# Consolidated Balance Sheet

AS AT 31 MARCH 2012

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

| | Notes | 31 March 2012 | 31 March 2011 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 3 | 19,073,961 | 19,019,171 |
| Reserves and surplus | 4 | 463,846,750 | 383,913,085 |
| | | **482,920,711** | **402,932,256** |
| **Non-current liabilities** | | | |
| Long-term borrowings | 5 | - | 26,738,228 |
| Deferred tax liabilities (net) | 12 | 6,841,363 | 5,750,251 |
| Long-term provisions | 6 | 18,739,854 | 13,707,326 |
| | | **25,581,217** | **46,195,805** |
| **Current liabilities** | | | |
| Trade payables | 7 | 6,071,626 | 4,625,620 |
| Other current liabilities | 7 | 18,756,140 | 8,518,037 |
| Short-term provisions | 6 | 1,206,086 | 2,959,861 |
| | | **26,033,852** | **16,103,518** |
| **TOTAL** | | **534,535,780** | **465,231,579** |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 8 | 59,071,630 | 59,049,369 |
| Intangible assets | 9 | 253,414,605 | 253,378,953 |
| Cost of producing facilities (net) | 10 | 30,206,673 | 20,849,582 |
| Exploration, development and capital work in progress | 11 | 45,001,504 | 39,818,769 |
| Deferred tax assets (net) | 12 | 103,853 | 138,377 |
| Long-term loans and advances | 13 | 25,379,848 | 12,548,985 |
| Other non-current assets | 14.2 | 6,907,641 | 3,492,926 |
| | | **420,085,754** | **389,276,961** |
| **Current assets** | | | |
| Current investments | 15 | 18,355,682 | 10,944,489 |
| Inventories | 16 | 1,360,651 | 904,821 |
| Trade receivables | 14.1 | 14,968,428 | 14,828,644 |
| Cash and bank balances | 17 | 70,135,145 | 44,269,816 |
| Short-term loans and advances | 13 | 8,384,752 | 4,221,093 |
| Other current assets | 14.2 | 1,245,368 | 785,755 |
| | | **114,450,026** | **75,954,618** |
| **TOTAL** | | **534,535,780** | **465,231,579** |
| Summary of significant accounting policies | 2.1 | | |

The accompanying notes are an integral part of the financial statements.

As per our report of even date

**For S. R. Batliboi & Co.**
Firm Registration No.:301003E
Chartered Accountants

**For and on behalf of the Board of Directors**

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

Navin Agarwal
Chairman

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Place: Gurgaon
Date: 20 April 2012

Sunil Bohra
Deputy Chief Financial Officer

Neerja Sharma
Company Secretary



# Consolidated Statement of Profit and Loss

FOR THE YEAR ENDED 31 MARCH 2012

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

| | Notes | 31 March 2012 | 31 March 2011 |
|---|---|---|---|
| **Income** | | | |
| Revenue from operations | 18 | 118,606,526 | 102,779,277 |
| Other income | 19 | 9,380,096 | 1,287,956 |
| **Total revenue** | | **127,986,622** | **104,067,233** |
| **Expenses** | | | |
| Share of expenses from producing oil and gas blocks | | 6,300,372 | 5,017,040 |
| (Increase) in inventories of finished goods | 20 | (262,647) | (263,556) |
| Employee benefit expenses | 21 | 889,435 | 1,104,633 |
| Other expenses | 22 | 16,146,795 | 12,710,332 |
| Depletion, depreciation and amortization expense | 23 | 14,403,014 | 11,929,625 |
| Finance costs | 24 | 2,258,074 | 3,002,617 |
| Unsuccessful exploration costs | 11 | 2,988,328 | 1,666,816 |
| Exceptional items | 25 | 1,028,461 | - |
| | | 43,751,832 | 35,167,507 |
| **Profit before tax** | | **84,234,790** | **68,899,726** |
| **Tax expenses** | | | |
| Current tax | | 15,544,484 | 15,610,615 |
| Less: MAT credit entitlement | | (11,812,826) | (11,213,560) |
| Net current tax expense | | 3,731,658 | 4,397,055 |
| Deferred tax | | 1,125,636 | 1,158,671 |
| **Total tax expense** | | 4,857,294 | 5,555,726 |
| **Profit for the year** | | **79,377,496** | **63,344,000** |
| **Earnings per equity share** in INR computed on the basis of profit for the year | 26 | | |
| [nominal value of share INR 10 (31 March 2011: INR 10)] | | | |
| Basic | | 41.71 | 33.36 |
| Diluted | | 41.61 | 33.20 |
| Summary of significant accounting policies | 2.1 | | |

The accompanying notes are an integral part of the financial statements.

As per our report of even date

**For S. R. Batliboi & Co.**
Firm Registration No.:301003E
Chartered Accountants

**For and on behalf of the Board of Directors**

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

Navin Agarwal
Chairman

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Place: Gurgaon
Date: 20 April 2012

Sunil Bohra
Deputy Chief Financial Officer

Neerja Sharma
Company Secretary

# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2012

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

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| **Cash flow from operating activities** | | |
| **Profit before tax** | 84,234,790 | 68,899,726 |
| Adjustments for: | | |
| Depletion, depreciation and amortization | 14,709,474 | 12,226,482 |
| Unsuccessful exploration costs | 2,988,328 | 1,666,816 |
| Capital expenditure on assets not owned by the Company | - | 230,975 |
| Employee stock compensation expense | 45,445 | 234,454 |
| Unrealized foreign exchange (gain)/loss (net) | (9,045,235) | 1,053,277 |
| Premium on forward exchange contract | (2,471) | 1,646 |
| Unrealised loss on commodity hedge contracts | - | 38,876 |
| Net (gain)/ loss on sale of current investments | (626,474) | (61,054) |
| Interest expense | 1,084,772 | 2,058,835 |
| Loan facility and management fees | 1,122,228 | 806,042 |
| Other finance charges | 38,337 | 131,883 |
| Interest income | (2,186,323) | (576,183) |
| Other non-operating income | (33,132) | - |
| Dividend income | (300,334) | (650,667) |
| **Operating profit before working capital changes** | **92,029,405** | **86,061,108** |
| Movements in working capital : | | |
| Increase/ (decrease) in trade payables, other liabilities and provisions | (70,583) | 1,212,364 |
| Decrease / (increase) in trade receivables | (152,218) | (11,815,949) |
| Decrease / (increase) in inventories | (1,163,712) | (367,556) |
| Decrease / (increase) in loans and advances and other assets | 1,357,543 | 882,803 |
| Cash generated from operations | **92,000,435** | **75,972,770** |
| Direct taxes paid (net of refunds) | (21,290,627) | (12,591,607) |
| **Net cash flow from operating activities (A)** | **70,709,808** | **63,381,163** |
| **Cash flows from investing activities** | | |
| Purchase of fixed assets (including CWIP and capital advances) | (29,558,037) | (25,647,920) |
| Short term investments (net) | (6,784,719) | 6,240,697 |
| Investments in bank deposits (having original maturity of more than 3 months) | (84,632,290) | (43,947,656) |
| Redemption/ maturity of bank deposits (having original maturity of more than 3 months) | 91,525,842 | 13,703,008 |
| Interest received | 2,148,341 | 252,328 |
| Dividend received | 300,334 | 650,667 |
| Payments made to site restoration fund | (305,025) | (433,834) |
| **Net cash flow used in investing activities (B)** | **(27,305,554)** | **(49,182,710)** |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of equity share capital (including securities premium) | 565,513 | 670,480 |
| Proceeds from long-term borrowings | - | 18,680,000 |
| Repayment of long-term borrowings | (14,139,989) | (25,698,627) |
| Repayment of finance lease obligation | (41,456) | (79,576) |
| Interest paid | (1,321,356) | (1,972,597) |
| Payment of borrowing costs (other than interest) | (278,833) | (329,660) |
| **Net cash flow used in financing activities (C)** | **(15,216,121)** | **(8,729,980)** |
| **Net increase in cash and cash equivalents (A + B + C)** | **28,188,133** | **5,468,473** |



# Consolidated Cash Flow Statement Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Effect of exchange differences on cash & cash equivalents held in foreign currency | 4,807,902 | (223,572) |
| Cash and cash equivalents at the beginning of the year | 11,467,896 | 6,222,995 |
| **Cash and cash equivalents at the end of the year** | **44,463,931** | **11,467,896** |
| **Components of cash and cash equivalents** | | |
| Cash on hand | 445 | 524 |
| With banks | | |
| - on deposit account | 44,339,735 | 11,315,457 |
| - on current accounts | 123,751 | 151,915 |
| **Total cash and cash equivalents (note 17)** | **44,463,931** | **11,467,896** |

**Notes:**

1) The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard-3 on "Cash flow statements".
2) Amounts in bracket indicate a cash outflow or reduction.

