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## consolidated financial statements

### auditor's report

#### To the Board of Directors of Cairn India Limited

1. 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, 2007 and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended December 31, 2007, 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.
2. 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.
3. 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 notified under the Companies (Accounting Standard) Rules, 2006.
4. 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, 2007;
  - (b) in the case of the consolidated profit and loss account, of the loss of the Cairn India Group for the year ended December 31, 2007; and
  - (c) in the case of the consolidated cash flow statement, of the cash flows of the Cairn India Group for the year ended December 31, 2007.

For S.R. BATLIBOI & ASSOCIATES  
Chartered Accountants

#### Per Raj Agrawal

Partner  
Membership No.: 82028

PLACE : GURGAON  
DATE : MARCH 31, 2008

# consolidated balance sheet

AS AT DECEMBER 31, 2007

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

	Schedules	As at December 31, 2007	As at December 31, 2006
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' funds</b>			
Share capital	1	17,783,994,200	17,653,143,790
Stock options outstanding	2	947,083,827	345,058,813
Reserves and surplus	3	276,084,115,059	275,017,836,642
		294,815,193,086	293,016,039,245
<b>Loan funds</b>			
Secured Loans (Finance lease liability)		169,361,168	194,144,882
Unsecured loans	4	2,955,000,000	4,984,787,562
		3,124,361,168	5,178,932,444
Deferred tax liability (net)	5	4,916,494,278	4,152,300,349
		<b>302,856,048,532</b>	<b>302,347,272,038</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed assets</b>			
	6		
Gross cost		1,092,631,918	1,326,837,080
Less: Accumulated depreciation/amortisation		606,125,938	831,386,968
Net book value		486,505,980	495,450,112
<b>Exploration, Development and Site-restoration costs</b>			
	7		
Cost of producing facilities (net)		4,389,517,286	2,976,131,767
Exploratory & development wells in progress		24,670,263,942	17,122,353,160
Net book value		29,059,781,228	20,098,484,927
<b>Goodwill</b>		253,192,674,502	253,192,674,502
<b>Investments</b>	8	7,128,908,794	105,333,750
<b>Current assets, loans and advances</b>			
Inventories	9	1,216,047,411	1,251,108,962
Sundry debtors	10	1,348,577,861	1,917,478,708
Cash and bank balances	11	13,317,907,346	61,347,832,957
Other current assets	12	134,533,631	12,752,137
Loans and advances	13	4,515,721,140	2,761,686,514
		20,532,787,389	67,290,859,278
<b>Less: Current liabilities and provisions</b>			
Current liabilities	14A	4,691,797,528	36,742,756,514
Provisions	14B	3,680,149,718	2,811,126,380
		8,371,947,246	39,553,882,894
<b>Net Current assets</b>		12,160,840,143	27,736,976,384
<b>Miscellaneous expenditure (to the extent not written off or adjusted)</b>	15	370,153,749	506,610,126
<b>Profit &amp; Loss account (Debit Balance)</b>		457,184,136	211,742,237
		<b>302,856,048,532</b>	<b>302,347,272,038</b>
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 Raj Agrawal  
Partner  
Membership No. 82028

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 : MARCH 31, 2008

## consolidated profit and loss account

### FOR THE YEAR ENDED DECEMBER 31, 2007

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

	Schedules	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
<b>INCOME</b>			
Income from Operations	16	10,122,626,751	387,417,401
Other income	17	1,324,089,441	62,214,649
		<b>11,446,716,192</b>	<b>449,632,050</b>
<b>EXPENDITURE</b>			
Operating expenses	18	1,945,812,072	53,119,541
Depletion and site restoration costs	7	1,906,378,894	54,706,398
Unsuccessful exploration costs	7	2,512,282,298	59,480,772
Administrative expenses	19	3,737,004,724	374,292,581
(Increase)/decrease in inventories	20	(111,714,347)	28,897,849
Depreciation and amortisation	6	170,676,931	6,519,123
Finance costs	21	27,048,858	2,746,503
		<b>10,187,489,430</b>	<b>579,762,767</b>
<b>Profit/(Loss) before taxation</b>		<b>1,259,226,762</b>	<b>(130,130,717)</b>
Current tax		387,755,986	11,777,168
Deferred tax		764,193,929	43,860,662
Fringe Benefit Tax		352,718,746	789,130
		1,504,668,661	56,426,960
<b>Profit/(Loss) for the year/period</b>		<b>(245,441,899)</b>	<b>(186,557,677)</b>
Less: Profit/(Loss) attributable to minority interest		-	25,184,560
<b>Profit/(Loss) for the period attributable to equity shareholders</b>		<b>(245,441,899)</b>	<b>(211,742,237)</b>
Deficit brought forward from the previous period		(211,742,237)	-
<b>Deficit Carried to Balance sheet</b>		<b>(457,184,136)</b>	<b>(211,742,237)</b>
Loss per share	22		
Basic		0.14	0.68
Diluted (considered anti-dilutive)		0.14	0.68
[Nominal value of shares Rs. 10]			
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 Raj Agrawal**  
Partner  
Membership No. 82028

**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 : MARCH 31, 2008

# consolidated statement of cash flows

FOR THE YEAR ENDED DECEMBER 31, 2007

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

Particulars	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
<b>Cash flow from operating activities</b>		
Profit/Loss before taxation for the year/period	1,259,226,762	(130,130,717)
Adjustments for		
- Employee compensation expense (stock options)	780,364,594	345,058,813
- Depreciation, depletion and site restoration costs	2,077,055,825	61,225,521
- Loss on sale/discard of fixed assets	10,054,922	-
- Unsuccessful exploration costs	2,512,282,298	59,480,772
- Unrealised (gain) on restatement of assets and liabilities (net)	1,844,459,634	-
- Interest expense	8,255,626	-
- Interest income	(727,431,156)	-
- Premium on forward exchange contracts amortised	63,010,080	-
- Income from investments	(595,663,088)	-
<b>Operating profit before working capital changes</b>	<b>7,231,615,497</b>	<b>335,634,389</b>
Movements in working capital:		
(Increase)/decrease in inventories	35,061,551	28,897,849
(Increase)/decrease in debtors	406,420,067	(181,453,156)
(Increase)/decrease in loans and advances and other current assets	(1,998,425,930)	(26,232,571)
Increase/(decrease) in current liabilities and provisions	649,254,778	(757,832,226)
Cash from/(used in) operations	6,323,925,963	(600,985,715)
Current tax/FBT paid (net of refunds)	(819,797,420)	-
Net cash from/(used in) operating activities (A)	<b>5,504,128,543</b>	<b>(600,985,715)</b>
<b>Cash flow from investing activities</b>		
Payments made for acquisition of subsidiaries	(32,763,069,551)	(96,173,257,709)
Payment made for exploration and development activities	(11,566,912,947)	-
Purchase of fixed assets	(176,058,218)	-
Mutual funds purchased	(15,295,380,222)	-
Fixed deposits made	(14,076,538,177)	-
Mutual funds sold	8,271,805,178	-
Proceeds from sale of fixed assets	4,270,497	-
Interest received	710,969,467	-
Dividend from investments received	587,403,172	-
Net cash used in investing activities (B)	<b>(64,303,510,801)</b>	<b>(96,173,257,709)</b>
<b>Cash flow from financing activities</b>		
Issue of equity shares for cash (including securities premium)	2,093,606,560	155,511,284,700
Share issue expenses	(1,422,256,654)	(722,687,148)
Proceeds/(Repayment) of short term loans (net)	(204,707,562)	204,707,562
Proceeds from long term borrowings	31,216,617	-
Repayment of long term borrowings	(1,517,999,332)	1,017,980,000
Interest paid	(24,502,982)	-
Net cash from/(used in) financing activities (C)	<b>(1,044,643,353)</b>	<b>156,011,285,114</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>(59,844,025,611)</b>	<b>59,237,041,690</b>
Cash and cash equivalents at the beginning of the year/period	61,347,832,957	-
Cash and cash equivalents resulting from the acquisition of subsidiaries on December 20, 2006	-	2,110,791,267
<b>Cash and cash equivalents at the end of the year/period</b>	<b>1,503,807,346</b>	<b>61,347,832,957</b>
<b>Components of cash and cash equivalents as at</b>		
	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Cash in hand	108,192	84,349
Balances with scheduled banks		
on current accounts	609,095,761	53,823,876,384
on deposit accounts	12,708,703,393	7,523,872,224
Less: Deposits having maturity of over 90 days	(11,814,100,000)	-
	<b>1,503,807,346</b>	<b>61,347,832,957</b>

Notes:

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard-3 on "Cash flow statements".
- Figures in brackets indicate a cash outflow or deduction.

