Consolidated Financial Statements Auditors' Report

To the Board of Directors of Cairn India Limited

We have audited the attached consolidated balance sheet of Cairn India Limited (the Company) and its subsidiaries (collectively called 'the Cairn India Group') as at December 31, 2006 and also the consolidated profit and loss account and the consolidated cash flow statement for period from August 21, 2006 to December 31, 2006, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements and Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures, issued by the Institute of Chartered Accountants of India.

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the consolidated balance sheet, of the state of affairs of the Cairn India Group as at December 31, 2006;
(b) in the case of the consolidated profit and loss account, of the loss of the Cairn India Group for the period from August 21, 2006 to December 31, 2006; and
(c) in the case of the consolidated cash flow statement, of the cash flows of the Cairn India Group for the period from August 21, 2006 to December 31, 2006.

For S. R. Batliboi & Associates
Chartered Accountants

per Mahendra Jain
Partner
Membership No. 205839

Place: Gurgaon
Date: April 27, 2007

Consolidated Balance Sheet

As At December 31, 2006

(All amounts are in Indian Rupees, unless otherwise stated)

	Schedules		As at December 31, 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share capital	1		17,653,143,790
Stock options outstanding	2		345,058,813
Reserves and surplus	3		275,017,836,642
			293,016,039,245
Loan funds			
Unsecured loans	4		4,984,787,562
Deferred payment liability under finance lease			136,830,471
Deferred tax liability (net)	5		4,258,161,061
			9,379,779,094
			302,395,818,339
APPLICATION OF FUNDS			
Fixed assets	6		
Gross cost		1,528,405,817	
Less: Accumulated depreciation and amortization		1,021,779,615	
Net book value			506,626,202
Exploration, Development and Site-restoration costs	7		
Cost of producing facilities (net)		2,353,776,000	
Exploratory & development wells in progress		17,101,981,985	
Net book value			19,455,757,985
Goodwill			254,115,134,287
Investments	8		4,165,568
Current assets, loans and advances			
Inventories	9	1,251,108,962	
Sundry debtors	10	1,917,478,708	
Cash and bank balances	11	61,347,832,957	
Loans and advances	12	3,289,016,777	
Other current assets	13	12,752,137	
		67,818,189,541	
Less: Current liabilities and provisions			
Current liabilities	14	36,933,982,072	
Provisions	15	2,781,815,409	
		39,715,797,481	
Net Current assets			28,102,392,060
Debit balance in profit and loss account			211,742,237
			302,395,818,339

Significant Accounting Policies and Notes to Accounts 23

The schedules referred to above are an integral part of the consolidated balance sheet.

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Mahendra Jain	**Rahul Dhir**	**Aman Mehta**	**Indrajit Banerjee**	**Marshall Mendonza**
Partner	Managing Director and	Director	Executive Director and	Company Secretary
Membership No. 205839	Chief Executive Officer		Chief Financial Officer	

Place: Gurgaon
Date: April 27, 2007

Consolidated Profit and Loss Account

For The Period Ended December 31, 2006

(All amounts are in Indian Rupees, unless otherwise stated)	Schedules		Period from August 21, 2006 to December 31, 2006
INCOME			
Income from Operations	16		387,417,401
Other income	17		62,214,649
			449,632,050
EXPENDITURE			
Operating expenses	18		53,119,541
Depletion and site restoration	7		53,533,038
Unsuccessful exploration costs	7		59,480,772
Administrative expenses	19		374,292,581
Decrease in inventories	20		28,897,849
Depreciation and amortization	6		7,692,483
Finance costs	21		2,746,503
			579,762,767
Profit/(Loss) before taxation			**(130,130,717)**
Current tax		11,777,168	
Deferred tax		43,860,662	
Fringe Benefit Tax		789,130	
			56,426,960
Profit/(loss) for the period			**(186,557,677)**
Less: Profit attributable to minority interest			25,184,560
Profit/(loss) for the period attributable to equity shareholders carried to the balance sheet			**(211,742,237)**
Loss Per Share			
Basic	22		0.68
Diluted (considered anti-dilutive)	22		0.68
(Nominal value of shares Rs.10)			
Significant Accounting Policies and Notes to Accounts	23		

The schedules referred to above are an integral part of the consolidated profit and loss account.

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Mahendra Jain
Partner
Membership No. 205839

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Indrajit Banerjee
Executive Director and
Chief Financial Officer

Marshall Mendonza
Company Secretary

Place: Gurgaon
Date: April 27, 2007

Schedules to the Consolidated Financial Statements

(All amounts are in Indian Rupees, unless otherwise stated)

	As at December 31, 2006
SCHEDULE – 1	
Share capital	
Authorised:	
2,250,000,000 equity shares of Rs.10 each	**22,500,000,000**
Issued, subscribed and paid up:	
1,765,314,379 Equity Shares of Rs.10 each* (refer note 11(a) under schedule 23)	17,653,143,790
	17,653,143,790

* Out of the above:
– 1,226,843,791 equity shares of Rs.10 each are held by Cairn UK Holdings Limited, the Holding Company together with its nominees.
– 861,764,893 equity shares of Rs.10 each are allotted as fully paid up pursuant to contracts for consideration other than cash.

SCHEDULE – 2
Stock options outstanding

Employee stock options outstanding (refer note 13(a) under schedule 23)	1,091,273,035
Less: Deferred employee compensation outstanding	(746,214,222)
	345,058,813

SCHEDULE – 3
Reserves and surplus

Securities premium account *	275,017,836,642
	275,017,836,642

* net of Rs.722,687,148 adjusted against preliminary and share issue expenses (refer note 7 under schedule 23)

SCHEDULE – 4
Unsecured loans

Short-term loan – overdraft from a bank	204,707,562
Long-term loans*	
– from International Finance Corporation	418,257,000
– from banks	4,361,823,000
	4,984,787,562

* Cairn India Holding Limited (a 100% subsidiary of the Cairn India Limited) along with certain of its subsidiaries signed a USD 850 million hybrid unsecured syndicate revolving credit facility on November 22, 2006 principally to finance development activities in Rajasthan.

* This facility is provided by a consortium of 10 International banks (expiry date December 31, 2011) and the International Finance Corporation (expiry date December 31, 2015). Interest is charged at floating rates determined by LIBOR plus an applicable margin. The maximum that can be drawn at any point in time is determined by reference to the net present value of the Rajasthan developments. The group may cancel and repay the facility at any time.

Schedules to the Consolidated Financial Statements – Continued

(All amounts are in Indian Rupees, unless otherwise stated)

SCHEDULE – 5
Deferred tax liability (net)

	As at December 31, 2006
Differences in block of fixed assets as per tax books and financial books	4,586,970,415
Gross deferred tax liabilities	**4,586,970,415**
Effect of lease accounting	8,884,640
Tax losses carried forward	107,294,918
Expenditure debited to profit and loss but allowed for tax purposes in following years	212,629,796
Gross deferred tax assets	**328,809,354**
Net deferred tax liability	**4,258,161,061**

SCHEDULE – 6
Fixed Assets

	Gross Block				Depreciation				Net Block
	As at August 21, 2006	Additions * for the period	Deletions for the period	As at December 31, 2006	As at August 21, 2006	Accumulated Depreciation on acquired assets	Charge for the period	As at December 31, 2006	As at December 31, 2006
Own assets									
Freehold land and buildings	–	12,475,480	–	12,475,480	–	3,908,437	87,673	3,996,110	8,479,370
Leasehold improvements	–	624,503	–	624,503	–	467,307	4,705	472,012	152,491
Plant and Equipment	–	214,884,016	–	214,884,016	–	168,772,902	1,085,687	169,858,589	45,025,427
Computer software	–	559,042,643	–	559,042,643	–	330,470,386	4,132,829	334,603,215	224,439,428
Office equipments	–	342,449,212	–	342,449,212	–	312,169,611	331,149	312,500,760	29,948,452
Furniture and fittings	–	54,819,815	–	54,819,815	–	44,285,460	226,029	44,511,489	10,308,326
Vehicles	–	2,381,123	–	2,381,123	–	2,318,846	1,313	2,320,159	60,964
Assets under finance lease									
Leasehold improvements	–	341,729,025	–	341,729,025	–	151,694,182	1,823,099	153,517,281	188,211,744
Total	**–**	**1,528,405,817**	**–**	**1,528,405,817**	**–**	**1,014,087,131**	**7,692,484**	**1,021,779,615**	**506,626,202**

* Additions are due to fixed assets acquired, pursuant to acquisition of Cairn India Holdings Limited on December 20, 2006.