As per our report of even date

**For S. R. Batliboi & Co.**
Firm Registration No.:301003E
Chartered Accountants

**For and on behalf of the Board of Directors**

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

Navin Agarwal
Chairman

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Place: Gurgaon
Date: 20 April 2012

Sunil Bohra
Deputy Chief Financial Officer

Neerja Sharma
Company Secretary

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2012

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

## 1. NATURE OF OPERATIONS

Cairn India Limited ('the Company') was incorporated in India on August 21, 2006. The equity shares of the Company are listed in India on the Bombay stock exchange and the National stock exchange.

The Company is primarily engaged in the business of surveying, prospecting, drilling, exploring, 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 the Indian sub-continent.

The Company along with its subsidiaries, (collectively the 'Cairn India Group') is participant in various Oil and Gas blocks/fields, which are in the nature of jointly controlled assets, granted by the Government of India/Sri Lanka through Production Sharing Contract ('PSC')/Production Resources Agreement ('PRA') entered into between these entities and Government of India/Sri Lanka and other venture partners.

**Components of the Cairn India Group**

The Consolidated Financial Statements represent consolidation of accounts of the Company and its subsidiaries as detailed below (same as in previous year)*:

| S. No. | Name of the Subsidiaries | Country of Incorporation |
|---|---|---|
| 1 | Cairn Energy Australia Pty Limited | Australia |
| 2 | Cairn Energy India Pty Limited | Australia |
| 3 | CEH Australia Pty Limited | Australia |
| 4 | Cairn Energy Asia Pty Limited | Australia |
| 5 | Sydney Oil Company Pty Limited | Australia |
| 6 | Cairn Energy Investments Australia Pty Limited | Australia |
| 7 | Wessington Investments Pty Limited | Australia |
| 8 | CEH Australia Limited | British Virgin Islands |
| 9 | Cairn India Holdings Limited ('CIHL') | Jersey |
| 10 | CIG Mauritius Holding Private Limited ('CMHPL') | Mauritius |
| 11 | CIG Mauritius Private Limited | Mauritius |
| 12 | Cairn Energy Holdings Limited | United Kingdom |
| 13 | Cairn Energy Discovery Limited | United Kingdom |
| 14 | Cairn Exploration (No. 2) Limited | United Kingdom |
| 15 | Cairn Exploration (No. 6) Limited | United Kingdom |
| 16 | Cairn Energy Hydrocarbons Limited | United Kingdom |
| 17 | Cairn Petroleum India Limited | United Kingdom |
| 18 | Cairn Energy Gujarat Block 1 Limited | United Kingdom |
| 19 | Cairn Exploration (No. 4) Limited | United Kingdom |
| 20 | Cairn Exploration (No. 7) Limited | United Kingdom |
| 21 | Cairn Lanka (Pvt) Limited | Sri Lanka |
| 22 | Cairn Energy Group Holdings BV | Netherlands |
| 23 | Cairn Energy India West BV | Netherlands |
| 24 | Cairn Energy India West Holding BV | Netherlands |
| 25 | Cairn Energy Gujarat Holding BV | Netherlands |
| 26 | Cairn Energy India Holdings BV | Netherlands |
| 27 | Cairn Energy Netherlands Holdings BV | Netherlands |
| 28 | Cairn Energy Gujarat BV | Netherlands |
| 29 | Cairn Energy Cambay BV | Netherlands |
| 30 | Cairn Energy Cambay Holding BV | Netherlands |



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

CIHL and CMHPL are wholly owned subsidiaries of the Company. All other above mentioned companies are direct or indirect wholly owned subsidiaries of either CIHL or CMHPL. The Company's percentage holding in these subsidiaries was same in the previous year.

*The Company had a wholly owned step down subsidiary Cairn Energy Development Pte. Limited (Singapore) which was liquidated during the previous year.

Cairn India Group has interest in the following Oil & Gas blocks/fields-

| Oil & Gas blocks/fields | Area | Participating Interest |
|---|---|---|
| **Operated blocks** | | |
| Ravva block | Krishna Godavari | 22.50% |
| CB-OS/2 – Exploration | Cambay Offshore | 60.00% |
| CB-OS/2 - Development & production | Cambay Offshore | 40.00% |
| RJ-ON-90/1 – Exploration | Rajasthan Onshore | 100.00% |
| RJ-ON-90/1 – Development & production | Rajasthan Onshore | 70.00% |
| PR-OSN-2004/1 | Palar Basin Offshore | 35.00% |
| SL 2007-01-001 | North West Sri Lanka Offshore | 100.00% |
| KG-ONN-2003/1 | Krishna Godavari Onshore | 49.00% |
| KG-OSN-2009/3 | Krishna Godavari Offshore | 100.00% |
| MB-DWN-2009/1 | Mumbai Deep Water | 100.00% |
| **Non – operated block** | | |
| KG-DWN-98/2 | Krishna Godavari Deep water | 10.00% |
| (The participating interest is proposed to be assigned outside the Group). | | |
| **Following blocks have been relinquished** | | |
| **Non – operated blocks** | | |
| KK-DWN-2004/1 in Mar 2012 | Kerala Konkan Basin Offshore | 40.00% |
| GS-OSN-2003/1 in Nov 2010 | Gujarat Saurashtra Onshore | 49.00% |

The participating interests were same in the previous year.

## 2. BASIS OF PREPARATION

The financial statements have been prepared to comply in all material respects with the accounting principles generally accepted in India, including mandatory Accounting Standards notified under the Companies (Accounting Standard) Rules, 2006 (as amended) under the historical cost convention and on an accrual basis. The accounting policies, in all material respects, have been consistently applied by the Company and are consistent with those used in the previous year except for changes in the presentation and disclosures of the financial statements as described in note no. 38 below.

### 2.1 Summary of significant accounting policies

#### a) Principles of consolidation:

The consolidated financial statements relate to the Cairn India Group. In the preparation of these consolidated financial statements, investments in subsidiaries have been accounted for in accordance with the provisions of Accounting Standard-21 (Consolidated Financial Statements). The financial statements of the subsidiaries have been drawn up to the same reporting date as of Cairn India Limited. The Consolidated Financial Statements are prepared on the following basis:

i 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-21 (Consolidated Financial Statements).

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

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

iii 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 recognized in the financial statements as Goodwill or Capital Reserve, as the case may be. Goodwill is tested for impairment by the management on each reporting date.

## b) Oil and gas assets

Cairn India Group follows the successful efforts method of 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 work 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 and development work in progress on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that oil and gas reserves exist and there is a reasonable prospect that these reserves are commercial.

Where results of exploration drilling indicate the presence of oil and gas reserves which are ultimately not considered commercially viable, all related costs are written off to the statement of profit and loss immediately. Following appraisal of successful exploration wells, when a well is ready for commencement of commercial production, the related exploratory and development work 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 off in the financial statements.

