. Assurance Report forms part of this report. The financial information it contains is consistent with that used to prepare our FY 2017-18 Consolidated Financial Statements and financial statements of the Group's listed/non-listed operating companies/ subsidiaries. In case of joint venture operations, contributions are shown at gross level as made by the Un-incorporated Joint Venture (UJV) of which the company subsidiary is an operator irrespective of our percentage interest in the UJV.

Note 2

All data is prepared for the year from April 1, 2017 to March 31, 2018. The above contributions have been reported on cash basis. The social expenditures have not been considered in the contribution to public finances shown in the table.

Note 3

Vedanta has not disclosed in the table above, the taxes charged by suppliers/ service providers in their invoices and paid by the Company. Tax contributions under both the categories, i.e., taxes borne and indirect revenue contributions shown in the table are not netted to the extent of input credits available or any other adjustments under the provision of applicable laws of taxes paid on purchase/procurement of goods or services and charged by suppliers or service providers in the invoice.

Note 4

TAXES BORNE

A Taxes on Income and Capital

This comprises corporate income tax and dividend distribution tax but does not include deferred tax. These taxes are provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Typically, these taxes would be reflected in the corporate income tax returns made to the governments, tend to become payable, and are paid, either in the year the profits were made or up to one year later, depending on the tax laws of the respective countries.

B Government Royalties and Profit Oil

This comprises contributions made to public finances in the form of royalties, license fees and resource rents; for example, contribution for the extraction of minerals, metals, crude oil or gas. These form part of the operating costs.

Profit oil represents the share of profit paid to the government on account of production of crude oil and natural gas from the fields awarded by the government as per the terms of Production Sharing Contract (PSC). Typically, this is reflected in various forms/ returns prescribed by the government for this purpose.

The government's share of profit oil is accounted for when the obligation (legal or constructive) with respect to the same arises. Profit Oil is netted off from revenue generated from such operations.

C Other taxes borne

This comprises cess paid on production of crude oil In India, stamp duty that arises on transfer of assets or capital, levies on import/export of goods (considered part of operating costs), municipal taxes, service tax, entry tax/octroi and other taxes borne. These form part of the operating costs

INDIRECT REVENUE CONTRIBUTIONS

D Withholding Taxes

This comprises payroll and employee taxes (including professional tax) withheld from employee remuneration, and paid to governments, i.e., tax collected and remitted to governments on behalf of employees. Typically, these taxes would be reflected in payroll tax returns made to public finances and tend to be payable, and are paid, on a regular basis (often monthly) throughout the year, shortly after the submission of the returns.

It also comprises taxes withheld or collected from various payments made to contractors and governments, i.e., taxes collected/ deducted and remitted to governments on behalf of the service providers/vendors.

E Indirect Taxes

This comprises of taxes paid to governments on production or sale of goods like Value Added Tax (VAT) /sales tax, Excise Duty, Central Sales Tax, Goods and Service Tax, etc. These taxes would not be collected if the Company does not produce and make sales to the customers.

F Other

This includes contribution of employers and employees for funding the Social Security programme of the government like Provident Fund (PF) and Employee State Insurance Fund (ESI). Such contributions are reflected in the monthly and annual returns made to the respective organisations.

DIVIDENDS PAID TO GOVERNMENT

This includes dividends paid to governments in case of government shareholding in the any of the Group Companies has paid dividend during the year.

Please refer to Appendix 1 on types of taxes paid by Vedanta in various countries.

Independent Assurance Report

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF VEDANTA RESOURCES PLC

Grant Thornton

We have been engaged by Vedanta Resources plc ('Vedanta') to perform reasonable assurance procedures in respect of Selected Information within the 'Tax Transparency Report 2017-18' (the 'Report') which Vedanta is required to make under the Taxes (Base Erosion and Profit Shifting (Country-by-Country Reporting)) Regulations 2016 for the year ended 31 March 2018, issued by Vedanta.

This report is made solely to the Board of Vedanta, as a body, in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Board of Vedanta those matters we are required to state to them in a reasonable assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Vedanta and the Board of Vedanta as a body, for our work, for this report, or for the conclusions we have formed.

Scope and subject matter

The 'Selected Information' subject to our reasonable assurance engagement for the year ended 31 March 2018 comprises the data in the Table, columns A, B, C, D, E, F and III totalling US$5.36bn, which is included within the section "Our Contribution to Public Finances in FY 2017-18" of the Report.

Responsibilities of the Board of Vedanta

The Board of Vedanta is responsible for the preparation of the Report. Management have prepared the Report for the Board and have reviewed the procedures established internally to prepare the Report, and the Board of Vedanta have reviewed the Report. Management are responsible for preparing the Selected Information in accordance with the "Basis of Preparation" section within the Report, and for such internal controls and processes as management determine is necessary and relevant to enable the preparation of Selected Information that is free from material misstatement whether due to fraud or error.

Grant Thornton UK LLP
30 Finsbury Square, London EC2A 1AG

Practitioner's responsibilities

Our responsibility is to express a conclusion on the accompanying Selected Information. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagement 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information ('ISAE 3000 (Revised)'), issued by the International Auditing and Assurance Standards Board. This standard requires us to form an opinion as to whether the Selected Information in the Report has been prepared in all material respects in accordance with the "Basis of Preparation" section within the Report.

We apply International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Work performed

A reasonable assurance engagement undertaken in accordance with ISAE 3000 (Revised) involves assessing the suitability of the circumstances of Vedanta's application of the basis of preparation, assessing the risks of material misstatement of the Selected Information, whether due to fraud or error, responding to the assessed risk as necessary and evaluating the overall presentation of the Selected Information. In making those risk assessments, we have considered internal processes and controls relevant to the preparation of the Selected Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal processes and controls.

Conclusion

In our opinion the Selected Information in the Report for the year ended 31 March 2018 has been prepared, in all material respects, in accordance with the "Basis of Preparation" section within the Report.

Basis of Preparation

Without modifying our opinion, we draw attention to the "Basis of Preparation" section within the Report, which describes the Basis of Preparation.

Grant Thornton UK LLP
Chartered Accountants
Cambridge, UK

Date: 26th July, 2018

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transforming elements

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