SCHEDULE – 7
Exploration, Development and Site Restoration Costs

	As at December 31, 2006
Cost of producing properties resulting on acquisition of subsidiaries	11,695,181,048
Add: Additions for the period	188,931,228
	11,884,112,276
Less: Depletion and site restoration costs	
Depletion and site restoration costs resulting on acquisition of subsidiaries	9,476,803,237
Depletion and site restoration costs for the period	53,533,038
	9,530,336,275
Net producing properties	**2,353,776,001**
Cost of exploration and development wells in progress resulting on acquisition of subsidiaries	16,933,346,250
Add: Additions for the period	228,116,506
Less: Unsuccessful exploration costs for the period	59,480,772
Exploration and Development wells in progress	**17,101,981,984**
Net book value at December 31, 2006	**19,455,757,985**

Schedules to the Consolidated Financial Statements – Continued

(All amounts are in Indian Rupees, unless otherwise stated)

	As at December 31, 2006
SCHEDULE – 8	
Investments	
Long-term investments (at cost) – unquoted and trade	
(755,275 equity shares of Rs.10/– each fully paid up in Videocon Industries Limited)	4,165,568
	4,165,568

	As at December 31, 2006
SCHEDULE – 9	
Inventories	
Stores and spares	1,053,447,663
Finished goods	197,661,299
	1,251,108,962

	As at December 31, 2006
SCHEDULE – 10	
Sundry debtors	
Debts – Unsecured and outstanding for a period exceeding six months:	
– Considered good	41,031,604
– Considered doubtful	22,130,000
Other unsecured debts:	
– Considered good	1,876,447,104
	1,939,608,708
Less: Provision for doubtful debts	(22,130,000)
	1,917,478,708

	As at December 31, 2006
SCHEDULE – 11	
Cash and bank balances	
Cash balance on hand	84,349
Balances with Scheduled Banks:	
– on current accounts*	53,823,876,384
– on deposit accounts	7,523,646,010
Balances with Non–Scheduled Banks:	
– ANZ Bank on current account**	226,214
	61,347,832,957

* Out of these amounts, Rs.52,607,948,000 represent the unutilised monies out of the public issue of Cairn India Limited (also refer note 12(c) under schedule 23)

** Maximum amount outstanding any time during the period – Rs.226,214

Schedules to the Consolidated Financial Statements – Continued

(All amounts are in Indian Rupees, unless otherwise stated)

	As at December 31, 2006
SCHEDULE – 12	
Loans and advances	
Unsecured and considered good:	
Advances recoverable in cash or kind or value to be received	3,072,856,901
Deposits (refer note 10 under schedule 23)	48,635,938
Advance tax and tax deducted at source (net of tax provisions)	167,523,938
	3,289,016,777
SCHEDULE – 13	
Other Current Assets	
Interest accrued on bank deposits	12,752,137
	12,752,137
SCHEDULE – 14	
Current liabilities	
Amounts payable to:	
– Cairn UK Holdings Limited, the Holding Company *	32,763,069,551
– Cairn Energy PLC, the ultimate Holding Company	726,303,141
Deferred payment liability under finance lease	61,068,740
Sundry creditors	3,269,099,414
Other liabilities	114,441,226
	36,933,982,072

* payable towards acquisition of shares in Cairn India Holdings Limited

SCHEDULE – 15	
Provisions	
Provision for taxation (net of advance tax payments)	243,340,347
Site restoration provision *	2,232,263,722
Provision for Government share of profit petroleum **	306,211,340
	2,781,815,409

* Site restoration provision	
– arising on acquisition of subsidiaries	2,232,263,722
** Provision for Government share of profit petroleum	
– arising on acquisition of subsidiaries	291,110,020
– additions for the period	15,101,320

Schedules to the Consolidated Financial Statements – Continued

(All amounts are in Indian Rupees, unless otherwise stated)

SCHEDULE – 16
Income from operations

	Period from August 21, 2006 to December 31, 2006
Revenue from sale of oil, gas and condensate	635,909,405
Less: Government share of profit petroleum	(249,532,130)
	386,377,275
Tolling Income	1,040,126
	387,417,401

SCHEDULE – 17
Other income

	Period from August 21, 2006 to December 31, 2006
Interest on bank deposits	60,495,709
Interest – Others	1,718,940
	62,214,649

SCHEDULE – 18
Operating expenses

	Period from August 21, 2006 to December 31, 2006
Production expenses	22,366,285
Insurance	1,592,677
Royalty	10,803,848
Cess	14,897,560
Production bonus	3,459,171
	53,119,541

SCHEDULE – 19
Administrative expenses

	Period from August 21, 2006 to December 31, 2006
Salaries and wages	70,027,817
Employee compensation expense (stock options)	345,058,813
Contribution to Provident and other funds	1,762,069
Staff welfare expenses	2,723,024
Legal and professional expenses	36,951,929
Repair and Maintenance	5,250,135
Premises Rental	4,724,376
Travel expenses	7,029,192
Communication expenses	1,422,604
Exchange Fluctuation	4,588,020
Insurance	396,507
Director Sitting Fees	500,000
Miscellaneous expenses	3,056,624
	483,491,110
Less: Cost allocated to joint ventures, exploration, development, production, etc.	(109,198,529)
	374,292,581

Schedules to the Consolidated Financial Statements – Continued

(All amounts are in Indian Rupees, unless otherwise stated)	Period from August 21, 2006 to December 31, 2006

SCHEDULE – 20
Decrease in inventories

Inventories as at December 31, 2006:	
Finished goods	197,661,299
Inventories as at December 20, 2006, on acquisition of subsidiaries:	
Finished goods	226,559,148
	28,897,849

SCHEDULE – 21
Finance costs

Interest on bank overdraft	1,355,772
Interest – others	358,725
Bank charges	289,874
Other finance costs	742,132
	2,746,503

SCHEDULE – 22
Earnings Per Share

Loss after Tax	211,742,237
Weighted average number of equity shares in calculating basic loss per share	312,260,009
Add: Number of equity shares arising on grant of stock options for no consideration	6,550,797
Weighted average number of equity shares in calculating diluted loss per share	318,810,806
Loss per share	
Basic	0.68
Diluted (considered anti-dilutive)	0.68

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS

1. Nature of Operations

Cairn India Limited ('the Company') was incorporated in India on August 21, 2006 and is a subsidiary of Cairn UK Holdings Limited, which in turn is a wholly owned subsidiary of Cairn Energy PLC, UK which is listed on London Stock Exchange.

The Company has been incorporated primarily to engage in the business of surveying, prospecting, drilling and exploring for, acquiring, developing, producing, maintaining, refining, storing, trading, supplying, transporting, marketing, distributing, importing, exporting and generally dealing in minerals, oils, petroleum, gas and related by-products and other activities incidental to the above. As part of its business activities, the Company also holds interests in its subsidiary companies which have been granted rights to explore and develop oil exploration blocks in India.