As per our report of even date

For S. R. Batliboi & Associates  
Chartered Accountants

For and on behalf of the Board of Directors

**per Raj Agrawal**  
Partner  
Membership No. 82028

**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 : MARCH 31, 2008

## schedules to the consolidated financial statements

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

	As at December 31, 2007	As at December 31, 2006
<b>Schedule - 1</b>		
<b>Share capital</b>		
<b>Authorised:</b>		
2,250,000,000 equity shares (previous period : 2,250,000,000 equity shares) of Rs. 10 each	<b>22,500,000,000</b>	<b>22,500,000,000</b>
<b>Issued, subscribed and paid up:</b>		
1,778,399,420 (previous period 1,765,314,379) equity shares of Rs.10 each * (refer note 7(a) under schedule 23)	17,783,994,200	17,653,143,790
	<b>17,783,994,200</b>	<b>17,653,143,790</b>
*Of the above, 1,239,928,832 equity shares (previous period - 1,226,843,791 equity shares) of Rs. 10 each are held by Cairn UK Holdings Limited, the Holding Company together with its nominees including 861,764,893 equity shares (previous period - 861,764,893 equity shares) of Rs.10 each, which are allotted as fully paid up pursuant to contracts for consideration other than cash.		
<b>Schedule - 2</b>		
<b>Stock options outstanding</b>		
Employee stock options outstanding	2,496,094,791	1,091,273,035
Less: Deferred employee compensation outstanding	(1,549,010,964)	(746,214,222)
Closing Balance	<b>947,083,827</b>	<b>345,058,813</b>
<b>Schedule - 3</b>		
<b>Reserves and surplus</b>		
<b>Securities premium account</b>		
Opening balance	275,017,836,642	-
Add: Additions during the year	1,962,756,150	275,740,523,790
Less: Adjustment against share preliminary expenses/share issue expenses	(896,477,733)	(722,687,148)
Closing Balance	<b>276,084,115,059</b>	<b>275,017,836,642</b>
<b>Schedule - 4</b>		
<b>Unsecured Loans</b>		
Short term loan - overdraft from bank	-	204,707,562
Long Term Loans*		
- from International Finance Corporation	521,470,584	717,012,000
- from banks	2,433,529,416	4,063,068,000
	<b>2,955,000,000</b>	<b>4,984,787,562</b>
* 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 22 November 2006 principally to finance development activities in Rajasthan This facility is provided by a consortium of 10 International banks (expiry date 31 December 2011) and the International Finance Corporation (expiry date 31 December 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.		
<b>Schedule - 5</b>		
<b>Deferred tax liability (net)</b>		
Differences in block of fixed assets as per tax books and financial books	4,624,026,263	4,481,109,703
<b>Gross deferred tax liabilities</b>	<b>4,624,026,263</b>	<b>4,481,109,703</b>
Effect of lease accounting	8,971,745	8,884,640
Tax losses carried forward	-	107,294,918
Expenditure debited to profit and loss but allowed for tax purposes in following years	283,496,270	212,629,796
<b>Gross deferred tax assets</b>	<b>292,468,015</b>	<b>328,809,354</b>
<b>Net Deferred tax liability</b>	<b>4,916,494,278</b>	<b>4,152,300,349</b>

## schedules to the consolidated financial statements - continued

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

### Schedule - 6

#### Fixed Assets

Description	Gross Block			Accumulated Depreciation				Net Block		
	As on 01.01.2007	Additions	Deletions/ Adjustments	As on 31.12.2007	As on 01.01.2007	For the year	Deletions / Adjustments	As on 31.12.2007	As on 01.01.2007	As on 31.12.2007
<b>A) Tangible Assets</b>										
Freehold land	43,582,293	-	-	43,582,293	-	-	-	-	43,582,293	43,582,293
Buildings	5,041,343	205,405	-	5,246,748	608,325	500,758	-	1,109,083	4,433,018	4,137,665
Office equipments	512,328,182	72,659,215	(220,235,164)	364,752,233	397,688,125	48,342,906	(212,264,815)	233,766,216	114,640,057	130,986,017
Furniture and fittings	228,998,984	20,163,096	(48,199,725)	200,962,355	96,928,719	23,605,809	(44,440,070)	76,094,458	132,070,265	124,867,897
Vehicles	945,367	-	-	945,367	910,273	4,386	-	914,659	35,094	30,708
<b>B) Intangible Assets</b>										
Computer software	535,940,911	83,030,502	(141,828,491)	477,142,922	335,251,526	98,223,072	(139,233,076)	294,241,522	200,689,385	182,901,400
<b>Grand Total</b>	<b>1,326,837,080</b>	<b>176,058,218</b>	<b>(410,263,380)</b>	<b>1,092,631,918</b>	<b>831,386,968</b>	<b>170,676,931</b>	<b>(395,937,961)</b>	<b>606,125,938</b>	<b>495,450,112</b>	<b>486,505,980</b>
<b>Previous period</b>	<b>-</b>	<b>1,326,837,080</b>	<b>-</b>	<b>1,326,837,080</b>	<b>-</b>	<b>831,386,968</b>	<b>-</b>	<b>831,386,968</b>	<b>-</b>	<b>495,450,112</b>

Notes:

- Furniture and fittings includes Leasehold improvements of Rs. 165,013,414 (Previous period Rs. 148,181,492), accumulated depreciation thereon Rs. 49,881,923 (Previous period Rs. 24,765,335).
- Leasehold improvements and Office equipments of Rs. 164,388,911 (Previous period Rs. 147,556,988) and Rs. 135,539,217 (Previous period Rs. 119,905,556) respectively; Accumulated depreciation thereon Rs. 49,786,166 (Previous period Rs. 24,690,395) and Rs. 78,741,101 (Previous period Rs. 54,560,406) respectively; have been acquired under finance lease.
- Additions to gross block and depreciation for the period ended December 31, 2006 include Rs. 1,326,837,080 and Rs. 824,867,845 respectively representing assets and accumulated depreciation thereon acquired on acquisition of subsidiary.