Net proceeds from any disposal of an exploration asset within exploratory and development work in progress are initially credited against the previously capitalised costs and any surplus proceeds are credited to the statement of profit and loss. 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 statement of profit and loss, to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Amounts which are not being paid by the joint venture partner in oil and gas blocks where Cairn India Group is the operator and have hence been funded by it are treated as exploration, development or production costs, as the case may be.

## 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. Reserves for this purpose are considered on working interest basis which are reassessed atleast annually. Impact of changes to reserves are accounted for prospectively.

## 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 recognizes the full cost of site restoration as a liability when the obligation to rectify environmental damage arises. The site restoration expenses form part of the exploration & development work in progress or cost of producing properties, as the case may be, of the related asset. The amortization of the asset, calculated on a unit of production basis based on proved and developed reserves, is included in the depletion cost in the statement of profit and loss.



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## e) Impairment

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 recognized 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 using a pre tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset.

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

## f) Tangible fixed assets, depreciation and amortization

Tangible 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 stated below, or at the rates prescribed under Schedule XIV of the Companies Act 1956, whichever is higher.

| | |
|---|---|
| Vehicles | 2 to 5 years |
| Freehold buildings | 10 years |
| Computers | 2 to 5 years |
| Furniture and fixtures | 2 to 5 years |
| Office equipments | 2 to 5 years |
| Plant and Equipment | 2 to 10 years |

Leasehold lands are amortised over the lease period. Leasehold improvements are amortized over the remaining period of the primary lease (3 to 6 years) or expected useful economic lives, whichever is shorter.

## g) Intangible fixed assets and amortization

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

| | |
|---|---|
| Computer software | 2 to 4 years |

Goodwill arising on consolidation is tested for impairment only.

## h) Leases

**As lessee**

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 recognised as an expense in the statement of profit and loss. 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 statement of profit and loss 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 from the date on which such investments are made, are classified as current investments. All other investments are classified as long-term investments. Current investments are measured at cost or market value, whichever is lower, determined on an individual investment basis. 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.

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

**j) Inventory**

Inventories of oil and condensate held at the balance sheet date are valued at cost or net realizable value, whichever is lower. Cost is determined on a quarterly weighted average basis.

Inventories of stores and spares related to exploration, development and production activities are valued at cost or net realizable value whichever is lower. Cost is determined on first in first out (FIFO) basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

**k) Joint Ventures**

Cairn India Group participates in several Joint Ventures involving joint control of assets for carrying out oil and gas exploration, development and producing activities. Cairn India Group 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.

**l) 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**

**From sale of oil, gas and condensate**

Revenue represents the Cairn India Group's share (net of Government's share of profit petroleum) of oil, gas and condensate production, recognized on a direct entitlement basis, when significant risks and rewards of ownership are transferred to the buyers. Government's share of profit petroleum is accounted for when the obligation (legal or constructive), in respect of the same arises.

**As operator from the joint venture**

Cairn India Group recognizes revenue from joint ventures for services rendered in the form of parent company overhead based on the provisions of respective PSCs.

**Tolling income**

Tolling income represents Cairn India Group's share of revenues from Pilotage and Oil Transfer Services from the respective joint ventures, which is recognized based on the rates agreed with the customers, as and when the services are rendered.

**Interest income**

Interest income is recognised on a time proportion basis.

**Dividend income**

Revenue is recognized when the instrument/unit holders' right to receive payment is established by the balance sheet date.

**m) Borrowing costs**

Borrowing costs include interest and commitment charges on borrowings, amortisation of costs incurred in connection with the arrangement of borrowings, exchange differences to the extent they are considered a substitute to the interest cost 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 statement of profit and loss 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.



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

Exchange differences arising on the settlement of monetary items or on reporting 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 period 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 group itself. In translating the financial statements of a non-integral foreign operation for incorporating in the consolidated financial statements, 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 in non-integral operations.

**o) Income taxes**

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the income tax laws prevailing in the respective tax jurisdictions where Cairn India Group operates. Deferred income tax reflects the impact of current period timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier period.

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 any component of Cairn India Group has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised by the component 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 periods are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be, that future taxable income will be available against which such deferred tax assets can be realised.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. Cairn India Group writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Minimum Alternative Tax (MAT) credit is recognised as an asset only when and to the extent there is convincing evidence that the company will pay income tax under the normal provisions during the specified period, resulting in utilization of MAT credit. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of a credit to the statement of profit and loss and shown as MAT Credit Entitlement. Cairn India Group reviews the same at each balance sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that the individual company will utilize MAT credit during the specified period.

**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 year. The weighted average number of equity shares outstanding during the year 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 year attributable to equity shareholders and the weighted average number of shares outstanding during the year 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.

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

**r) Cash and Cash equivalents**

Cash and cash equivalents comprise of 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 statement of profit and loss of the period when the contributions to the respective funds are due. There are no obligations other than the contribution payable to the respective funds.

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 on projected unit credit method.

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

**Employee Stock Compensation Cost**

Measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and 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 intrinsic value method. Compensation expense is amortized 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**

Cairn India Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The analysis of geographical segments is based on the areas in which major operating divisions of Cairn India Group operate.

**v) Derivative Instruments**

As per the ICAI Announcement, accounting for derivative contracts, other than those covered under AS-11, is done on marked to market on a portfolio basis, and the net loss is charged to the income statement. Net gains are ignored.

## 3. SHARE CAPITAL

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| **Authorised shares (No. in thousand)** | | |
| 2,250,000 (31 March 2011: 2,250,000) equity shares of INR 10 each | 22,500,000 | 22,500,000 |
| | | |
| **Issued, subscribed and fully paid up shares (No. in thousand)** | | |
| 1,907,396 (31 March 2011: 1,901,917) equity shares of INR 10 each | 19,073,961 | 19,019,171 |
| | | |
| **Total issued, subscribed and fully paid-up share capital** | **19,073,961** | **19,019,171** |



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 3. SHARE CAPITAL

**(a) Reconciliation of the shares outstanding at the beginning and at the end of the reporting period**

| | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | No. thousand | INR thousand | No. thousand | INR thousand |
| At the beginning of the period | 1,901,917 | 19,019,171 | 1,896,974 | 18,969,741 |
| Issued during the period – ESOP | 5,479 | 54,790 | 4,943 | 49,430 |
| **Outstanding at the end of the period** | **1,907,396** | **19,073,961** | **1,901,917** | **19,019,171** |

**(b) Terms/ rights attached to equity shares**

The Company has only one class of equity shares having par value of INR 10 per share. Each holder of equity shares is entitled to one vote per share. The dividend, if any, proposed by the Board of Directors will be subject to the approval of the shareholders in the ensuing Annual General Meeting.

In the event of liquidation of the Company, the holders of equity shares will be entitled to receive assets of the Company remaining after settlement of all liabilities. The distribution will be in proportion to the number of equity shares held by the shareholders.

**(c) Shares held by holding/ ultimate holding company and/ or their subsidiaries/ associates**

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| **Subsidiaries of Vedanta Resources Plc., the holding company*** | | |
| Twin Star Mauritius Holdings Limited | 7,388,736 | - |
| 738,874 thousand (31 March 2011: Nil) equity shares of INR 10 each fully paid | | |
| | | |
| Sesa Goa Limited | 3,511,404 | - |
| 351,140 thousand (31 March 2011: Nil) equity shares of INR 10 each fully paid | | |
| | | |
| Sesa Resources Limited | 327,000 | - |
| 32,700 thousand (31 March 2011: Nil) equity shares of INR 10 each fully paid | | |
| | | |
| **Cairn UK Holdings Limited, the erstwhile holding company*** | | |
| 415,563 thousand (31 March 2011: 1,183,244 thousand) equity shares of INR 10 each fully paid | 4,155,630 | 11,832,438 |

* Also refer note 25 below.