The Company along with its subsidiaries are herein referred to as 'Cairn India Group'. The entities under the Cairn India Group are participants (together with other venturers) in Blocks/Oil & gas field permits granted by the Government of India ('GoI'). In terms of the Production Sharing Contract ('PSC') entered into between the GoI and entities within Cairn India Group together with other venture partners, in respect of each of these blocks, there are joint operating arrangements amongst the venturers (Unincorporated Joint Ventures ('UJVs').

2. The Consolidated Financial Statements represent consolidation of accounts of the Company and its subsidiaries as detailed below:

Name of the Subsidiaries	Country of Incorporation
Cairn India Holdings Limited ('CIHL')	Jersey
Cairn Energy Australia Pty Limited	Australia
Cairn Energy Group Holdings BV	The Netherlands
Cairn Energy Holdings Limited	Scotland
Cairn Energy Discovery Limited	Scotland
Cairn Exploration (No. 2) Limited	Scotland
Cairn Exploration (No. 6) Limited	Scotland
Cairn Energy India Pty Limited	Australia
Cairn Energy India West BV	The Netherlands
Cairn Energy India West Holdings BV	The Netherlands
Cairn Energy Gujarat Holdings BV	The Netherlands
CEH Australia Pty Limited	Australia
Cairn Energy Asia Pty Limited	Australia
Sydney Oil Company Pty Limited	Australia
Cairn Energy Hydrocarbons Limited	Scotland
Cairn Energy India Holdings BV	The Netherlands
Cairn Energy Netherlands Holdings BV	The Netherlands
Cairn Petroleum India Limited	Scotland
Cairn Energy Gujarat Block 1 Limited	Scotland
Cairn Exploration (No. 4) Limited	Scotland
Cairn Exploration (No. 7) Limited	Scotland
Cairn Energy Gujarat BV	The Netherlands
Cairn Energy Cambay BV	The Netherlands
Cairn Energy Cambay Holdings BV	The Netherlands
CEH Australia Limited	British Virgin Islands
Cairn Energy Investments Australia Pty Limited	Australia
Wessington Investments Pty Limited	Australia
Command Petroleum (PPL 56) Limited	Australia

CIHL became the Company's subsidiary on December 20, 2006, through acquisition of effective 75.69% stake and wholly owned subsidiary on December 29, 2006. All other above mentioned subsidiaries are direct or indirect wholly owned subsidiaries of CIHL. Accordingly, these financial statements include the result of these subsidiaries for the period December 20, 2006 to December 31, 2006.

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

Cairn India Group has entered into Production Sharing Contracts (PSCs) and Joint Ventures (JVs) in respect of certain properties. Details of these PSCs/JVs are as follows:

Block/Oil & Gas Field	Area	Participating Interest
Operated Blocks		
Ravva	Krishna Godavari	22.5%
CB-OS/2 – Exploration area	Cambay Offshore	60%
CB-OS/2 – Development area	Cambay Offshore	40%
RJ-ON-90/1 – Exploration area	Rajasthan Onshore	100%
RJ-ON-90/1 – Development area	Rajasthan Onshore	70%
GV-ONN-2002/1	Ganga Valley Onshore	50%
GV-ONN-2003/1	Ganga Valley Onshore	24%
VN-ONN-2003/1	Vindhyan Onshore	49%
Non – operated block		
KG-DWN-98/2	Krishna Godavari Deep water	10%
KG-ONN-2003/1	Krishna Godavari Onshore	49%
GV-ONN-97/1	Ganga Valley Onshore	15%
CB-ONN-2001/1	Cambay Onshore	30%
CB-ONN-2002/1	Cambay Onshore	30%
RJ-ONN-2003/1	Rajasthan Onshore	30%
GS-OSN-2003/1	Gujarat Saurashtra Onshore	49%

3. Statement of Significant Accounting Policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act, 1956 under the historical cost convention and on an accrual basis.

Principles of consolidation:

The Consolidated Financial Statements relate to the Cairn India Group. In the preparation of these Consolidated Financial Statements, investments in Subsidiaries and Joint Venture entities have been accounted for in accordance with AS 21 (Accounting for Consolidated Financial Statements) and AS 27 (Financial Reporting of Interests in Joint Ventures) respectively issued by the ICAI. The Consolidated Financial Statements are prepared on the following basis:

(i) The financial statements of the Company and its subsidiary company are consolidated on a line-by-line basis by adding together the book values of the like items of assets, liabilities, income and expenses after eliminating all significant intra-group balances and intra-group transactions and also unrealised profits or losses in accordance with Accounting Standard (AS) 21 'Consolidated Financial Statements' issued by ICAI. The items of income and expenses are consolidated only for the period from which the companies became the Company's subsidiaries.

(ii) The Consolidated Financial Statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented, to the extent possible, in the same manner as the Company's separate financial statements. The financial statements of the foreign subsidiaries are adjusted for the accounting principles and policies followed by the Company.

(iii) The difference between the cost to the Company of its investment in Subsidiaries over its proportionate share in the equity of the investee company at the time of acquisition of shares in the Subsidiaries is recognised in the financial statements as Goodwill or Capital Reserve, as the case may be. Goodwill is tested for impairment by the management on annual basis.

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

(b) Oil and gas assets

Cairn India Group follows a successful efforts method for accounting for oil and gas assets as set out by the Guidance Note issued by the ICAI on 'Accounting for Oil and Gas Producing Activities'.

Expenditure incurred on the acquisition of a license interest is initially capitalised on a license by license basis. Costs are held, undepleted, within exploratory & development wells in progress until the exploration phase relating to the license area is complete or commercial oil and gas reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets which cannot be directly related to individual exploration wells is expensed in the period in which it is incurred.

Exploration/appraisal drilling costs are initially capitalised within exploratory & development wells in progress on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that oil and gas reserves exist and there is a reasonable prospect that these reserves are commercial.

Where results of exploration drilling indicate the presence of oil and gas reserves which are ultimately not considered commercially viable, all related costs are written off to the profit and loss account. Following appraisal of successful exploration wells, when a well is ready for commencement of commercial production, the related exploratory and development wells in progress are transferred into a single field cost centre within producing properties, after testing for impairment.

Where costs are incurred after technical feasibility and commercial viability of producing oil and gas is demonstrated and it has been determined that the wells are ready for commencement of commercial production, they are capitalised within producing properties for each cost centre. Subsequent expenditure is capitalised when it enhances the economic benefits of the producing properties or replaces part of the existing producing properties. Any costs remaining associated with such part replaced are expensed in the financial statements.

Net proceeds from any disposal of an exploration asset within exploratory & development wells in progress are initially credited against the previously capitalised costs and any surplus proceeds are credited to the profit and loss account. Net proceeds from any disposal of producing properties are credited against the previously capitalised cost and any gain or loss on disposal of producing properties is recognised in the profit and loss account, to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

(c) Depletion

The expenditure on producing properties is depleted within each cost centre.

Depletion is charged on a unit of production basis, based on proved reserves for acquisition costs and proved and developed reserves for other costs.

(d) Site restoration costs

At the end of the producing life of a field, costs are incurred in removing and restoring the site of production facilities. Cairn India Group recognises the full cost of site restoration as an asset and liability when the obligation to rectify environmental damage arises. The site restoration asset is included within producing properties of the related asset. The amortization of the asset, calculated on a unit of production basis based on proved and developed reserves, is included in the 'depletion and site restoration costs' in the profit and loss account.

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

(e) Impairment

i) The carrying amounts of assets are reviewed at each Balance Sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognised where the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

ii) After impairment, depreciation/depletion is provided in subsequent periods on the revised carrying amount of the asset over its remaining useful life.

iii) Where there has been a charge for impairment in an earlier period, that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

(f) Other Tangible Fixed Assets, depreciation and amortization

Tangible assets, other than oil and gas assets, are stated at cost, less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which take a substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready to be put to use.