### Schedule - 7

#### Exploration, Development and Site restoration Costs

	As at December 31, 2007	As at December 31, 2006
<b>Opening balance of producing properties</b>	2,976,131,767	-
Cost of producing properties resulting on acquisition of subsidiaries	-	12,043,993,143
Additions/Deletions/Transfer for the year/period	3,319,764,413	188,931,228
	6,295,896,180	12,232,924,371
<b>Less: Depletion and site restoration costs</b>		
- Depletion and site restoration costs resulting on acquisition of subsidiaries	-	9,202,086,206
- Depletion and site restoration costs for the year/period	1,906,378,894	54,706,398
	1,906,378,894	9,256,792,604
<b>Net producing properties</b>	<b>4,389,517,286</b>	<b>2,976,131,767</b>
<b>Opening Balance of exploratory &amp; development wells in progress</b>	17,122,353,160	-
Cost of exploration and development wells in progress resulting on acquisition of subsidiaries	-	16,953,717,426
Additions/Deletions/Transfer for the year/period	10,060,193,080	228,116,506
Less: Unsuccessful exploration costs for the year / period	2,512,282,298	59,480,772
<b>Exploration and Development wells in progress</b>	<b>24,670,263,942</b>	<b>17,122,353,160</b>
<b>Net book value at December 31, 2007</b>	<b>29,059,781,228</b>	<b>20,098,484,927</b>

Note: Additions for the year includes borrowing costs aggregating to Rs.573,983,377 (Previous period Rs 120,906,091)

### Schedule - 8

#### Investments

##### Long term investments (at cost)

Quoted and non-trade		
755,275 equity shares of Rs 10/- each fully paid up in Videocon Industries Limited*	105,333,750	105,333,750

##### Current Investments (at lower of cost and market value)

Unquoted and non trade		
Mutual Funds (Refer note no.10 in schedule 23)	7,023,575,044	-

**7,128,908,794** **105,333,750**

Aggregate amount of unquoted investments	7,023,575,044	-
Repurchase price of mutual fund units, represented by Net Asset Value	7,084,005,617	-

\* Market value Rs. 626,651,668 (Previous period Rs. 348,257,303)

## schedules to the consolidated financial statements - continued

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

	As at December 31, 2007	As at December 31, 2006
<b>Schedule - 9</b>		
<b>Inventories</b>		
Stores and spares	906,671,765	1,053,447,663
Finished goods	309,375,646	197,661,299
	<b>1,216,047,411</b>	<b>1,251,108,962</b>

### Schedule - 10 Sundry Debtors

Debts - Unsecured and outstanding for a period exceeding six months :		
- Considered Good	8,587,051	41,031,604
- Considered doubtful	62,025,406	22,130,000
Other unsecured debts :		
- Considered Good	1,339,990,810	1,876,447,104
	<b>1,410,603,267</b>	<b>1,939,608,708</b>
Less: Provision for doubtful debts	(62,025,406)	(22,130,000)
	<b>1,348,577,861</b>	<b>1,917,478,708</b>

### Schedule - 11 Cash and bank balances

Cash in hand	108,192	84,349
Balances with Scheduled & Other Banks:		
- on current accounts	609,095,761	53,823,876,384
- on deposit accounts (including deposits more than 3 months)	12,708,703,393	7,523,872,224
	<b>13,317,907,346</b>	<b>61,347,832,957</b>

### Schedule - 12 Other Current Assets

Interest accrued on bank deposits	28,614,472	12,752,137
Dividend receivable	8,259,916	-
Unamortized premium on forward exchange contracts	97,659,243	-
	<b>134,533,631</b>	<b>12,752,137</b>

### Schedule - 13 Loans and advances

Unsecured and considered good:		
Advances recoverable in cash or kind or for value to be received	3,923,190,698	2,538,525,795
Deposits	25,169,475	48,635,938
Advance tax and tax deducted at source (net of tax provisions Rs 3,011,025,874 previous period Rs 2,496,051,247)	565,441,465	174,524,781
Fringe benefit tax paid (net of provisions Rs 60,00,000 previous period 8,119,502)	1,919,502	-
	<b>4,515,721,140</b>	<b>2,761,686,514</b>

### Schedule - 14A Current liabilities

Amounts payable to:		
- Cairn UK Holdings Limited, the Holding Company *	-	32,763,069,551
- Cairn Energy PLC, the ultimate Holding Company	700,350,531	726,303,141
Sundry creditors	3,921,412,846	3,210,603,096
Other liabilities	48,651,496	3,793,851
Interest accrued but not due	21,382,655	38,986,875
	<b>4,691,797,528</b>	<b>36,742,756,514</b>

\* payable towards acquisition of shares in Cairn India Holdings Limited

## schedules to the consolidated financial statements - continued

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

	As at December 31, 2007	As at December 31, 2006
<b>Schedule - 14B</b>		
<b>Provisions</b>		
Provision for taxation (net of advance tax -Nil previous period Rs.113,052,449)	222,901,032	250,341,190
Provision for Fringe Benefit Tax (net of advance tax payments, Rs.258,000 previous period - Nil)	339,034,153	-
Site restoration provision *	2,714,913,092	2,232,263,722
Provision for Government share of profit petroleum **	362,381,517	306,211,340
Provision for leave encashment	3,941,000	6,796,019
Provision for gratuity	36,978,924	15,514,109
	<b>3,680,149,718</b>	<b>2,811,126,380</b>

\* Site restoration provision

<b>Opening balance</b>	2,232,263,722	-
Arising on acquisition of subsidiaries	-	2,232,263,722
Additions for the year/period	482,649,370	-
Closing balance	<b>2,714,913,092</b>	<b>2,232,263,722</b>

\*\* Provision for Government share of profit petroleum

Opening Balance	306,211,340	-
Arising on acquisition of subsidiaries	-	291,110,020
Additions for the year / period	6,438,550,299	249,532,130
Payments during the year / period	(6,382,380,122)	(234,430,810)
Closing Balance	<b>362,381,517</b>	<b>306,211,340</b>

### Schedule - 15

#### Miscellaneous expenditure (to the extent not written off or adjusted)

##### Loan Facility Fee

Opening balance	506,610,126	-
Additions during the year / period	15,353,045	536,804,814
Less: Amortized during the year / period	151,809,422	30,194,688
	<b>370,153,749</b>	<b>506,610,126</b>

	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
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### Schedule - 16

#### Income From Operations

Revenue from sale of oil, gas and condensate	16,287,378,942	635,909,405
Less: Government share of Profit Petroleum	(6,438,550,299)	(249,532,130)
	9,848,828,643	386,377,275
Tolling income	31,994,955	1,040,126
Income received as Operator from Joint Venture	241,803,153	-
	<b>10,122,626,751</b>	<b>387,417,401</b>

### Schedule - 17

#### Other income

Interest on bank deposits	727,431,156	60,495,709
Profit on sale of unquoted current investments	27,631,832	-
Dividend income from non trade current investments	568,031,256	1,718,940
Miscellaneous income	995,197	-
	<b>1,324,089,441</b>	<b>62,214,649</b>