**(d) Aggregate no. of shares issued for consideration other than cash during the period of five years immediately preceding the reporting date:**

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| | No. thousand | No. thousand |
| Equity shares allotted as fully paid-up pursuant to contracts for consideration other than cash | - | 861,765 |

In addition, the Company has issued total 15,997 thousand equity shares (31 March 2011: 10,518 thousand equity shares) during the period of five years immediately preceding the reporting date on exercise of options granted under the employee stock option plan (ESOP scheme) wherein part consideration was received in form of employee services.

**(e) Details of shareholders holding more than 5% shares in the Company**

| | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | No. thousand | % holding in the class | No. thousand | % holding in the class |
| Equity shares of INR 10 each fully paid | | | | |
| Twin Star Mauritius Holdings Limited | 738,874 | 38.74% | - | - |
| Cairn UK Holdings Ltd | 415,563 | 21.79% | 1,183,244 | 62.21% |
| Sesa Goa Ltd | 351,140 | 18.41% | - | - |
| Petronas International Corporation Limited | - | - | 283,431 | 14.90% |

As per records of the Company, including its register of shareholders/ members, the above shareholding represents legal ownerships of shares.

**(f) Shares reserved for issue under options**

For details of shares reserved for issue under the ESOP scheme of the Company, please refer note 28.

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 4. RESERVES AND SURPLUS

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| **Securities premium account** | | |
| Balance as per the last financial statements | 301,925,982 | 301,161,222 |
| Add: additions on employee stock options exercised | 510,723 | 621,050 |
| Add: transferred from stock options outstanding | 490,382 | 143,710 |
| **Closing Balance** | **302,927,087** | **301,925,982** |
| **Debenture redemption reserve*** | | |
| Balance as per the last financial statements | - | - |
| Add: amount transferred from surplus balance in the statement of profit and loss | 439,617 | - |
| **Closing Balance** | **439,617** | **-** |
| **Employee stock options outstanding** | | |
| Gross employee stock compensation for options granted in earlier years | 544,385 | 770,973 |
| Add: gross compensation for options granted during the year | 245,756 | 152,763 |
| Less: deferred employee stock compensation | (189,973) | (225,304) |
| Less: transferred to securities premium on exercise of stock options | (490,382) | (143,710) |
| **Closing Balance** | **109,786** | **554,722** |
| **Surplus in the statement of profit and loss** | | |
| Balance as per last financial statements | 81,432,381 | 18,088,381 |
| Profit for the year | 79,377,496 | 63,344,000 |
| Less: Transfer to debenture redemption reserve | (439,617) | - |
| **Net surplus in the statement of profit and loss** | **160,370,260** | **81,432,381** |
| **Total reserves and surplus** | **463,846,750** | **383,913,085** |

*Debenture redemption reserve of INR 1,851,765 thousand (31 March 2011: INR 831,913 thousand) has not been created due to inadequacy of profits of Cairn India Limited.

## 5. LONG-TERM BORROWINGS

| | Non-current portion | | Current maturities | |
|---|---|---|---|---|
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| **Debentures** (Unsecured) | | | | |
| Series C - Nil (31 March 2011: 10 thousand) 8.50% non convertible debentures of INR 1,000 thousand each (INR 100 thousand called-up) | - | 1,000,000 | - | - |
| Series B - 6.25 thousand (31 March 2011: 6.25 thousand) 8.40% non convertible debentures of INR 1,000 thousand each (fully paid up) | - | 6,250,000 | 6,250,000 | - |
| Series A - 6.25 thousand (31 March 2011: 6.25 thousand) 8.35% non convertible debentures of INR 1,000 thousand each (fully paid up) | - | 6,250,000 | 6,250,000 | - |
| **Term loans (foreign currency)** | | | | |
| From banks (secured) | - | 10,577,834 | - | - |
| From financial institutions (secured) | - | 2,644,458 | - | - |
| **Other loans and advances** | | | | |
| Finance lease obligation (secured) | - | 15,936 | 18,410 | 43,930 |
| | **-** | **26,738,228** | **12,518,410** | **43,930** |



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 5. LONG-TERM BORROWINGS CONTINUED

| | Non-current portion | | Current maturities | |
|---|---|---|---|---|
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| The above amount includes | | | | |
| Secured borrowings | - | 13,238,228 | 18,410 | 43,930 |
| Unsecured borrowings | - | 13,500,000 | 12,500,000 | - |
| Amount disclosed under the head “other current liabilities” (note 7) | | | (12,518,410) | (43,930) |
| Net amount | - | 26,738,228 | - | - |

a. Series A debentures are redeemable at par after 21 months from date of allotment viz. 12 October 2010. Series B debentures are redeemable at par after 24 months from date of allotment viz. 12 October 2010. Series C debentures were redeemable at par after 27 months from date of allotment viz. 12 October 2010 on which a coupon rate of 8.50 % was applicable for the first 12 months and thereafter a market determined floating rate subject to a minimum of 8.50 %. The Company during the current year bought back the debentures issued under Series C, after their offer of buy back was accepted by the debenture holders.

b. The debenture holders have a negative lien on the assets of the Company. The Company had the option to prepay the debentures issued under series A and B at the end of 12 months from the date of issue.

c. Finance lease liabilities are secured by way of hypothecation of the office equipments and leasehold improvements acquired under such leases.

d. Term loans as on 31 March 2011 were secured by a common security in the form of hypothecation of the shares of Cairn Energy Hydrocarbons Limited, a wholly owned subsidiary of the Company. The Loan was to be paid in variable installments over a period of 6.5 years and interest rate was Libor +3.25% for first three years and Libor +3.75% thereafter. Cairn India Group prepaid the term loan during current financial year.

## 6. PROVISIONS

| | Long-term | | Short-term | |
|---|---|---|---|---|
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| **Provision for employee benefits** | | | | |
| Provision for employee stock options (cash settled)** | 52,981 | 175,983 | 71,879 | 111,072 |
| Provision for gratuity (note 27) | 10,321 | 7,994 | 73,503 | 52,676 |
| Provision for compensated absences | - | - | 72,461 | 24,866 |
| | 63,302 | 183,977 | 217,843 | 188,614 |
| **Other provisions** | | | | |
| Provision for site restoration* | 18,676,552 | 13,523,349 | - | - |
| Provision for taxation (net of advance tax) | - | - | 985,772 | 2,732,371 |
| Provision for mark-to-market losses on derivative contracts | - | - | 2,471 | 38,876 |
| | 18,676,552 | 13,523,349 | 988,243 | 2,771,247 |
| | **18,739,854** | **13,707,326** | **1,206,086** | **2,959,861** |

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| * Provision for site restoration [refer note 2.1 (d) above] | | |
| Opening balance | 13,523,349 | 4,466,429 |
| Additions for the year | 5,153,203 | 9,056,920 |
| Closing balance | 18,676,552 | 13,523,349 |
| ** Provision for employee stock options [cash settled) (refer note 2.1 (s) above] | | |
| Opening Balance | 287,055 | 330,792 |
| Additions for the year | 191,352 | 238,298 |
| Payments during the year | (233,700) | (225,684) |
| Reversed during the year | (119,847) | (56,351) |
| Closing Balance | 124,860 | 287,055 |

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 7. OTHER CURRENT LIABILITIES