Depreciation is provided using the Straight Line Method as per the useful lives of the assets estimated by the management, or at the rates prescribed under Schedule XIV of the Companies Act 1956, whichever is higher. The expected useful economic lives are as follows:

Vehicles	2 to 4 years
Freehold buildings	10 years
Computers	2 to 4 years
Furniture and fixtures	2 to 4 years
Office equipment	2 to 4 years
Plant and Equipment	2 to 4 years

Leasehold improvements are amortized over the remaining period of the primary lease or useful life, whichever is shorter.

(g) Intangible fixed assets and amortization

Intangible assets, other than oil and gas assets, have finite useful lives and are measured at cost and amortized over their expected useful economic lives as follows:

Computer software	2 to 4 years

Goodwill arising on acquisition is capitalised and is subject to annual review for impairment.

(h) Leases

Finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that Cairn India Group will obtain the ownership by the end of the lease term, capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss account on a straight-line basis over the lease term.

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

(i) Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. Current investments are measured at cost or market value, whichever is lower. All other investments are classified as long-term investments. Long-term investments are measured at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

(j) Inventory

Inventories of oil and condensate held at the Balance Sheet date are valued at net realisable value based on the estimated selling price. Inventory of stores and spares are stated at cost.

(k) Joint Ventures

Cairn India Group participates in several Joint Ventures which involve the joint control of assets used in the oil and gas exploration, development and producing activities. It accounts for its share of the assets and liabilities of Joint Ventures in which it holds a participating interest.

Joint venture cash and cash equivalent balances are not freely available for use by the Cairn India Group and are, therefore, disclosed within Loans and Advances.

(l) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Cairn India Group and the revenue can be reliably measured.

Revenue from operating activities

Revenue represents the Cairn India Group's share of oil, gas and condensate production, recognised on a direct entitlement basis and tariff income received for third party use of operating facilities and pipelines in accordance with agreements.

Other income

Interest income is recognised on a time proportion basis.

(m) Borrowing costs

Borrowing costs include interest and commitment charges on borrowings, amortization of costs incurred in connection with the arrangement of borrowings and finance charges under leases. Costs incurred on borrowings directly attributable to development projects are capitalised within the development/ producing asset for each cost-centre.

All other borrowing costs are recognised in the Profit and Loss account in the period in which they are incurred.

(n) Foreign currency transactions and translations

Cairn India Group translates foreign currency transactions into Indian Rupees at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Indian Rupees at the rate of exchange prevailing at the Balance Sheet date. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on reporting the Cairn India Group's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations. Exchange differences arising in respect of fixed assets acquired from outside India are capitalised as a part of fixed asset.

All transactions of integral foreign operations are translated as if the transactions of those foreign operations were the transactions of Cairn India Group itself. In translating the financial statements of a non-integral foreign operation for incorporating in financial statements, the Cairn India Group translates the assets and liabilities at the rate of exchange prevailing at the Balance Sheet date. Income and expenses of non-integral subsidiaries are translated using rates at the date of transactions. Resulting exchange differences are disclosed under the foreign currency translation reserve until the disposal of the net investment.

On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation are recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification are applied from the date of the change in the classification.

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

(o) Income taxes

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax are measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax assets and liabilities are measured, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets and deferred tax liabilities across various subsidiaries or countries of operation are not set off against each other as Cairn India Group does not have a legal right to do so. Current and deferred tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If Cairn India Group has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

(p) Earnings Per Share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period is adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares, if any.

(q) Provisions

A provision is recognised when Cairn India Group has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

(r) Cash and Cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand and short-term investments.

(s) Employee Benefits

Retirement and Gratuity benefits

Retirement benefits in the form of Provident Fund, Superannuation/Pension Schemes, if any, are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due.

In case of a gratuity plan for the benefit of employees, which is established based on certain eligibility criteria, the liability under the plan is provided based on actuarial valuation. The scheme is maintained and administered by an insurer to which the trustees make periodic contributions. In case there is no Gratuity plan for the benefit of employees, Cairn India Group accrues the gratuity liability on actuarial valuation done at the period-end, where considered material.

Provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial period, where considered material.

Employee Stock Compensation Cost

The cost of awards to employees under the Company's ultimate parent entity's Long-Term Incentive Plans ('the LTIP') and share option plans are recognised over the three year period to which the performance relates. The amount recognised is based on the fair value of the shares as measured at the date of the award. The awards under the LTIP are valued at the market price at grant date while the shares issued under share options are valued using options pricing model.

The costs of awards to employees in the form of cash but based on share performance (phantom options) are recognised over the period to which the performance relates. The amount recognised is based on the fair value of the liability arising from the transaction.

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

Measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. Cairn India Group measures compensation cost relating to employee stock options using the fair value method. Compensation expense is amortized over the vesting period of the option on a straight line basis.

4. Segmental Reporting

Business segments

The primary reporting of the Company has been prepared on the basis of business segments. The Company has only one business segment, which is the exploration, development and production of oil and gas and operates in a single business segment based on the nature of the products, the risks and returns, the organisation structure and the internal financial reporting systems. Accordingly, the figures appearing in these financial statements relate to the Company's single business segment.

Geographical segments

Secondary segmental reporting is prepared on the basis of the geographical location of customers. The operating interests of the Company are confined to India in terms of oil and gas blocks and customers. Accordingly, the figures appearing in these financial statements relate to the Company's single geographical segment being operations in India.

5. Related party disclosure

(a) Name of related parties:

Holding Company Cairn UK Holdings Limited, UK

Ultimate Holding Company Cairn Energy PLC, UK

Key managerial personnel

Non-executive Directors

Sir William B.B. Gammell, Director

Hamish Grossart, Director

Norman Murray, Director

Lawrence Smyth, Director

Executive Directors

Rahul Dhir, Managing Director and Chief Executive Officer

Jann Brown, Director – up to February 28, 2007

Accounts

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

(b) Following are the fellow subsidiary companies of Company:

Capricorn Energy Limited
Capricorn PA Exploration 1 Limited
Capricorn PA Exploration 2 Limited
Capricorn NEC Exploration 1 Limited
Capricorn NEC Exploration 2 Limited
Capricorn NEC Exploration 3 Limited
Capricorn NEC Exploration 4 Limited
Capricorn KG Exploration 1 Limited
Command Petroleum (Gulf) Limited
Cairn Energy Bangladesh Block 7 BV
Holland Sea Search Holdings N.V.
Holland Sea Search II BV
Cairn Energy International Holdings BV
Cairn Energy Exploration (Bangladesh) Limited
Cairn Energy Sangu Field Limited
Cairn Energy (Bangladesh) Limited
Energy Explorer Limited
Cairn Resources Management Limited
Cairn Energy Management Limited
Cairn Energy Nepal Holdings Limited
Cairn Energy Dhangari Limited
Cairn Energy Karnali Limited
Cairn Energy Lumbini Limited
Cairn Energy Malangawa Limited
Cairn Energy Birganj Limited
Cairn Oil Limited
Cairn Exploration (No. 1) Limited
Cairn Energy North Sea Limited
Cairn Energy Search Limited
Cairn Energy Assets Limited
Cairn Energy Exploration and Production Limited

(c) Transactions during the period

Related Party	Nature of the Transactions	Amount in Rs.
Cairn Energy PLC	Reimbursement of expenses	212,090,358
Cairn UK Holding Ltd	Shares issued during the period (share capital and securities premium)	207,237,873,500
Sir William B.B. Gammell	Directors' sitting fees	100,000
Norman Murray	Directors' sitting fees	80,000
Hamish Grossart	Directors' sitting fees	80,000
Rahul Dhir	Salary as director in company and employee in a subsidiary	2,981,418
Lawrence Smyth	Salary	1,797,274

(d) Balances outstanding:

Nature of transactions	Amount in Rs.
Accounts payable (on gross basis)	
– Cairn Energy PLC	726,303,141
– Cairn UK Holdings Ltd	32,763,069,551
Directors' sitting fees	
– Sir William B.B. Gammell	100,000
– Norman Murray	80,000
– Hamish Grossart	80,000
	260,000
Director's salary	
– Rahul Dhir	861,370

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

6. Supplementary Statutory Information:

Managerial Remuneration

Remuneration paid or payable to Directors	Amount in Rs.
Salary and other benefits	861,370
Sitting fees	260,000

Notes:

(i) The above remuneration does not include provision for gratuity for Managing Director.