## schedules to the consolidated financial statements - continued

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

	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
<b>Schedule - 18</b>		
<b>Operating expenses</b>		
Production expenses	976,746,878	22,366,285
Insurance	39,629,819	1,592,677
Royalty	342,907,284	10,803,848
Cess	487,569,103	14,897,560
Production bonus	98,958,988	3,459,171
	<b>1,945,812,072</b>	<b>53,119,541</b>
<b>Schedule - 19</b>		
<b>Administrative expenses</b>		
Salaries and wages	2,325,513,344	22,717,090
Employee compensation expense (stock options)	780,364,594	345,058,813
Contribution to Provident fund	35,490,197	1,762,069
Contribution to Superannuation fund	30,865,466	-
Leave encashment expenses	1,041,191	6,796,019
Gratuity expenses	33,137,083	27,404,533
Staff welfare expenses	32,518,554	2,723,024
Contract employee charges	1,534,541,453	33,858,595
Legal and professional expenses	464,776,352	36,951,929
Repair and maintenance	206,778,694	5,250,135
Premises rental	212,806,428	4,724,376
Travel expenses	192,504,763	7,029,192
Communication expenses	56,944,154	1,422,604
Exchange Fluctuation (Net)	2,057,000,631	4,588,020
Insurance	6,463,591	396,506
Directors' sitting fees	700,000	500,000
Loss on sale / discard of fixed assets (Net)	10,054,922	-
Premium on forward exchange contracts amortised	63,010,080	-
Miscellaneous expenses	246,297,973	3,056,624
	<b>8,290,809,470</b>	<b>504,239,529</b>
Less: Cost allocated to joint ventures, exploration, development, production, etc.	(4,553,804,746)	(129,946,948)
	<b>3,737,004,724</b>	<b>374,292,581</b>
<b>Schedule - 20</b>		
<b>(Increase) / Decrease in inventories</b>		
Inventories at the beginning of the year		
Finished goods	197,661,299	226,559,148
Inventories at the end of the year		
Finished goods	309,375,646	197,661,299
	<b>(111,714,347)</b>	<b>28,897,849</b>
<b>Schedule - 21</b>		
<b>Finance costs</b>		
Interest on bank overdraft	199,347	1,355,772
Finance lease charges	7,523,921	358,725
Bank charges	19,325,590	1,032,006
	<b>27,048,858</b>	<b>2,746,503</b>

schedules to the consolidated financial statements - continued

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

	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
<b>Schedule - 22</b>		
<b>Loss Per Share</b>		
Loss for the year/period as per profit and loss account	245,441,899	211,742,237
Weighted average number of equity shares in calculating basic loss per share	1,777,001,292	312,260,009
Add: Number of equity shares arising on grant of stock options	11,017,255	6,550,797
Weighted average number of equity shares in calculating diluted loss per share	1,788,018,547	318,810,806
Loss per share		
Basic	0.14	0.68
Diluted (considered anti-dilutive)	0.14	0.68

# schedules to the consolidated financial statements

FOR THE PERIOD ENDED ON DECEMBER 31, 2007

## 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 was 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 and Gas field permits granted by the Government of India ('Gol'). In terms of the Production Sharing Contract ('PSC') entered into between the Gol 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 is a wholly owned subsidiary of the Company. All other abovementioned companies are direct or indirect wholly owned subsidiaries of CIHL.

## schedules to the consolidated financial statements - continued

FOR THE PERIOD ENDED ON DECEMBER 31, 2007

### Schedule 23 - Notes to Accounts

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

Block/Oil and Gas Field	Area	Participating Interest
<b>Operated block</b>		
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%
KG-ONN-2003/1	Krishna Godavari Onshore	49%
PR-OSN-2004	Palar Basin Offshore	35%
<b>Non – operated block</b>		
KG-DWN-98/2	Krishna Godavari Deep water	10%
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%
KK-DWN-2004	Kerala Konkan Basin Offshore	40%

### 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 notified under the Companies (Accounting Standard) Rules, 2006 under the historical cost convention and on an accrual basis. The accounting policies, in all material respects, have been consistently applied by Cairn India Group and are consistent with those used in the previous period.

#### 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 the provisions of AS 21 (Accounting for Consolidated Financial Statements) and AS 27 (Financial Reporting of Interests in Joint Ventures) respectively. The Consolidated Financial Statements are prepared on the following basis:-

- The financial statements of the Company and its subsidiary companies 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".
- 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.
- The difference between the cost to the Company of its investment in Subsidiaries and 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 an annual basis.

#### (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 Institute of Chartered Accountants of India (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.

**Schedule 23 - Notes to Accounts**

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 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 amortisation 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.

**(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) Tangible fixed assets, depreciation and amortisation**

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 equipments	2 to 4 years
Plant and Equipment	2 to 4 years

Leasehold improvements are amortised 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 amortised over their expected useful economic lives as follows:

Computer software	2 to 4 years
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Goodwill arising on acquisition is capitalised and is subject to annual review for impairment.

**Schedule 23 - Notes to Accounts**

**(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.

**(i) Investments**

Investments that are readily realisable 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, determined on an individual investment basis. 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 related to exploration and development activities are stated at cost, determined on First In First Out (FIFO) basis, whereas, stores and spares related to production activities are treated as routine expenses and charged to the profit and loss account, as and when purchased.

**(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 along with attributable income and expenses in such Joint Ventures, in which it holds a participating interest. Joint venture cash and cash equivalent balances are considered by the Cairn India Group to be the amounts contributed in excess of the Cairn India Group's obligations to the joint ventures and are, therefore, disclosed within Loans and Advances.

**(i) Revenue recognition**

Revenue is recognized 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.

**Interest income**

Interest income is recognised on a time proportion basis.

**(m) Borrowing costs**

Borrowing costs include interest and commitment charges on borrowings, amortisation of costs incurred in connection with the arrangement of borrowings and finance charges under leases. Costs incurred on borrowings directly attributable to development projects, which take a substantial period of time to complete, 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.

All transactions of integral foreign operations are translated as if the transactions of those foreign operations were the transactions of the Company 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 operations 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.

**Schedule 23 - Notes to Accounts**

**(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, supported by convincing evidence, 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 year 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 cash flow statement comprise cash at bank and in hand and short-term investments, with an original maturity of 90 days or less.

**(s) Employee Benefits**

**Retirement and Gratuity benefits**

Retirement benefits in the form of Provident Fund and Superannuation Scheme are defined contribution schemes and the contributions are charged to the profit and loss account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective authorities.

Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. The scheme is maintained and administered by an insurer to which the trustees make periodic contributions.

Short-term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation made at the end of each financial year. The actuarial valuation is done as per projected unit credit method.

Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

**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 years 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.

Measurement and disclosure of the employee share-based payment plans of the Company 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 amortised over the vesting period of the option on a straight line basis.

**(t) Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

**(u) Segment Reporting Policies**

Identification of segments:

The Company's operating businesses are organized and managed according to the nature of products and services provided to offer similar products and serving similar markets.

## schedules to the consolidated financial statements - continued

### FOR THE PERIOD ENDED ON DECEMBER 31, 2007

#### Schedule 23 - Notes to Accounts

(v) Miscellaneous Expenditure (to the extent not written off)

Expenditure incurred in connection with the arrangement of borrowings are deferred and are written off on a straight line basis over the loan period.

#### 4. Segmental Reporting

##### Business segments

The primary reporting of Cairn India Group has been prepared on the basis of business segments. Cairn India Group 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 Cairn India Group'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 Cairn India Group are confined to India in terms of oil and gas blocks and customers. Accordingly, the figures appearing in these financial statements relate to the Cairn India Group'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**

(Effective August 22, 2006)

**Non Executive Directors**

- Sir William Gammell, Director  
- Hamish Grossart, Director - upto  
September 20, 2007

- Norman Murray, Director  
- Malcolm Thoms, Director – from  
September 20, 2007

**Executive Directors**

- Rahul Dhir, Managing Director and  
Chief Executive Officer  
- Indrajit Banerjee, Executive Director  
and Chief Financial Officer – effective  
February 28, 2007

- Lawrence Smyth, Director – Executive Director  
from March 1, 2007

- Jann Brown, Director – upto February 28, 2007

b) Transactions during the year/period

Nature of the Transactions	Related Party	Current year Amount in Rs.	Previous period Amount in Rs.
Reimbursement of expenses	Cairn Energy PLC	25,952,610	25,000,200
Shares issued during the period (share capital and securities premium)	Cairn UK Holding Ltd	2,093,606,560	207,237,873,500
Remuneration	Rahul Dhir	165,579,341	2,981,418
	Lawrence Smyth	113,677,176	1,797,274
	Indrajit Banerjee	15,592,932	Nil
	<b>Total</b>	<b>294,849,449</b>	<b>4,778,692</b>

c) Balances outstanding:

**Nature of transactions**

**Current year Amount in Rs.**

**Previous period Amount in Rs.**

Accounts payable

- Cairn Energy PLC

700,350,531

726,303,141

- Cairn UK Holdings Ltd

Nil

32,763,069,551

**700,350,531**

**33,489,372,692**

Remuneration payable

- Rahul Dhir

3,261,370

861,370

- Lawrence Smyth

1,800,000

Nil

- Indrajit Banerjee

1,500,000

Nil

**6,561,370**

**861,370**

Note: The salaries to the key managerial personnel does not include gratuity and leave encashment benefits, as they are determined for Cairn India Group as a whole.