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Trade payables | 6,071,626 | 4,625,620 |
| | | |
| **Other liabilities** | | |
| Current maturities of long-term borrowings (note 5) [Includes current maturity of finance lease obligation INR 18,410 thousand (31 March 2011: INR 43,930 thousand)] | 12,518,410 | 43,930 |
| Interest accrued but not due on borrowings | 490,464 | 638,984 |
| Others | | |
| Revenue received in excess of entitlement interest | 113,341 | - |
| Statutory dues payable | 1,296,527 | 890,601 |
| Interest accrued on other than borrowings | 552,152 | 405,000 |
| Profit petroleum payable | 492,158 | - |
| Liabilities for exploration and development activities | 3,293,088 | 6,539,522 |
| | 18,756,140 | 8,518,037 |
| | 24,827,766 | 13,143,657 |

## 8. TANGIBLE ASSETS

| | Freehold land | Leasehold land | Buildings | Plant and machinery | Office equipments | Furniture & fixtures | Leasehold Improvements | Vehicles | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | | |
| **At 1 April 2010** | **43,583** | **-** | **10,289** | **777,549** | **469,624** | **29,862** | **281,634** | **11,565** | **1,624,106** |
| Additions | - | 853,800 | 6,418,017 | 56,102,680 | 172,174 | 54,760 | - | 52,225 | 63,653,656 |
| Disposals | - | - | - | - | (41,325) | (178) | - | - | (41,503) |
| Other adjustments | | | | | | | | | - |
| - Borrowing costs [refer (d) below] | - | - | - | 516,536 | - | - | - | - | 516,536 |
| **At 31 March 2011** | **43,583** | **853,800** | **6,428,306** | **57,396,765** | **600,473** | **84,444** | **281,634** | **63,790** | **65,752,795** |
| Additions | - | 488,400 | 2,617,020 | 3,574,517 | 176,789 | 19,924 | - | 7,620 | 6,884,270 |
| Disposals | - | - | - | - | (20,800) | (688) | - | - | (21,488) |
| Other adjustments | | | | | | | | | - |
| - Borrowing costs [refer (d) below] | - | - | 15,112 | 23,802 | - | - | - | - | 38,914 |
| **At 31 March 2012** | **43,583** | **1,342,200** | **9,060,438** | **60,995,084** | **756,462** | **103,680** | **281,634** | **71,410** | **72,654,491** |
| | | | | | | | | | |
| **Depreciation** | | | | | | | | | |
| **At 1 April 2010** | - | - | 3,115 | 21,845 | 291,398 | 18,714 | 167,911 | 5,268 | 508,251 |
| Charge for the year | - | 77,391 | 397,454 | 5,543,774 | 138,632 | 12,016 | 57,750 | 8,754 | 6,235,771 |
| Disposals | - | - | - | - | (40,518) | (78) | - | - | (40,596) |
| **At 31 March 2011** | **-** | **77,391** | **400,569** | **5,565,619** | **389,512** | **30,652** | **225,661** | **14,022** | **6,703,426** |
| Charge for the year | - | 120,877 | 1,055,433 | 5,504,421 | 156,792 | 13,727 | 39,750 | 8,247 | 6,899,247 |
| Disposals | - | - | - | - | (19,130) | (682) | - | - | (19,812) |
| **At 31 March 2012** | **-** | **198,268** | **1,456,002** | **11,070,040** | **527,174** | **43,697** | **265,411** | **22,269** | **13,582,861** |
| | | | | | | | | | |
| **Net Block** | | | | | | | | | |
| **At 31 March 2011** | **43,583** | **776,409** | **6,027,737** | **51,831,146** | **210,961** | **53,792** | **55,973** | **49,768** | **59,049,369** |
| **At 31 March 2012** | **43,583** | **1,143,932** | **7,604,436** | **49,925,044** | **229,288** | **59,983** | **16,223** | **49,141** | **59,071,630** |



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

a. Leasehold improvements have been taken on finance lease. Additionally, office equipments of gross book value of INR 100,733 thousand (31 March 2011: INR 100,733 thousand) have been acquired under finance lease. The depreciation charge for the year on these office equipments is INR 17,200 thousand (31 March 2011: INR 19,962 thousand), the accumulated depreciation thereon is INR 80,676 thousand (31 March 2011: INR 63,476 thousand) and the net block is INR 20,057 thousand (31 March 2011: INR 37,257 thousand).

b. The above gross block includes INR 71,875,004 thousand (31 March 2011: INR 65,053,851 thousand) jointly owned with the joint venture partners. Accumulated depreciation on these assets is INR 12,937,664 thousand (31 March 2011: INR 6,216,929 thousand) and net book value is INR 58,937,340 thousand (31 March 2011: INR 58,836,922 thousand).

c. Gross block of leasehold land includes Nil (31 March 2011: INR 23,418 thousand ) for which the lease deed is yet to be executed.

d. Borrowing costs capitalized during the year ended 31 March 2012 aggregates to INR 286,971 thousand (31 March 2011: INR 835,525 thousand), of which INR 38,914 thousand (31 March 2011: INR 516,536 thousand) has been included under tangible assets and INR 248,057 thousand (31 March 2011: INR 318,989 thousand) under Exploration, development and capital work in progress.

## 9. INTANGIBLE ASSETS

| | Goodwill | Computer Software | Total |
|---|---|---|---|
| **Gross block** | | | |
| **At 1 April 2010** | **25,192,675** | **603,472** | **253,796,147** |
| Additions | - | 206,659 | 206,659 |
| Deletions | - | (23,491) | (23,491) |
| **At 31 March 2011** | **253,192,675** | **786,640** | **253,979,315** |
| Additions | - | 235,730 | 235,730 |
| Deletions | - | (37,651) | (37,651) |
| **At 31 March 2012** | **253,192,675** | **984,719** | **254,177,394** |
| | | | |
| **Amortization** | | | |
| **At 1 April 2010** | **-** | **449,816** | **449,816** |
| Charge for the year | - | 174,037 | 174,037 |
| Deletions | - | (23,491) | (23,491) |
| **At 31 March 2011** | **-** | **600,362** | **600,362** |
| Charge for the year | - | 199,481 | 199,481 |
| Deletions | - | (37,054) | (37,054) |
| **At 31 March 2012** | **-** | **762,789** | **762,789** |
| | | | |
| **Net block** | | | |
| At 31 March 2011 | 253,192,675 | 186,278 | 253,378,953 |
| **At 31 March 2012** | **253,192,675** | **221,930** | **253,414,605** |

a. The goodwill of Cairn India Group amounting to INR 253,192,675 thousand has arisen on consolidation of financial statements of the Company with its subsidiaries and represents the difference between the cost of its investment in Cairn India Holdings Limited (which largely represent Cairn India Group's operations in India through its subsidiaries) and consolidated net book value of assets in Cairn India Holdings Limited, 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 net present value per barrel of oil equivalent after risk adjustments. 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 reporting date.

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 10. COST OF PRODUCING FACILITIES (NET)

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Opening balance | 20,849,582 | 4,994,770 |
| Add: Additions | 5,753,758 | 499,935 |
| Add: Transferred from exploration, development and capital work in progress | 11,214,079 | 21,171,551 |
| Less: Depletion | (7,610,746) | (5,816,674) |
| Closing balance | **30,206,673** | **20,849,582** |

## 11. EXPLORATION, DEVELOPMENT AND CAPITAL WORK IN PROGRESS

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Opening balance | 39,818,769 | 91,634,579 |
| Add: Additions [refer note 8(d)] | 26,716,112 | 34,965,461 |
| Less: Transferred to cost of producing facilities | (11,214,079) | (21,171,551) |
| Less: Transferred to fixed assets | (6,480,724) | (63,942,904) |
| Less: Transferred to other current assets (refer note 14.2) | (850,246) | - |
| Less: Unsuccessful exploration costs | (2,988,328) | (1,666,816) |
| Closing balance | **45,001,504** | **39,818,769** |