(ii) The above remuneration includes Rs.861,370 for the Managing Director, whose appointment is subject to the Central Government approval. The Company had filed an application on December 13, 2006 for such approval, which has been approved by the Central Government subsequent to the period end.

7. The Company, during the current period, has relied on a legal opinion from an expert confirming that the preliminary expenses and share issue expenses can be set-off against the securities premium account as per provisions of Section 78 of the Companies Act, 1956. Accordingly, preliminary/issue expenses amounting to Rs.722,687,148 have been adjusted against securities premium.

8. The Company has been advised by its ultimate parent company and a fellow subsidiary company that they would not recharge certain expenses related to the proposed initial public offer of the Company which have been paid/accrued by the parent entity. Accordingly, these expenses do not form a part of these financial statements.

9. The Company has accrued for the lead management fee, selling commission and underwriting commission (together referred to as 'commission') of Rs.398,340,000 (excluding service tax) being 1.5% of the gross proceeds of the initial public offering and pre-IPO placement to be retained by the Company. However, no accrual has been made in these financial statements for discretionary bonus as management has not decided to exercise such discretion at this stage.

10. The Company has placed a security deposit of Rs.30,000,000 with the designated Stock Exchange (i.e. the National Stock Exchange) and provided a bank guarantee of Rs.688,427,290 to the designated Stock Exchange, being, in aggregate, 1% of the amount of securities offered for subscription to the public. The said security deposit together with bank guarantee is required as per clause 42 of the listing agreement, signed by the Company after the period end with the stock exchanges for ensuring compliance, within the prescribed or stipulated period, with all prevailing requirements of law and the listing requirements and conditions. The security deposit and the bank guarantee will be released by the designated Stock Exchange after the Company obtains No Objection Certificate from Securities and Exchange Board of India as per prescribed guidelines.

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 2: NOTES TO ACCOUNTS – CONTINUED

11. During the period, the Company has entered into the following transactions:

(a) Share capital movement in Cairn India Limited

Date	Number of Shares	Description	Issued at Rs. per Share (including securities premium)	Amount (including securities premium) Rs.
August 21, 2006	50,000	Initial share capital	10	500,000
October 12, 2006, November 22, 2006, December 8, 2006	365,028,898	Issued to its holding company, Cairn UK Holdings Limited, a body corporate, at a securities premium of Rs.180 per equity share, being the higher end of the price band at which the equity shares were being marketed in relation to the initial public offering (IPO)	190	69,355,490,620
December 20, 2006	861,764,893	Issued to its holding company, Cairn UK Holdings Limited by way of share swap arrangement for acquiring 135,267,264 ordinary shares of the Company's subsidiary, Cairn India Holdings Limited.	160	137,882,382,880
December 29, 2006	538,470,588	IPO and pre-IPO placement	160	86,155,294,080
Total	**1,765,314,379**			**293,393,667,580**

(b) During the period, the Company has acquired 251,224,744 shares in Cairn India Holdings Limited for total purchase consideration of Rs.266,818,710,140 including Rs.32,763,069,551 for which purchase consideration was payable to Cairn UK Holdings Limited at December 31, 2006. The purchase consideration for this investment was finalised in February 2007 after considering the final amount payable on exercise of Green Shoe Option.

The above transactions (except for the initial share capital) are based on the terms and conditions prescribed by the Share Purchase Agreement executed between Cairn Energy PLC, Cairn UK Holdings Limited, Cairn India Holdings Limited and the Company dated October 12, 2006 and in accordance with the approvals in this behalf received from the Foreign Investment Promotion Board, Government of India and from other relevant regulatory authorities in India and as per applicable valuation norms. This strategic investment has been made to acquire the oil and gas assets of CIHL and its subsidiaries.

12. (a) The Company has issued 328,799,675 equity shares pursuant to its Initial Public Offer ('IPO') in December 2006 and allotted these shares on December 29, 2006 after filing prospectus dated December 22, 2006 with the Registrar of Companies. The Company has also allotted 209,670,913 equity shares on December 29, 2006 to certain investors as part of pre-IPO placement in November 2006.

(b) Subsequent to the period end, the Company received approval of listing from National Stock Exchange and Bombay Stock Exchange on January 4, 2007 and January 6, 2007 respectively. The equity shares, allotted to the investors based on its prospectus filed with Registrar of Companies on December 22, 2006, were listed in National Stock Exchange and Bombay Stock Exchange on January 9, 2007.

The management is of the view that allotment of equity shares on December 29, 2006 was completed on that day and subsequent listing was a procedural requirement not affecting the completion of IPO before the period end. Accordingly, the share issue expenses relating to IPO have been accrued in these financial statements.

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

(c) Details of utilisation of proceeds raised through public issue during the period:

The proceeds out of the Company's IPO, which has been as referred to in note 12(a) above, amounting to Rs.52,607,948,000 are lying in balances with scheduled banks on current accounts at the period end, being the funds available for following purposes as per the above mentioned prospectus:

i) acquisition of shares in Cairn India Holdings Limited;
ii) to part finance the development of the Rajasthan Block, as well as further development of other producing fields;
iii) to finance the exploration and appraisal activities of the Company; and
iv) general corporate purposes as set out in the prospectus.

13. The shareholders of the Company have approved Cairn India Senior Management Plan (CISMP), Cairn India Performance Option Plan (CIPOP) and Cairn India Employee Stock Option Plan (CIESOP) at an extra ordinary general meeting held on November 17, 2006, such plans being adopted by the Board of Directors of the Company on the same day.

(a) Under the CISMP scheme, the Company has granted options, under equity settlement method, to two directors on November 24, 2006 at exercise price of Rs.33.70 per equity share. Based on the fair value of options, an amount of Rs.1,091,273,035 has been considered as total charge, out of which an amount of Rs.345,058,813 pertaining to the period ended December 31, 2006 has been charged to the Profit and Loss Account.

The options are subject to performance conditions as under:

Description		
Names of the eligible employees	Rahul Dhir, Managing Director	Lawrence Smyth, Director
Number of options granted	6,714,233	1,584,480
Lock in period	12 months from the date of allotment of equity shares	12 months from the date of allotment of equity shares
Vesting Schedule	• 1/3rd of the options will vest on the day following the date on which the equity shares have been admitted to listing on the Stock Exchanges ('admission date').	• 1/2 of the options will vest on the day following the date on which the equity shares have been admitted to listing on the Stock Exchanges.
	• 1/3rd of the options will vest 18 months after the admission date.	• 1/4th of the options will vest on the date on which all major equipment for the start-up of the Mangala field is delivered to site.
	• 1/3rd of the options will vest on achieving 30 days' consecutive production of over 150,000 boepd from the Rajasthan Block.	• 1/4th of the options will vest on achieving 100,000 boepd from the Mangala Field.