## schedules to the consolidated financial statements - continued

### FOR THE PERIOD ENDED ON DECEMBER 31, 2007

#### Schedule 23 - Notes to Accounts

6. The Company, during the previous 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. 1,619,164,881 (previous period 722,687,148) have been adjusted against securities premium.

7. Till December 31, 2007, the Company has entered into the following transactions:

(a) Share capital movement in Cairn India Limited in current year and previous period-

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
<b>Total as on December 31, 2006</b>	<b>1,765,314,379</b>			<b>293,393,667,580</b>
February 8, 2007	13,085,041	Issued to its holding company, Cairn UK Holdings Limited under Green Shoe Option	160	2,093,606,560
<b>Total as on December 31, 2007</b>	<b>1,778,399,420</b>			<b>295,487,274,140</b>

(b) During the year, the Company acquired from Cairn UK Holdings Limited 21,164,448 shares (previous period – 251,224,744 shares) in Cairn India Holdings Limited for total purchase consideration of Rs. 22,265,000,000 (previous year - Rs. 266,818,710,140).

The above transactions (except for the initial share capital) upto December 31, 2006 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.

8. (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) 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.

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

As on December 31, 2007, the Company (along with its subsidiaries) has utilised Rs. 71,682,135,044 (previous period Rs. Nil) for the purposes listed in the Prospectus out of the issue proceeds of Rs. 88,248,900,640. Till December 31, 2006, the Company had received amounts aggregating Rs. 52,607,948,000 out of such total funds received, which were lying in the Company's bank accounts. The funds utilised by the Company and its subsidiaries as on December 31, 2007, as against the stated objectives in the Prospectus is tabulated as under:

	<b>Amount in Rs.</b>
i) Acquisition of shares of Cairn India Holdings Limited from Cairn UK Holdings Limited	59,580,836,640
ii) Exploration/Development expenses	10,411,239,436
iii) Issue expenses	90,439,780
iv) General corporate expenses	1,599,619,188

schedules to the consolidated financial statements - continued

FOR THE PERIOD ENDED ON DECEMBER 31, 2007

Schedule 23 - Notes to Accounts

The unutilized monies out of the public issue being Rs. 16,566,765,596 is lying in following accounts of the Company and its subsidiaries as at the year end:

	As at December 31, 2007 (in Rs.)	As at December 31, 2006 (in Rs.)
- Mutual funds*	7,337,855,617	-
- Balances with banks	9,228,909,979	552,607,948,000

\*includes unrealized gain of Rs.60,430,573 on account of appreciation in the net asset value of the units and does not include unrealized exchange loss of Rs. 253,850,000

9. 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.687,903,804 (excluding options expired) has been considered as total charge, out of which an amount of Rs.342,844,991 pertaining to the year ended December 31, 2007 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 under this scheme	
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.

\*792,240 options have expired due to resignation of Mr. Lawrence Smyth, which is effective from April 2008.

The following table details the number of share options for the CISMP:

	Current year	Previous period
Outstanding at the beginning of the year	8,298,713	-
Granted during the year	-	8,298,713
Lapsed during the year	(792,240)	-
Exercised during the year	-	-
Outstanding at the end of the year	7,506,473	8,298,713

The Share Options under CISMP 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		
	160	160	160	160	160	160
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 1/3%	33 1/3%	33 1/3 %	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 (years)	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

### FOR THE PERIOD ENDED ON DECEMBER 31, 2007

#### Schedule 23 - Notes to Accounts

- (b) (i) Under the CIPOP scheme, the Company has granted options equivalent to 1,708,195 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on January 1, 2007 at an exercise price of Rs.10 each. Based on the fair value of options, an amount of Rs. 231,123,603 (excluding the expired options) has been considered as total charge, out of which an amount of Rs. 77,041,201 pertaining to the year ended December 31, 2007 has been charged to the profit and loss account.

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	160
Vesting date	January 1, 2010
Vesting %	100%
Volatility	41.61%
Risk free rate	7.33%
Time to maturity (years)	3.12
Fair Value of the options (Rs.)	152.05

- (ii) Under the CIPOP scheme, the Company again granted options equivalent to 3,235,194 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on September 20, 2007 at an exercise price of Rs.10 each. Based on the fair value of options, an amount of Rs.514,298,790 (excluding the expired options) has been considered as total charge, out of which an amount of Rs.47,620,258 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	166.95
Vesting date	September 20, 2010
Vesting %	100%
Volatility	36.40%
Risk free rate	7.23%
Time to maturity (years)	3.12
Fair Value of the options (Rs.)	158.97

The following table details the number of share options for the CIPOP (2006):

	Current year	Previous period
Outstanding at the beginning of the year	-	-
Granted during the year	4,943,389	-
Lapsed during the year	(188,145)	-
Exercised during the year	-	-
Outstanding at the end of the year	4,755,244	-

- (c) (i) Under the CIESOP scheme, the Company has granted options equivalent to 3,467,702 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on January 1, 2007 at an exercise price of Rs.160 each. Based on the fair value of options, an amount of Rs.264,576,356 (excluding the expired options) has been considered as total charge, out of which an amount of Rs.88,192,119 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIESOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	160
Vesting date	January 1, 2010
Vesting %	100%
Volatility	41.04%
Risk free rate	7.50%
Time to maturity (years)	6.50
Fair Value of the options (Rs.)	87.30

schedules to the consolidated financial statements - continued

FOR THE PERIOD ENDED ON DECEMBER 31, 2007

Schedule 23 - Notes to Accounts

- (ii) Under the CIESOP scheme, the Company again granted options equivalent to 5,515,053 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on September 20, 2007 at an exercise price of Rs.166.95 each. Based on the fair value of options, an amount of Rs.500,325,608 (excluding the expired options) has been considered as total charge, out of which an amount of Rs.46,326,445 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	166.95
Vesting date	September 20, 2010
Vesting %	100%
Volatility	40.24%
Risk free rate	7.65%
Time to maturity (years)	6.50
Fair Value of the options (Rs.)	90.72

The following table details the number of share options for the CIESOP:

	Current year	Previous period
Outstanding at the beginning of the year	-	-
Granted during the year	8,982,755	-
Lapsed during the year	(437,045)	-
Exercised during the year	-	-
Outstanding at the end of the year	8,545,710	-

10. Current investments - unquoted and non trade:

The details of investments in mutual fund units are as tabulated under:

Sr. No.	Particulars	As at December 31, 2007 (Amount in Rs.)	As at December 31, 2006 (Amount in Rs.)
1	20,594,145.28 units (previous period: nil), face value Rs 10 each, of ABN AMRO Mutual Fund of ABN AMRO Money Plus Fund-Institutional Plan-Growth Option	238,366,935	-
2	51,971,029.11 units (previous period: nil), face value Rs 10 each, of Birla Sun Life Mutual Fund under Birla Sun Life Liquid Plus-Institutional Plan – Growth Option	763,906,605	-
3	225,723.55 units (previous period: nil), face value Rs 1,000 each, of DSP Merrill Lynch Mutual Fund under DSP Merrill Lynch Liquid Plus Fund - Institutional Plan – Growth Option	250,000,000	-
4	28,699,826.62 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund-Short Term Plan - Wholesale Option – Growth	380,692,465	-
5	17,009,296.46 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Cash Management Savings Plus - Wholesale Plan Growth Option	290,000,000	-
6	23,353,354.94 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Quarterly Interval Fund-Plan A Wholesale Growth	250,000,000	-
7	43,733,776.21 units(previous period: nil), face value Rs 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Floating Plan D – Growth	502,627,917	-
8	19,998,847.30 units (previous period: nil), face value Rs 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Flexible Income Plan – Growth	290,047,282	-
9	47,430,680.06 units (previous period: nil), face value Rs 10 each, of ING Mutual Fund under ING Liquid Plus Fund – Institutional Growth Option	500,000,000	-
10	242,823.20 units (previous period: nil), face value Rs 10 each, of Reliance Mutual Fund under Reliance Liquid Plus Fund – Institutional Option – Growth Plan	255,450,472	-
11	23,960,359.98 units (previous period: nil), face value Rs 10 each, of Reliance Mutual Fund under Reliance Quarterly Interval Fund-Series III -Institutional Growth Plan	250,000,000	-
12	20,000,000.00 units (previous period: nil), face value Rs 10 each, of SBI Mutual Fund under SBI Debt Fund Series - 90 Days - November 2007 – Growth	200,000,000	-

schedules to the consolidated financial statements - continued

FOR THE PERIOD ENDED ON DECEMBER 31, 2007

Schedule 23 - Notes to Accounts

Sr. No.	Particulars	As at December 31, 2007 (Amount in Rs.)	As at December 31, 2006 (Amount in Rs.)
13	55,482,327.99 units (previous period: nil), face value Rs 10 each, of Tata Mutual Fund under Tata Floater Fund - Growth	639,783,369	-
14	20,898,812.55 units (previous period: nil), face value Rs 10 each, of Franklin Templeton Mutual Fund under Templeton Floating Rate Income Fund Short Term Plan Institutional Option - Growth	242,700,000	-
15	50,000,000 units (previous period: nil), face value 1 USD each, of ABN AMRO Mutual Fund under ABN AMRO Global Liquidity Funds Monthly Dividend Plan	1,970,000,000	-
	TOTAL	7,023,575,044	-

11. 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 obligations are secured against assets acquired under the lease. 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.

Current Year	December 31, 2007		
	Minimum lease payments	Present value of minimum lease payments	Lease finance charges
Within one year of the balance sheet date	86,165,931	74,764,061	11,401,870
Due in a period between one year and five years	104,095,661	94,597,107	9,498,554
Due after five years	Nil	Nil	Nil

Previous period	December 31, 2006		
	Minimum lease payments	Present value of minimum lease payments	Lease finance charges
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	Nil	Nil	Nil

Note: The interest rate on finance lease ranges from 3.77 % to 10.26 %

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, 2007	December 31, 2006
Lease rentals recognised during the period	40,199,460	1,168,113
Minimum lease payments in case of non-cancelable operating leases		
Within one year of the balance sheet date	117,469,547	39,503,460
Due in a period between one year and five years	264,796,997	157,181,021
Due after five years	Nil	327,813

12. Contingent liabilities

Claims against Cairn India Group, 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 ("Gol") 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 Gol on some of the issues in dispute and in favour of the Respondents on others.

The Gol 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 ruled in favour of the Respondents, namely the "ONGC Carry", which is the Respondents' proportionate share of the entire

**Schedule 23 - Notes to Accounts**

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 Gol'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. 2,518 million (USD63.9 million).

In a separate dispute in respect of profit petroleum calculations under the Ravva PSC, CEI has received a claim from the DGH for Rs. 1,474 million net to CEI (USD37.4 million) of alleged underpayments of profit petroleum to the Gol, together with interest on that amount of Rs. 268 million net to CEI (USD6.8 million). This claim relates to the Gol'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 PTRR 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.

However, based on the facts of the case and discussions held with the solicitors' of the CEI, the management believes that it has good case in the above matters and no provision is considered necessary.

**(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) Act, 1974. 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. CEI 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 of Rs. 31.26 million paid under protest. The appeals filed by CEI are pending adjudication. CEI has been legally advised that it has a good case and its appeals should succeed. Accordingly, no provision has been considered necessary there against in these financial statements

During the year, CEI has received two show cause notices ('SCN') for non payment of service tax and education cess as recipient of services from Foreign Service providers for the period August 16, 2002 to March 31, 2006 for Rs. 474.69 million and for the period from April 1, 2006 to March 31, 2007 for Rs. 136.59 million. A writ petition challenging the applicability of the service tax on recipient of services has been filed with Honorable High Court in Chennai, India in respect of first notice. Accordingly, if SCN is adjudicated against Cairn India Group, it might be liable to pay its share out of total gross demand of Rs. 611.28 million. Based on internal assessment of the issues involved in this matter, the management is of the view that CEI's stand is likely to be accepted by the authorities and does not expect these notices to succeed.

**13. Capital Commitments**

- a) In respect of Cairn India Group's share of Joint Ventures' Exploration activities – Rs. 23,442 million (previous period - Rs. 4,542 million).
- b) In respect of the Cairn India Group's share of Joint Ventures' Development activities – Rs. 3,351 million (previous period - Rs. 1,843 million).

**14.** For Northern Appraisal Area under Rajasthan block, the Contractor was granted a six month extension for the exploration license with effect from May 8, 2007. The Declaration of Commerciality for three oil discoveries along with request for retaining the demarcated Development Area has been approved by the Operating Committee on November 5, 2007 and has been submitted for approval of the Management Committee. The Company's management, at this stage is confident that Management Committee would grant above approvals and accordingly, no adjustment has been made in these financial statements for the costs incurred in respect of the Northern Appraisal Area and carried in the balance sheet as exploration cost.

**15.** One of the subsidiaries of the Company ("CIHL") is currently availing a debt facility amounting to US\$ 850 million, for which agreement was entered into in the year 2006 and the amount drawn against the above facilities as at December 31, 2007 was US\$ 75 million. Subsequent to the period end, the management is exploring the opportunity for restructuring the existing debt facility of US\$ 850 million as one of several other funding options for meeting additional funds requirement with better terms and conditions. Since currently the management is exploring other funding options and at the same time, the existing debt facility is retained, no adjustment has been made in these financial statements for the unamortized facility fee of approximately Rs. 374 million.

**16.** The goodwill of Cairn India Group amounting to Rs. 253,192,674,502 has arisen on consolidation of financial statements of the Company with its subsidiaries and represents the difference between the cost to the Company of its investment in Cairn India Holdings Limited (which largely represent Cairn India Group's operations in India through its subsidiaries) and its proportionate share in the net book value of Cairn India Holdings Limited on consolidated basis at the time of acquisition of shares in Cairn India Holdings Limited. The management has carried out the tests for impairment of goodwill at the year-end as per requirements of AS 28 (Impairment of Assets) by computing the value in use of the assets and comparing the same with the carrying amount of the net assets. Value in use is based on the discounted future net cash flows of the oil and gas assets held by the Cairn India Group. For all blocks in the exploration stage, valuation has been carried out using risked NPV/boe. The result of the impairment tests indicate that the value in use is higher than the carrying amounts and no impairment provision is required to be created at the year-end.