## 12. DEFERRED TAX LIABILITY (NET)

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| **Deferred tax liability** | | |
| Fixed assets: Impact of difference between tax depreciation and depreciation/ amortization charged for the financial reporting | 6,799,670 | 5,635,961 |
| **Gross deferred tax liability** | 6,799,670 | 5,635,961 |
| | | |
| **Deferred tax asset** | | |
| Impact of expenditure charged to the statement of profit and loss in the current year but allowed for tax purposes on payment basis | 54,318 | 16,245 |
| Others | 7,842 | 7,842 |
| **Gross deferred tax asset** | 62,160 | 24,087 |
| **Net deferred tax liability** | **6,737,510** | **5,611,874** |
| | | |
| Aggregate amount of deferred tax liability (net) in components of Cairn India Group | 6,841,363 | 5,750,251 |
| Aggregate amount of deferred tax assets (net) in components of Cairn India Group | 103,853 | 138,377 |
| | 6,737,510 | 5,611,874 |

In the absence of virtual certainty in Cairn India Limited (standalone entity), deferred tax assets of INR 1,001,000 thousand (31 March 2011: INR 918,000 thousand) in respect of accumulated tax losses, INR 528,000 thousand (31 March 2011 : Nil) in respect of accumulated long term capital losses and INR 669,000 thousand (31 March 2011 : INR 586,000 thousand) in respect of differences in block of fixed assets/ exploration assets as per tax books and financial books have not been recognized.



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 13. LOANS AND ADVANCES

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| **Unsecured and considered good** | | | | |
| Capital advances | 259,707 | 260,751 | - | - |
| Security deposit | 152,229 | 123,942 | 79,001 | 69,349 |
| Loan and advances to related parties (note 30) | - | - | 5,260 | - |
| Advances recoverable in cash or kind | - | - | 5,015,921 | 3,965,515 |
| | 411,936 | 384,693 | 5,100,182 | 4,034,864 |
| **Unsecured and considered doubtful** | | | | |
| Advances recoverable in cash or kind | - | - | 6,575,034 | 4,904,759 |
| Less: provision | - | - | (6,575,034) | (4,904,759) |
| | - | - | - | - |
| **Other loans and advances** | | | | |
| (unsecured and considered good) | | | | |
| Advance income-tax (net of provision) | 990,794 | - | 3,019,990 | 645 |
| MAT credit entitlement | 23,977,118 | 12,164,292 | - | - |
| Fringe benefit tax paid (net of provision) | - | - | 4,329 | 4,329 |
| Prepaid expenses | - | - | 260,251 | 181,255 |
| | 24,967,912 | 12,164,292 | 3,284,570 | 186,229 |
| | **25,379,848** | **12,548,985** | **8,384,752** | **4,221,093** |

## 14. TRADE RECEIVABLES AND OTHER ASSETS

### 14.1. TRADE RECEIVABLES

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| **Unsecured, considered good** | | | | |
| Outstanding for a period exceeding six months from the date they are due for payment | - | - | - | 73,920 |
| Other receivables | - | - | 14,968,428 | 14,754,724 |
| | - | - | **14,968,428** | **14,828,644** |

### 14.2. OTHER ASSETS

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| **Unsecured, considered good** | | | | |
| Non-current bank balances (note 17) | 3,827,585 | 577,537 | - | - |
| Non-current inventory of stores and spares (note 16) | 3,080,056 | 2,372,173 | - | - |
| Exploration, development and capital work in progress (note 11)* | - | - | 850,246 | - |
| Unamortized premium on forward contracts | - | - | - | 39,228 |
| Ancillary cost of arranging the borrowings | - | 543,216 | 10,002 | 399,388 |
| Interest accrued on deposits and investments | - | - | 385,120 | 347,139 |
| | **6,907,641** | **3,492,926** | **1,245,368** | **785,755** |

* represents carrying value of KG-DWN-98/2 block which is proposed to be assigned outside the Group.

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 15. CURRENT INVESTMENTS (valued at lower of cost and fair value)

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| **Quoted mutual funds** | 9,878,425 | 5,438,714 |
| Unquoted mutual funds | 7,792,415 | 5,505,775 |
| Unquoted certificate of deposits | 684,842 | - |
| | | |
| | **18,355,682** | **10,944,489** |

## 16. INVENTORIES (valued at lower of cost and net realizable value)

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| Finished goods (crude oil)* | - | - | 979,258 | 716,611 |
| Stores and spares | 3,080,056 | 2,372,173 | 381,393 | 188,210 |
| | 3,080,056 | 2,372,173 | 1,360,651 | 904,821 |
| Less: amount disclosed under other non-current assets | (3,080,056) | (2,372,173) | - | - |
| | - | - | **1,360,651** | **904,821** |

*includes stock in pipeline INR 728,244 thousand (31 Mar 2011: INR 561,577 thousand).

## 17. CASH AND BANK BALANCES

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| **Cash and cash equivalents** | | | | |
| **Balances with banks:** | | | | |
| – On current accounts | - | - | 123,751 | 151,915 |
| – Deposits with original maturity of less than 3 months | - | - | 44,339,735 | 11,315,457 |
| **Cash on hand** | - | - | 445 | 524 |
| | - | - | 44,463,931 | 11,467,896 |
| **Other bank balances** | | | | |
| – Deposits with original maturity for more than 12 months | 2,945,023 | - | 3,559,121 | 1,502,500 |
| – Deposits with original maturity for more than 3 months but less than 12 months | - | - | 22,112,093 | 31,299,420 |
| – On site restoration fund | 882,562 | 577,537 | - | - |
| | 3,827,585 | 577,537 | 25,671,214 | 32,801,920 |
| Less: amount disclosed under other non-current assets | 3,827,585 | 577,537 | - | - |
| | **-** | **-** | **70,135,145** | **44,269,816** |

Deposits above include Nil (31 March 2011: INR 17,662 thousand) pledged with the banks.

## 18. REVENUE FROM OPERATIONS

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Sale of finished goods | | |
| Oil and condensate | 141,254,251 | 106,752,753 |
| Gas | 1,546,675 | 1,702,209 |
| Less: Government share of profit petroleum | (24,672,199) | (6,197,677) |
| | 118,128,727 | 102,257,285 |
| Sale of services (tolling income) | 42,685 | 50,945 |
| Other operating revenue (income received as operator from joint venture) | 435,114 | 471,047 |
| | **118,606,526** | **102,779,277** |

The price contract for sale of gas with one customer is due for revision with effect from December 2008 and currently the same is under negotiation. Pending finalization of the price contract, revenue has been recognised based on the last agreed prices on a conservative basis, as the management is expecting an upward price revision.



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 19. OTHER INCOME

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Interest income on | | |
| Bank deposits | 2,177,454 | 563,409 |
| Current investments | 8,868 | - |
| Others | 20,288 | 12,774 |
| Dividend income on current investments | 300,334 | 650,667 |
| Gain on sale of current investments (net) | 626,474 | 61,054 |
| Exchange difference (net)* | 6,186,095 | - |
| Other non-operating income | 60,583 | 52 |
| | **9,380,096** | **1,287,956** |

* net of loss on derivative contracts of INR 145,112 thousand

## 20. (INCREASE) IN INVENTORIES OF FINISHED GOODS

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Inventories at the end of the year | 979,258 | 716,611 |
| Inventories at the beginning of the year | 716,611 | 453,055 |
| | **(262,647)** | **(263,556)** |

## 21. EMPLOYEE BENEFIT EXPENSES

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Salaries, wages and bonus | 4,207,276 | 4,149,093 |
| Contribution to provident fund | 183,632 | 167,347 |
| Contribution to superannuation fund | 112,565 | 88,175 |
| Employee stock option scheme | 129,046 | 416,401 |
| Gratuity expense (Note 27) | 80,858 | 32,786 |
| Compensated absences | 4,882 | 4,056 |
| Staff welfare expenses | 445,138 | 394,396 |
| | 5,163,397 | 5,252,254 |
| Less: Cost allocated to joint ventures | (4,273,962) | (4,147,621) |
| | **889,435** | **1,104,633** |