The Share Options have been valued using an Option Pricing Model (Black Scholes Model). The main inputs to the model and the Fair Value of the options, based on an independent valuation, are as under:

Variables	Rahul Dhir			Lawrence Smyth		
Stock Price – fair value of the equity shares on the date of grant (Rs.)	160	160	160	160	160	160
Vesting Date	**January 9, 2007**	**July 9, 2008**	**April 1, 2010**	**January 9, 2007**	**July 9, 2008**	**December 31, 2009**
Vesting %	33 1/3rd%	33 1/3rd%	33 1/3rd%	50%	25%	25%
Volatility	45.99%	41.49%	39.67%	45.99%	41.49%	39.67%
Risk free rate	6.82%	7.22%	7.46%	6.82%	7.22%	7.44%
Time to maturity	0.88	2.37	4.10	0.88	2.37	3.85
Fair Value of the options (Rs.)	128.21	131.55	135.31	128.21	131.55	134.79

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

(b) Under CIPOP, the Company will grant options equivalent to 88,265,718 equity shares (when aggregated with the number of options to be granted pursuant to the CIESOP) of the face value of Rs.10 each at an exercise price of Rs.10 each to each of the eligible employees of the Company.

(c) Under CIESOP, the Company will grant options equivalent to 88,265,718 equity shares (when aggregated with the number of options to be granted pursuant to the CIPOP) of the face value of Rs.10 each at an exercise price which will be determined by the Remuneration Committee, but not less than the fair market value of the equity shares on the date of grant to each of the eligible employees of the Company.

14. Lease obligations disclosures

Finance Lease:

The Group has taken finance leases for various items of leaseholds improvements and office equipments all of which provide the specific entity, which holds the lease with the option to purchase. The lease term is 3 to 6 years. There is no escalation clause in the lease agreement. There are no restrictions imposed by lease arrangements and there are no subleases.

	December 31, 2006		
	Instalments due	Principal Amount Due	Interest due
Within one year of the balance sheet date	78,545,551	61,068,740	17,476,811
Due in a period between one year and five years	152,797,268	136,830,471	15,966,797
Due after five years	–	–	–

Operating Lease:

Group entities have entered into commercial leases for Office premises. The leases have a life of 3 to 6 years. There is no escalation clause in the lease agreement for the primary lease period. There are no restrictions imposed by lease arrangements and there are no subleases.

	December 31, 2006
Lease rentals recognised during the period	1,168,113
Minimum lease payments in case of non-cancellable operating leases	
Within one year of the balance sheet date	39,503,460
Due in a period between one year and five years	157,181,021
Due after five years	327,813

15. Contingent liabilities

Claims against the company not acknowledged as debts (net) are as follows:

(i) Arbitration proceedings under the Ravva PSC

In 2002, two of the joint venture parties to the Ravva Production Sharing Contract ('PSC'), Cairn Energy India Pty Limited ('CEI') and Ravva Oil (Singapore) Pte. Limited (collectively the 'Respondents') initiated arbitration proceedings against the Government of India ('GoI') in respect of a number of disputes relating to the recoverability of certain costs and the validity of those costs for the purposes of calculating the post-tax rate of return ('PTRR') for production sharing purposes. On 12 October, 2004, the international arbitral panel ruled in favour of the GoI on some of the issues in dispute and in favour of the Respondents on others.

The GoI has filed an appeal in the Malaysian courts, as Kuala Lumpur was the seat of the arbitration, in respect of one element of the award on which the international arbitral panel found in favour of the Respondents, namely the 'ONGC Carry', which is the Respondents' proportionate share of the entire exploration, development, production and contract costs incurred by ONGC prior to the date of the Ravva PSC. The issue is whether the Respondents are entitled to include in their accounts for the purposes of calculating the PTRR certain costs paid by the Respondents in consideration for ONGC having paid 100% of costs prior to the signing of the Ravva PSC in October 1994. The Respondents are challenging the appeal on the ground that under Malaysian law, an international arbitral award can only be remitted or set aside on the grounds of misconduct or failure in law on the part of the arbitral panel. However, in the event that the GoI's appeal succeeds and the initial arbitration award is reversed on this issue in a way that is enforceable against CEI, then CEI would be liable to make an additional payment of approximately Rs.2,959 million (USD 63.9 million).

Schedules to the Consolidated Financial Statements – Continued

Period from August 21, 2006 to December 31, 2006

SCHEDULE – 23: NOTES TO ACCOUNTS – CONTINUED

In a separate dispute in respect of profit petroleum calculations under the Ravva PSC, CEI has received a claim from the DGH for Rs.1,732 million net to CEI (USD 37.4 million) of alleged underpayments of profit petroleum to the GoI, together with interest on that amount of Rs.315 million net to CEI (USD 6.8 million). This claim relates to the GoI's allegation that the Ravva joint venture has recovered cost in excess of the Base Development Costs ('BDC') cap imposed in the Ravva PSC and that the Ravva joint venture has allowed these excess costs in the calculation of the PTTR calculation.

CEI, and the other parties to the Ravva PSC, have rejected this claim on the basis that, amongst others, the BDC cap only applies to the initial development of the Ravva field and not to subsequent development activities under the Ravva PSC. In addition the Ravva joint venture has also contested the basis of the calculation.

(ii) Central Excise and Service tax demands

CEI has filed an appeal before the Customs, Excise and Service Tax Appellate Tribunal, New Delhi, against an order of the Commissioner of Central Excise, Jaipur, dated February 28, 2006. The Commissioner has upheld a demand of Rs.31.26 million made against CEI in respect of cess payable on pit oil produced from the Rajasthan Block pursuant to the Oil Industry (Development). The total demand sum of Rs.31.26 million is split between a demand for loss for Rs.30.42 million and a demand for National Calamity Contingent Duty ('NCCD') of Rs.0.84 million. The total demand sum was remitted by CEI under protest in November 2004. CEIL has also remitted Rs.0.15 million (representing interest) and Rs.2.1 million (representing a penalty) in relation to the non–payment of NCCD, as stated in the order of the Commissioner of Central Excise. In this matter, CEI has filed another appeal before the Commissioner of Central Excise, Jaipur which is directed against an order of the Deputy Commissioner of Central Excise, Jodhpur, dated March 23, 2006, disallowing a refund of the same sum Rs.31.26 million paid under protest. The appeals filed by CEI are pending adjudication.

16. Capital Commitments

(a) In respect of the Group's share of Joint Ventures Exploration activities – Rs.4,542 million

(b) In respect of the Group's share of Joint Ventures towards Development activities – Rs.1,843 million.

17. CIHL became the subsidiary of the Company on December 20, 2006, through acquisition of effective 75.69% stake, and became the wholly owned subsidiary of the Company on December 29, 2006. Profit of Rs.25,184,560 attributable to minority interest arising due to CIHL and its subsidiaries not being wholly owned subsidiaries for the period of nine days from December 20, 2006 to December 29, 2006 has been adjusted from the consolidated loss of Cairn India Limited and its subsidiaries. CIHL and its subsidiaries together earned profit for the period of nine days from December 20, 2006 to December 29, 2006. However, on account of the loss of Rs.292,240,985 in the standalone financial statements of the Company, Cairn India Limited together with its subsidiaries has incurred a loss of Rs.186,557,677 for the entire accounting period.

18. Prior period comparatives

The Company was incorporated on August 21, 2006 and accordingly, statement of profit and loss and cash flows of Cairn India Group has been prepared for the period from August 21, 2006 to December 31, 2006 ('the period') and the balance sheet has been prepared as at December 31, 2006. Accordingly, there are no prior period comparative figures.