**17. Derivative instruments and Unhedged Foreign Currency Exposure**

**Particulars of Derivatives**

**Purpose**

**Options outstanding at the balance sheet date**

USD put/INR call options

Hedge of expected future capital expenditure for Rajasthan block

US\$ 210,000,000

## schedules to the consolidated financial statements - continued

FOR THE PERIOD ENDED ON DECEMBER 31, 2007

### Schedule 23 - Notes to Accounts

The above financial instruments have been taken to hedge the risks associated with foreign currency fluctuations. The same were initially recognized at fair value on the dates on which the contracts were entered into and were subsequently remeasured at fair value at the balance sheet date. Movements in fair value during the year have been taken to the profit and loss account.

#### Particulars of Unhedged Foreign Currency Exposure at the Balance Sheet date

Unsecured Loans	Sundry Debtors	Cash and Bank	Current Assets	Current Liability
2,955,000,000	1,335,753,514	11,304,311,139	4,843,437,328	4,168,593,850

18. Cairn India Group has a defined contribution gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy. Unavailed leaves can be carried forward upto a maximum of 5 days. Leave balances outstanding can be encashed by the employees at the time of separation, only on the employee leaving the Cairn India Group.

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amounts recognised in the balance sheet for the respective plans.

#### Profit and Loss account

Net employee benefit expense (recognised in Employee Cost)

	Gratuity
Current service cost	10,846,000
Interest cost on benefit obligation	2,863,410
Expected return on plan assets	1,798,253
Net actuarial (gain) / loss recognised in the year	21,225,926
Past service cost	Nil
Net benefit expense	33,137,083
Actual return on plan assets	2,974,911

#### Balance sheet

##### Details of Provision for Gratuity

	Gratuity
Defined benefit obligation	66,142,000
Fair value of plan assets	29,163,076
Less: Unrecognized past service cost	Nil
Plan asset / (liability)	(36,978,924)

Changes in the present value of the defined benefit obligation are as follows:

	Gratuity
Opening defined benefit obligation	41,207,084
Current service cost	10,846,000
Interest cost	2,515,247
Benefits paid	10,828,915
Actuarial (gains)/losses on obligation	22,402,584
Closing defined benefit obligation	66,142,000

Changes in the fair value of plan assets are as follows:

	Gratuity
Opening fair value of plan assets	25,692,975
Expected return	1,798,253
Contributions by employer	11,324,105
Benefits paid	10,828,915
Actuarial gains/(losses)	1,176,658
Closing fair value of plan assets	29,163,076

Note: The Group's expected contribution to the fund in the next year is not presently ascertainable.

## schedules to the consolidated financial statements - continued

### FOR THE PERIOD ENDED ON DECEMBER 31, 2007

#### Schedule 23 - Notes to Accounts

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Gratuity
Investments with insurer	100%

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining gratuity liability for the Group's plans are shown below:

Discount rate	8%
Expected rate of return on assets	9.1%
Employee turnover	13.13%
Mortality Rate	LIC (1994-96) Ultimate Table

Note: The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Gratuity liability as at the year end is as follows:

	Gratuity
Defined benefit obligation	66,142,000
Plan assets	29,163,076
Surplus/(deficit)	(36,978,924)

Notes:

- The Group has adopted of AS 15 (Revised 2005) Employee Benefits for the first time during the year. Hence comparative valuations for the immediately preceding period have not been furnished.
- The ICAI has issued a limited revision to AS-15 (Revised 2005) which allows an entity to make disclosures required by paragraph 120 (n) of AS-15 (Revised 2005) prospectively from the date of transition. The limited revision has not yet been incorporated in AS-15 notified under the Companies (Accounting Standard) Rules, 2006. The Company expects that limited revision will be incorporated in notified standards shortly.
- The Group is maintaining a fund with the Life Insurance Corporation of India (LIC) to meet its gratuity liability. The present value of the plan assets represents the balance available with the LIC as at the end of the period. The total value of plan assets amounting to Rs. 29,163,076, as certified by the LIC.

**19.** Subsequent to the year end, in the meeting of the Board of Directors held on March 17, 2008, the Company has proposed issue of 113,000,000 equity shares of Rs. 10 each at an issue price of Rs. 224.30 per share on preferential basis to two parties, subject to the approval of the shareholders of the Company.

#### 20. Prior period comparatives

These financial statements of Cairn India Group are for the year ended December 31, 2007, whereas previous period figures relate to the period from August 21, 2006 to December 31, 2006 and are as per the revised financial statements of Cairn India Group. Accordingly, previous period figures in the profit and loss account and cash flow statement are not comparable. Previous period's figures have been regrouped where necessary to confirm to this year's classification.

As per our report of even date

For S. R. Batliboi & Associates  
Chartered Accountants

For and on behalf of the Board of Directors

**per Raj Agrawal**  
Partner  
Membership No. 82028

**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 : MARCH 31, 2008



## statement pursuant to section 212 (8) of the companies Act, 1956

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

Pursuant to 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.47/35/2008-CL-III dated 22/02/2008 to attach accounts of subsidiaries. The accounts of 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 above order giving details of subsidiaries is given below:

Sr. No.	Name of the Subsidiary Company	Capital	Reserves	Total Assets	Total Liabilities	Investments*	Details of Investment	Turnover	Profit / (Loss) before taxation	Provision for taxation	Profit / (Loss) after taxation	Proposed Dividend
1	Cairn India Holdings Limited	24,201,112,560	(3,530,844,386)	3,987,497,745	(16,682,770,429)	-	-	-	(1,592,110,896)	-	(1,592,110,896)	NIL
2	Cairn Energy Gujarat Block 1 Limited	46,376	(31,679,976)	2,749,072	34,382,672	-	-	-	(8,457,631)	-	(8,457,631)	NIL
3	Cairn Exploration (No.7) Limited	87	(143,532,351)	15,895,933	159,428,197	-	-	-	(136,016,436)	-	(136,016,436)	NIL
4	Cairn Exploration (No.6) Limited	87	(7,896,410)	7,758,871	15,655,195	-	-	-	(6,276,082)	-	(6,276,082)	NIL
5	Cairn Exploration (No.4) Limited	87	(7,709,712)	6,959,958	14,669,583	-	-	-	(7,709,625)	-	(7,709,625)	NIL
6	Cairn Exploration (No.2) Limited	87	(262,991,212)	59,455,203	322,446,328	-	-	-	(216,478,992)	-	(216,478,992)	NIL
7	Cairn Energy Discovery Limited	1,956,262	(54,757,672)	(4,717,557)	48,083,853	-	-	-	(11,666,006)	-	(11,666,006)	NIL
8	Cairn Energy Hydrocarbons Limited	2,755,859,931	(6,641,234,653)	16,943,628,544	20,829,003,266	-	-	-	35,831,925	428,457,124	(392,625,199)	NIL
9	Cairn Petroleum India Limited	87	(87)	-	-	-	-	-	-	-	-	NIL
10	Cairn Energy Holdings Limited	4,053,725,828	(3,972,866,761)	188,993,709	108,134,641	-	-	229,094,985	240,863,196	-	240,863,196	NIL
11	Cairn Energy Netherlands Holdings B.V.	759,926	4,941,423,380	(27,014,358)	(4,969,197,663)	-	-	-	(323,997,505)	-	(323,997,505)	NIL
12	Cairn Energy Group Holdings B.V.	4,276,263	456,334,351	3,130,774	(457,479,840)	-	-	-	(14,124,461)	-	(14,124,461)	NIL
13	Cairn Energy India Holdings B.V.	790,376	209,781	999,146	(1,011)	-	-	-	(143,876)	-	(143,876)	NIL
14	Cairn Energy Gujarat Holding B.V.	790,376	(790,376)	-	(1)	-	-	-	(0)	-	(0)	NIL
15	Cairn Energy India West Holding B.V.	790,376	1,253,651,392	1,237,826,908	(16,614,860)	-	-	743,810,545	355,108,360	42,302,909	312,805,451	NIL
16	Cairn Energy India West B.V.	790,747	(790,747)	-	0	-	-	-	(0)	-	(0)	NIL
17	Cairn Energy India West B.V.	790,376	1,812,126,683	1,591,851,115	(221,065,944)	-	-	982,230,373	531,193,528	74,886,272	456,307,256	NIL
18	Cairn Energy Cambay Holding B.V.	788,956	(788,956)	-	0	-	-	-	-	-	-	NIL
19	Cairn Energy Cambay B.V.	790,376	1,362,395,762	1,266,486,427	(96,699,710)	-	-	750,601,861	362,175,563	65,971,638	296,203,925	NIL
20	Cairn Energy Australia Pty Limited	3,397,090,598	(3,464,790,797)	(36,864,734)	30,835,465	-	-	-	(6,652,527)	-	(6,652,527)	NIL
21	CEH Australia Limited	73	(73)	-	-	-	-	-	-	-	-	NIL
22	CEH Australia Pty Limited	73	(73)	-	-	-	-	-	-	-	-	NIL
23	Cairn Energy Asia Pty Limited	85,734,262	690,345,115	4,027,587	(772,051,789)	-	-	-	(56,682,993)	-	(56,682,993)	NIL
24	Wessington Investments Pty. Limited	194,542,500	(194,542,500)	0	-	-	-	-	-	-	-	NIL
25	Cairn Energy Investments Australia Pty Limited	1,590,604,821	(1,590,604,821)	-	-	-	-	-	-	-	-	NIL
26	Sydney Oil Company Pty. Limited	163,617,169	(163,617,169)	-	-	-	-	-	-	-	-	NIL
27	Cairn Energy India Pty Limited	1,116,837,481	8,492,609,681	28,720,446,429	19,216,333,017	105,333,750	Long term investments (at cost)-unquoted and trade: 755,275 equity shares of Rs.10 each fully paid up in Videcon Industries Limited	7,404,180,820	2,549,818,209	540,331,983	2,009,486,225	NIL