## 22. OTHER EXPENSES

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Cess | 12,849,653 | 9,537,311 |
| Data acquisition and analysis | 62,083 | 94,588 |
| Arbitration costs | 32,169 | 48,098 |
| Royalty | 225,882 | 219,979 |
| Production bonus | 63,628 | 63,121 |
| Legal and professional fees | 2,010,122 | 1,606,788 |
| Exchange difference (net)* | - | 1,018,280 |
| Loss on commodity hedging contracts (net) | 946,295 | 27,640 |
| Travelling and conveyance | 433,815 | 441,248 |
| Contract employee charges | 401,791 | 304,389 |
| Rent | 321,912 | 292,763 |
| Rates and Taxes | 279,345 | 197,327 |
| Insurance | 175,289 | 4,621 |

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 22. OTHER EXPENSES CONTINUED

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Repairs and maintenance | | |
| Buildings | 86,359 | 86,076 |
| Others | 272,061 | 230,228 |
| Capital expenditure on assets not owned by the Group | - | 230,975 |
| Miscellaneous expenses | 587,628 | 406,963 |
| | 18,748,032 | 14,810,395 |
| Less: Cost allocated to joint ventures | (2,601,237) | (2,100,063) |
| | **16,146,795** | **12,710,332** |

* previous year includes loss on derivative contracts of INR 137,972 thousand

## 23. DEPLETION, DEPRECIATION AND AMORTIZATION EXPENSE

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Depreciation of tangible assets | 6,899,247 | 6,235,771 |
| Amortization of intangible assets | 199,481 | 174,037 |
| Less: Cost allocated to joint ventures | (306,460) | (296,857) |
| | 6,792,268 | 6,112,951 |
| Depletion on producing facilities | 7,610,746 | 5,816,674 |
| | **14,403,014** | **11,929,625** |

## 24. FINANCE COSTS

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Interest | 1,091,673 | 2,077,458 |
| Loan facility and management fees | 1,122,228 | 806,042 |
| Bank charges | 12,737 | 5,857 |
| Other finance charges | - | 38,363 |
| Exchange difference to the extent considered as an adjustment to borrowing cost | 38,337 | 93,520 |
| | **2,264,975** | **3,021,240** |
| Less: Cost allocated to joint ventures | (6,901) | (18,623) |
| | **2,258,074** | **3,002,617** |

## 25. CHANGE OF CONTROL OF THE COMPANY

The sale of shares of the Company by Cairn UK Holdings Limited and its holding company, Cairn Energy Plc. to Vedanta Resources Plc. and its subsidiaries (collectively the 'Vedanta group') was completed on 8 December 2011 and resulted in change of control in the management of the Company from that date. Consequently, royalty paid by Oil and Natural Gas Corporation Limited with respect to the RJ-ON-90/1 block has been treated as cost recoverable, as it was one of the pre-conditions imposed by the Government of India for approving the said transaction of sale of shares, resulting in reduction in revenues and profit after tax for the year by INR 30,325,677 thousand (including INR 1,028,461 thousand for the period upto 31 March 2011 which has been disclosed as an exceptional item).

## 26. EARNINGS PER SHARE (EPS)

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| The following reflects the profit and share data used in the basic and diluted EPS computations: | | |
| **Profit after tax as per Statement of Profit & Loss** | **79,377,496** | **63,344,000** |
| (used for calculation of both basic and diluted EPS) | | |
| | **No. thousand** | **No. thousand** |
| Weighted average number of equity shares in calculating basic EPS | 1,903,047 | 1,898,666 |
| Effect of dilution: | | |
| Stock options granted under employee stock options | 4,784 | 9,040 |
| Weighted average number of equity shares in calculating diluted EPS | 1,907,831 | 1,907,706 |
| **Earnings per equity share in INR** computed on the basis of profit for the year | | |
| Basic | 41.71 | 33.36 |
| Diluted | 41.61 | 33.20 |



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 27. GRATUITY

Cairn India Group has a defined benefit gratuity plan for its employees. Under the gratuity plan, every employee who has completed atleast five years of service gets a gratuity on departure @ 15 days of last drawn salary for each completed year of service. The scheme is funded with an insurance company in the form of qualifying insurance policy.

The following tables summarize the components of net benefit expense recognized in the statement of profit and loss, the funded status and amounts recognized in the balance sheet for the respective plans.

**Statement of profit and loss**

**Net employee benefit expense recognized in the employee cost**

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Current service cost | 47,125 | 36,446 |
| Interest cost on benefit obligation | 16,001 | 12,951 |
| Expected return on plan assets | (12,938) | (9,119) |
| Net actuarial (gain) / loss recognized in the year | 30,670 | (7,492) |
| Past service cost | - | - |
| **Net benefit expense** | **80,858** | **32,786** |
| Actual return on plan assets | 13,052 | 9,547 |

**Balance sheet**

Benefit asset/ liability

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Present value of defined benefit obligation | 269,810 | 200,008 |
| Fair value of plan assets | 185,986 | 139,338 |
| Plan asset / (liability) | **(83,824)** | **(60,670)** |

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

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Opening defined benefit obligation | 200,008 | 161,887 |
| Current service cost | 47,125 | 36,446 |
| Interest cost | 16,001 | 12,951 |
| Benefits paid | (24,108) | (4,213) |
| Actuarial (gains) / losses on obligation | 30,784 | (7,063) |
| Closing defined benefit obligation | **269,810** | **200,008** |

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

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Opening fair value of plan assets | 139,338 | 97,008 |
| Expected return | 12,938 | 9,119 |
| Contributions by employer | 57,704 | 36,995 |
| Benefits paid | (24,108) | (4,213) |
| Actuarial gains / (losses) | 114 | 429 |
| Closing fair value of plan assets | **185,986** | **139,338** |

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 27. GRATUITY CONTINUED

The Group's expected contribution to the fund in the next year is INR 57,616 thousand (31 March 2011: INR 47,771 thousand).

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

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Investments with insurer | 100% | 100% |

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

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Discount rate | 8.00% | 8.00% |
| Future salary increase | 10.00% | 10.00% |
| Expected rate of return on assets | 9.40% | 9.40% |
| Employee turnover | 5.00% | 5.00% |
| Mortality rate | LIC (1994-96) Ultimate Table | LIC (1994-96) Ultimate Table |

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.

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.

Amounts for the current and previous four periods are as follows:

| | 31 March 2012 | 31 March 2011 | 31 March 2010 | 31 March 2009 | 31 Dec 2007 |
|---|---|---|---|---|---|
| Defined benefit obligation | 269,810 | 200,008 | 161,887 | 108,425 | 66,142 |
| Plan assets | 185,986 | 139,338 | 97,008 | 68,854 | 29,163 |
| Surplus / (deficit) | (83,824) | (60,670) | (64,879) | (39,571) | (36,979) |
| Experience adjustments on plan assets | 114 | 428 | 365 | 3,132 | 2,970 |
| Experience adjustments on plan liabilities | (30,784) | 6,938 | (13,839) | (11,964) | (6,960) |

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 year. The total value of plan assets is as certified by the LIC.