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Mahendra Jain
Partner
Membership No. 205839

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Indrajit Banerjee
Executive Director and
Chief Financial Officer

Marshall Mendonza
Company Secretary

Place: Gurgaon
Date: April 27, 2007

Consolidated Statement of Cash Flows

For The Period From August 21, 2006 To December 31, 2006

(All amounts are in Indian Rupees, unless otherwise stated) (Brackets indicate cash outflow or deduction)	Period from August 21, 2006 to December 31, 2006
Cash flow from operating activities	
Loss before taxation for the period	(130,130,717)
Adjustment for non-cash expenses	
– Employee compensation expense (stock options)	345,058,813
– Depreciation, depletion and site restoration costs	61,225,521
– Unsuccessful exploration costs	59,480,772
– Preliminary and share issue expenses adjusted against securities premium	(722,687,148)
	(387,052,759)
Operating loss before working capital changes	
Movements in working capital:	
Decrease in Inventories	28,897,849
Increase in Debtors	(181,453,156)
Increase in loans and advances and other current assets	(26,232,571)
Decrease in current liabilities and provisions (net of Rs.32,763,069,551 being purchase consideration payable for investment in subsidiary, also refer note 11(b) under schedule 23)	(757,832,226)
Cash used in operations	(1,323,672,863)
Net cash used in operating activities (A)	**(1,323,672,863)**
Cash flow from investing activities	
Long-term, unquoted investment made during the period (net of share swap transaction of Rs.137,882,382,880, also refer note 11(a) under schedule 23)	(96,173,257,709)
Net cash used in investing activities (B)	**(96,173,257,709)**
Cash flow from financing activities	
Issue of equity shares for cash (including securities premium but net of share swap transaction of Rs.137,882,382,880, also refer note 11(a) under schedule 23)	155,511,284,700
Unsecured loans	
– Overdraft from a bank	204,707,562
– Others	1,017,980,000
Net cash from financing activities (C)	**156,733,972,262**
Net increase in cash and cash equivalents (A+B+C)	**59,237,041,690**
Cash and cash equivalents resulting from the acquisition of subsidiaries on December 20, 2006	2,110,791,266
Cash and cash equivalents at the end of the period	61,347,832,957

Components of cash and cash equivalents as at	**December 31, 2006**
Cash balance	84,349
Balances with scheduled banks	
– on current accounts	53,824,102,598
– on deposit accounts	7,523,646,010
	61,347,832,957

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Mahendra Jain
Partner
Membership No. 205839

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Indrajit Banerjee
Executive Director and
Chief Financial Officer

Marshall Mendonza
Company Secretary

Place: Gurgaon
Date: April 27, 2007

Statement Pursuant to Section 212 (8) of The Companies Act, 1956

Pursuant to the provision of Section 212 (8) of the Companies Act, 1956, the Company has obtained exemption from the Ministry of Company Affairs, New Delhi, vide its letter No 47/232/2007-CL-III dated May 25, 2007 to attach accounts of the subsidiaries. The accounts of the subsidiaries are available for inspection of members on any working day at the Registered Office of the Company between 10 am and 12 noon. A statement pursuant to the above order giving details of subsidiaries is given below:

(All amounts are in Indian Rupees, unless otherwise stated)

Sr.No.	Name of the Subsidiary Company	Capital	Reserves	Total assets	Total liabilities	Investments*	Details of investments	Turnover	Profit/(loss) before taxation	Provision for taxation	Profit/(loss) after taxation	Proposed dividend
1	Cairn India Holdings Limited	22,340,993,332	2,431,070	1,372,602	3,993,532	–	–	–	1,311,292	–	1,311,292	NIL
2	Cairn Energy Gujarat Block 1 Limited	46,376	(23,222,345)	2,112,480	25,288,449	–	–	–	26,028,696	–	26,028,696	NIL
3	Cairn Exploration (No.7) Limited	87	(7,515,915)	868,132	8,383,961	–	–	–	(7,515,915)	–	(7,515,915)	NIL
4	Cairn Exploration (No.6) Limited	87	(1,620,328)	–	1,620,241	–	–	–	(1,620,328)	–	(1,620,328)	NIL
5	Cairn Exploration (No.4) Limited	87	(87)	–	–	–	–	–	(87)	–	(87)	NIL
6	Cairn Exploration (No.2) Limited	87	(46,512,220)	–	46,512,133	–	–	–	(46,512,220)	–	(46,512,220)	NIL
7	Cairn Energy Discovery Limited	1,956,262	(43,091,666)	3,123,721	44,259,125	–	–	–	4,473,931	–	4,473,931	NIL
8	Cairn Energy Hydrocarbons Limited	2,755,859,931	(4,794,430,717)	9,839,462,639	11,878,033,424	–	–	–	(1,753,581,947)	(116)	(1,753,581,831)	NIL
9	Cairn Petroleum India Limited	87	(87)	–	–	–	–	–	(87)	–	(87)	NIL
10	Cairn Energy Holdings Limited	4,053,725,828	7,080,786,445	13,720,183	173,724,311	–	–	–	(30,926,785)	36,805,347	(67,732,132)	NIL
11	Cairn Energy Netherlands Holdings BV	759,926	12,977,286,434	5,303,411,265	37,230,451	–	–	–	1,805,959,171	–	1,805,959,171	NIL
12	Cairn Energy Group Holdings BV	4,276,263	6,614,712,018	921,271,129	446,536,057	–	–	–	17,913,900	–	17,913,900	NIL
13	Cairn Energy India Holdings BV	790,376	3,514,788	1,231,579	87,546	–	–	–	191,749,154	–	191,749,154	NIL
14	Cairn Energy Gujarat Holding BV	790,376	1	1	–	–	–	–	74,930	–	74,930	NIL
15	Cairn Energy Gujarat BV	790,376	940,845,940	1,275,400,451	333,764,134	–	–	909,023,517	691,448,231	70,316,606	621,131,625	NIL
16	Cairn Energy India West Holding BV	790,747	(371)	1	–	–	–	–	74,459	–	74,459	NIL
17	Cairn Energy India West BV	790,376	1,355,819,427	1,746,859,280	390,249,476	–	–	1,208,157,778	510,861,238	54,880,449	455,980,789	NIL
18	Cairn Energy Cambay Holding BV	788,956	70,473	–	–	–	–	–	88,607	–	88,607	NIL
19	Cairn Energy Cambay BV	790,376	1,066,191,837	1,368,465,916	301,483,703	–	–	913,746,141	385,494,887	43,237,700	342,257,187	NIL
20	Cairn Energy Australia Pty. Limited	3,397,090,598	5,811,168,287	1,746,939	62,794,611	–	–	–	2,861,736,808	46,357,020	2,815,379,789	NIL
21	CEH Australia Limited	73	–	–	–	–	–	–	–	–	–	NIL
22	CEH Australia Pty. Limited	73	(73)	–	–	–	–	–	(99)	–	(99)	NIL
23	Cairn Energy Asia Pty. Limited	85,734,262	1,557,666,670	976,640,740	143,888,325	–	–	–	(1,729,384,145)	(46,355,979)	(1,683,028,166)	NIL
24	Wessington Investments Pty. Limited	194,542,500	(194,542,500)	–	–	–	–	–	(416,958,187)	–	(416,958,187)	NIL
25	Cairn Energy Investments Australia Pty. Limited	1,590,604,821	(1,494,806,934)	–	–	–	–	–	(635,622,568)	–	(635,622,568)	NIL
26	Sydney Oil Company Pty. Limited	163,617,169	971,726,773	–	–	–	–	–	(40,748,642)	–	(40,748,642)	NIL
27	Cairn Energy India Pty. Limited	1,116,837,481	4,572,082,287	15,828,450,175	10,143,695,976	4,165,568	Long term investments (at cost) – unquoted and trade: 755,275 equity shares of Rs.10 each fully paid up in Videocon Industries Limited	6,979,692,936	2,150,096,421	1,307,889,272	842,207,149	NIL

*Other than investments in subsidiaries.