\* Other than investment 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 : GURGAON

DATE : MARCH 31, 2008

# statement pursuant to section 212 (8) of the companies Act, 1956

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

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 Since it became a subsidiary	For the Previous Financial Year (s)	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	272,389,192 share of ₹ 1 each	100%	31-12-2007	(1,592,110,896)	1,377,332	-	-
2	Cairn Energy Gujarat Block 1 Limited	Cairn India Holdings Limited	551 ordinary shares of ₹ 1 each	100%	31-12-2007	(8,457,631)	(1,765,326)	-	-
3	Cairn Exploration (No.7) Limited	Cairn India Holdings Limited	1 ordinary share of ₹ 1 each	100%	31-12-2007	(136,016,436)	(679,620)	-	-
4	Cairn Exploration (No.6) Limited	Cairn India Holdings Limited	1 ordinary share of ₹ 1 each	100%	31-12-2007	(6,276,082)	(105,365)	-	-
5	Cairn Exploration (No.4) Limited	Cairn India Holdings Limited	1 ordinary share of ₹ 1 each	100%	31-12-2007	(7,709,625)	-	-	-
6	Cairn Exploration (No.2) Limited	Cairn India Holdings Limited	1 ordinary share of ₹ 1 each	100%	31-12-2007	(216,478,992)	(4,462,987)	-	-
7	Cairn Energy Discovery Limited	Cairn India Holdings Limited	23,216 ordinary shares of ₹ 1 each	100%	31-12-2007	(11,666,006)	(405,625)	-	-
8	Cairn Energy Hydrocarbons Limited	Cairn India Holdings Limited	31,341,712 ordinary shares of ₹ 1 each	100%	31-12-2007	(392,625,199)	(1,555,202)	-	-
9	Cairn Petroleum India Limited	Cairn India Holdings Limited	1 ordinary share of ₹ 1 each	100%	31-12-2007	-	-	-	-
10	Cairn Energy Holdings Limited	Cairn India Holdings Limited	67,418,405 ordinary shares of ₹ 1 each	100%	31-12-2007	240,863,196	(1,441,463)	-	-
11	Cairn Energy Netherlands Holdings B.V.	Cairn Energy Holdings Limited	18 equity shares of EUR 1,000 each	100%	31-12-2007	(323,997,505)	(16,343,846)	-	-
12	Cairn Energy Group Holdings B.V.	Cairn Energy Netherlands Holdings B.V.	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%	31-12-2007	(14,124,461)	(1,335,585)	-	-
13	Cairn Energy India Holdings B.V.	Cairn Energy Group Holdings B.V.	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%	31-12-2007	(143,876)	56,327	-	-
14	Cairn Energy Gujarat Holding B.V.	Cairn Energy India Holdings B.V.	41 shares of EUR 454 each	100%	31-12-2007	(0)	-	-	-
15	Cairn Energy Gujarat B.V.	Cairn Energy Gujarat Holding B.V.	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%	31-12-2007	312,805,451	11,519,019	-	-
16	Cairn Energy India West Holding B.V.	Cairn Energy India Holdings B.V.	41 shares of EUR 454 each	100%	31-12-2007	(0)	-	-	-
17	Cairn Energy India West B.V.	Cairn Energy India West Holding B.V.	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%	31-12-2007	456,307,256	15,160,095	-	-
18	Cairn Energy Cambay Holding B.V.	Cairn Energy India Holdings B.V.	18 equity shares of EUR 1,000 each	100%	31-12-2007	-	-	-	-
19	Cairn Energy Cambay B.V.	Cairn Energy Cambay Holding B.V.	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%	31-12-2007	296,203,925	13,939,992	-	-
20	Cairn Energy Australia Pty Limited	Cairn Energy Group Holdings B.V.	116,789,079 ordinary shares of AU\$1 each	100%	31-12-2007	(6,652,527)	266,572	-	-
21	CEH Australia Limited	Cairn Energy Australia Pty Limited	100 shares of US\$ 1 each	100%	31-12-2007	-	-	-	-
22	CEH Australia Pty Limited	CEH Australia Limited	2 ordinary shares of AU\$1 each	100%	31-12-2007	-	-	-	-
23	Cairn Energy Asia Pty Limited	Cairn Energy Australia Pty Limited	330,522,617 ordinary shares of AU\$1 each	100%	31-12-2007	(56,682,993)	(3,267,575)	-	-
24	Westington Investments Pty. Limited	Cairn Energy Asia Pty Limited	30,000,000 ordinary shares of AU\$0.25 each	100%	31-12-2007	-	-	-	-
25	Cairn Energy Investments Australia Pty Limited	Cairn Energy Asia Pty Limited	144,101,302 ordinary shares of AU\$1 each	100%	31-12-2007	-	17,633	-	-
26	Sydney Oil Company Pty. Limited	Cairn Energy Investments Australia Pty Limited	27,024,288 ordinary shares of AU\$0.25 each	100%	31-12-2007	-	559,865	-	-
27	Cairn Energy India Pty Limited	Sydney Oil Company Pty. Limited	2 ordinary shares of AU\$1 each and 1,000 ordinary shares of AU\$45,792.67 each	100%	31-12-2007	2,009,486,225	68,964,506	-	-

For and on behalf of the Board of Director

**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 : MARCH 31, 2008