For and on behalf of the Board of Directors

Rahul Dhir
Managing Director and Chief Executive Officer

Aman Mehta
Director

Indrajit Banerjee
Executive Director and Chief Financial Officer

Marshall Mendonza
Company Secretary

Place: Edinburgh
Date: July 30, 2007

Statement Pursuant to Section 212 of The Companies Act, 1956

(All amounts are in Indian Rupees, unless otherwise stated)

						Profits/(Losses) so far it concerns the members of the Holding Company and not dealt with in the books of account of the Holding Company		Profits/(Losses) so far it concerns the members of the Holding Company and dealt with in the books of account of the Holding Company	
Sr. No.	Name of the Subsidiary Company	Name of the Holding Company	Number of equity shares held	Extent of holding	Financial year of the Subsidiary ended on	For the financial year of the Subsidiary	For the previous financial year(s) since it became a Subsidiary	For the financial year of the Subsidiary	For the previous financial year(s) since it became a Subsidiary
1	Cairn India Holdings Limited	Cairn India Limited	251,224,744 shares of £1 each	100%	31-Dec-2006	1,377,332	Not applicable	–	Not applicable
2	Cairn Energy Gujarat Block 1 Limited	Cairn India Holdings Limited	551 ordinary shares of £1 each	100%	31-Dec-2006	(1,765,326)	Not applicable	–	Not applicable
3	Cairn Exploration (No.7) Limited	Cairn India Holdings Limited	1 ordinary share of £1 each	100%	31-Dec-2006	(679,620)	Not applicable	–	Not applicable
4	Cairn Exploration (No.6) Limited	Cairn India Holdings Limited	1 ordinary share of £1 each	100%	31-Dec-2006	(105,365)	Not applicable	–	Not applicable
5	Cairn Exploration (No.4) Limited	Cairn India Holdings Limited	1 ordinary share of £1 each	100%	31-Dec-2006	–	Not applicable	–	Not applicable
6	Cairn Exploration (No.2) Limited	Cairn India Holdings Limited	1 ordinary share of £1 each	100%	31-Dec-2006	(4,462,987)	Not applicable	–	Not applicable
7	Cairn Energy Discovery Limited	Cairn India Holdings Limited	23,216 ordinary shares of £1 each	100%	31-Dec-2006	(405,625)	Not applicable	–	Not applicable
8	Cairn Energy Hydrocarbons Limited	Cairn India Holdings Limited	31,341,712 ordinary shares of £1 each	100%	31-Dec-2006	(1,555,202)	Not applicable	–	Not applicable
9	Cairn Petroleum India Limited	Cairn India Holdings Limited	1 ordinary share of £1 each	100%	31-Dec-2006	(0)	Not applicable	–	Not applicable
10	Cairn Energy Holdings Limited	Cairn India Holdings Limited	67,418,405 ordinary shares of £1 each	100%	31-Dec-2006	(1,441,463)	Not applicable	–	Not applicable
11	Cairn Energy Netherlands Holdings BV.	Cairn Energy Holdings Limited	18 equity shares of EUR 1,000 each	100%	31-Dec-2006	(16,343,846)	Not applicable	–	Not applicable
12	Cairn Energy Group Holdings BV.	Cairn Energy Netherlands Holdings BV.	215 equity shares of NLG 1,000 each (in accordance with Article 2:178c of the Dutch Civil Code, this sum converts to EUR 453.78)	100%	31-Dec-2006	(1,335,585)	Not applicable	–	Not applicable
13	Cairn Energy India Holdings BV.	Cairn Energy Group Holdings BV.	40 equity shares of NLG 1,000 each (in accordance with Article 2:178c of the Dutch Civil Code, this sum converts to EUR 453.78)	100%	31-Dec-2006	56,327	Not applicable	–	Not applicable
14	Cairn Energy Gujarat Holding BV.	Cairn Energy India Holdings BV.	41 shares of EUR 454 each	100%	31-Dec-2006	–	Not applicable	–	Not applicable
15	Cairn Energy Gujarat BV.	Cairn Energy Gujarat Holding BV.	40 shares of NLG 1,000 each (in accordance with Article 2:178c of the Dutch Civil Code, this sum converts to EUR 453.78)	100%	31-Dec-2006	11,519,019	Not applicable	–	Not applicable
16	Cairn Energy India West Holding BV.	Cairn Energy India Holdings BV.	41 shares of EUR 454 each	100%	31-Dec-2006	–	Not applicable	–	Not applicable
17	Cairn Energy India West BV.	Cairn Energy India West Holding BV.	40 shares of NLG 1,000 each (in accordance with Article 2:178c of the Dutch Civil Code, this sum converts to EUR 453.78)	100%	31-Dec-2006	15,160,095	Not applicable	–	Not applicable
18	Cairn Energy Cambay Holding BV.	Cairn Energy India Holdings BV.	18 shares of EUR 1,000 each	100%	31-Dec-2006	–	Not applicable	–	Not applicable
19	Cairn Energy Cambay BV.	Cairn Energy Cambay Holding BV.	40 shares of NLG 1,000 each (in accordance with Article 2:178c of the Dutch Civil Code, this sum converts to EUR 453.78)	100%	31-Dec-2006	13,939,992	Not applicable	–	Not applicable
20	Cairn Energy Australia Pty. Limited	Cairn Energy Group Holdings BV.	116,789,079 ordinary shares of AUS$1 each	100%	31-Dec-2006	266,572	Not applicable	–	Not applicable

(All amounts are in Indian Rupees, unless otherwise stated)

Sr. No.	Name of the Subsidiary Company	Name of the Holding Company	Number of equity shares held	Extent of holding	Financial year of the Subsidiary ended on	Profits/(Losses) so far it concerns the members of the Holding Company and not dealt with in the books of account of the Holding Company		Profits/(Losses) so far it concerns the members of the Holding Company and dealt with in the books of account of the Holding Company	
						For the financial year of the Subsidiary	For the previous financial year(s) since it became a Subsidiary	For the financial year of the Subsidiary	For the previous financial year(s) since it became a Subsidiary
21	CEH Australia Limited	Cairn Energy Australia Pty Limited	100 shares of US$1 each	100%	31-Dec-2006	–	Not applicable	–	Not applicable
22	CEH Australia Pty. Limited	CEH Australia Limited	2 ordinary shares of AUS$1 each	100%	31-Dec-2006	–	Not applicable	–	Not applicable
23	Cairn Energy Asia Pty. Limited	Cairn Energy Australia Pty Limited	330,522,617 ordinary shares of AUS$1 each	100%	31-Dec-2006	(3,267,575)	Not applicable	–	Not applicable
24	Wessington Investments Pty. Limited	Cairn Energy Asia Pty Limited	30,000,000 ordinary shares of AUS$0.25 each	100%	31-Dec-2006	–	Not applicable	–	Not applicable
25	Cairn Energy Investments Australia Pty. Limited	Cairn Energy Asia Pty Limited	144,101,302 ordinary shares of AUS$1 each	100%	31-Dec-2006	17,633	Not applicable	–	Not applicable
26	Sydney Oil Company Pty. Limited	Cairn Energy Investments Australia Pty Limited	27,024,288 ordinary shares of AUS$0.25 each	100%	31-Dec-2006	559,865	Not applicable	–	Not applicable
27	Cairn Energy India Pty. Limited	Sydney Oil Company Pty. Limited	2 ordinary shares of AUS$1 each and 1,000 ordinary shares of AUS$45,792.67 each	100%	31-Dec-2006	68,964,506	Not applicable	–	Not applicable

For and on behalf of the Board of Directors

Rahul Dhir
Managing Director and Chief Executive Officer

Aman Mehta
Director

Indrajit Banerjee
Executive Director and Chief Financial Officer

Marshall Mendonza
Company Secretary

Place: Edinburgh
Date: July 30, 2007