## 28. EMPLOYEE STOCK OPTION PLANS

Cairn India Group has provided various share based payment schemes to its employees. During the year ended 31 March 2012, the following schemes were in operation:

| Particulars | CISMP | CIPOP | CIESOP | CIPOP Phantom | CIESOP Phantom |
|---|---|---|---|---|---|
| Date of Board Approval | 17-Nov-06 | 17-Nov-06 | 17-Nov-06 | Not applicable | Not applicable |
| Date of Shareholder's approval | 17-Nov-06 | 17-Nov-06 | 17-Nov-06 | Not applicable | Not applicable |
| Number of options granted till March 2012 | 8,298,713 | 8,318,283 | 25,958,972 | 3,152,331 | 733,875 |
| Method of Settlement | Equity | Equity | Equity | Cash | Cash |
| Vesting Period | Refer vesting conditions below | 3 years from grant date | 3 years from grant date | 3 years from grant date | 3 years from grant date |
| Exercise Period | 18 months from vesting date | 3 months from vesting date | 7 years from vesting date | Immediately upon vesting | Immediately upon vesting |



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 28. EMPLOYEE STOCK OPTION PLANS CONTINUED

Number of options granted till 31 March 2012

| Particulars | CISMP | CIPOP | CIESOP | CIPOP Phantom | CIESOP Phantom |
|---|---|---|---|---|---|
| Date of Grant | | | | | |
| 24-Nov-06 | 8,298,713 | - | - | - | - |
| 01-Jan-07 | - | 1,708,195 | 3,467,702 | - | - |
| 20-Sep-07 | - | 3,235,194 | 5,515,053 | - | - |
| 29-Jul-08 | - | 789,567 | 3,773,856 | 822,867 | 324,548 |
| 10-Dec-08 | - | - | 36,040 | - | 38,008 |
| 22-Jun-09 | - | - | - | 69,750 | - |
| 29-Jul-09 | - | 994,768 | 5,405,144 | 1,230,416* | 211,362 |
| 27-Jul-10 | - | 584,144 | 3,027,463 | 614,999* | 93,572 |
| 23-Dec-10 | - | - | - | 23,645 | - |
| 26-Jul-11 | - | 1,006,415 | 4,733,714 | 390,654 | 66,385 |
| Total | 8,298,713 | 8,318,283 | 25,958,972 | 3,152,331 | 733,875 |

* includes 169,944 & 260,288 options converted from CIPOP to CIPOP Phantom in 29-Jul-09 & 27-Jul-10 grants respectively during the year.

The Vesting conditions of the above plans are as under-

**CISMP plan**

(A) 6,714,233 options are to be vested in the following manner-
- 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'). Listing date was 9 Jan 2007.
- 1/3rd of the options will vest 18 months after the admission date.
- 1/3rd of the options will vest on achieving 30 days' consecutive production of over 150,000 bopd from the Rajasthan Block.

(B) 1,584,480 options are to be vested in the following manner-
- 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.
- 1/4th 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.
- 1/4th of the options will vest on achieving 100,000 bopd from the Mangala Field.

**CIPOP plan (including phantom options)**

Options will vest (i.e., become exercisable) at the end of a "performance period" which has been set by the remuneration committee at the time of grant (although such period will not be less than three years). However, the percentage of an option which vests on this date will be determined by the extent to which pre-determined performance conditions have been satisfied. Phantom options are exercisable proportionate to the period of service rendered by the employee subject to completion of one year.

**CIESOP plan (including phantom options)**

There are no specific vesting conditions under CIESOP plan other than completion of the minimum service period. Phantom options are exercisable proportionate to the period of service rendered by the employee subject to completion of one year.

Subsequent to change in control of the Company as stated in note no 25, the remuneration committee approved immediate vesting of all the outstanding options under CISMP plan and prorata vesting upto 8 December 2011 of outstanding options under CIPOP plan as per the provisions of the scheme. This does not have any material impact on these financial statements.

Details of activities under employees stock option plans

| CISMP Plan | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise Price in INR | Number of options | Weighted average exercise Price in INR |
| Outstanding at the beginning of the year | 2,238,077 | 33.70 | 2,238,077 | 33.70 |
| Granted during the year | Nil | NA | Nil | NA |
| Expired during the year | Nil | NA | Nil | NA |
| Exercised during the year | 2,238,077 | 33.70 | Nil | NA |
| Forfeited / cancelled during the year | Nil | NA | Nil | NA |
| Outstanding at the end of the year | Nil | NA | 2,238,077 | 33.70 |
| Exercisable at the end of the year | Nil | NA | Nil | NA |

Weighted average fair value of options granted on the date of grant is INR 131.50 (31 March 2011: INR 131.50)

Weighted average share price at the date of exercise of stock options is INR 344.15 (31 March 2011: NA)

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 28. EMPLOYEE STOCK OPTION PLANS CONTINUED

| CIPOP Plan | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise Price in INR | Number of options | Weighted average exercise Price in INR |
| Outstanding at the beginning of the year | 2,147,663 | 10.00 | 2,626,830 | 10.00 |
| Granted during the year | 1,006,415 | 10.00 | 584,144 | 10.00 |
| Expired during the year | Nil | NA | Nil | NA |
| Exercised during the year | 856,432 | 10.00 | 922,043 | 10.00 |
| Forfeited / cancelled during the year | 1,215,306 | 10.00 | 141,268 | 10.00 |
| Outstanding at the end of the year | 1,082,340 | 10.00 | 2,147,663 | 10.00 |
| Exercisable at the end of the year | Nil | NA | Nil | NA |

Weighted average fair value of options granted on the date of grant is INR 202.15 (31 March 2011: INR 186.37)
Weighted average share price at the date of exercise of stock options is INR 338.79 (31 March 2011: INR 323.30)

| CIESOP Plan | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise Price in INR | Number of options | Weighted average exercise Price in INR |
| Outstanding at the beginning of the year | 12,730,726 | 246.00 | 14,646,209 | 206.43 |
| Granted during the year | 4,733,714 | 327.75 | 3,027,463 | 331.25 |
| Expired during the year | Nil | NA | Nil | NA |
| Exercised during the year | 2,384,498 | 201.94 | 4,020,926 | 164.45 |
| Forfeited / cancelled during the year | 1,116,526 | 280.31 | 922,020 | 253.08 |
| Outstanding at the end of the year | 13,963,416 | 278.49 | 12,730,726 | 246.00 |
| Exercisable at the end of the year | 2,640,232 | 205.23 | 1,864,110 | 164.94 |

Weighted average fair value of options granted on the date of grant is INR 126.64 (31 March 2011: INR 112.48)
Weighted average share price at the date of exercise of stock options is INR 337.97 (31 March 2011: INR 328.61)

| CIPOP Plan – Phantom options | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise Price in INR | Number of options | Weighted average exercise Price in INR |
| Outstanding at the beginning of the year | 1,347,429 | 10.00 | 1,728,641 | 10.00 |
| Granted during the year | 820,886 | 10.00 | 448,106 | 10.00 |
| Expired during the year | Nil | NA | Nil | NA |
| Exercised during the year | 672,114 | 10.00 | 655,600 | 10.00 |
| Forfeited / cancelled during the year | 457,995 | 10.00 | 173,718 | 10.00 |
| Outstanding at the end of the year | 1,038,206 | 10.00 | 1,347,429 | 10.00 |
| Exercisable at the end of the year | Nil | NA | Nil | NA |

Weighted average fair value of options granted on the date of grant is INR 341.23 (31 March 2011: INR 341.52)
Weighted average share price at the date of exercise of stock options is INR 310.07 (31 March 2011: INR 327.68)



Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

28. EMPLOYEE STOCK OPTION PLANS CONTINUED

| CIESOP Plan – Phantom options | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise Price in INR | Number of options | Weighted average exercise Price in INR |
| Outstanding at the beginning of the year | 381,578 | 253.96 | 844,688 | 195.03 |
| Granted during the year | 66,385 | 327.75 | 93,572 | 331.25 |
| Expired during the year | Nil | NA | Nil | NA |
| Exercised during the year | 152,002 | 227.00 | 446,354 | 169.27 |
| Forfeited / cancelled during the year | 32,250 | 329.94 | 110,328 | 210.92 |
| Outstanding at the end of the year | 263,711 | 278.79 | 381,578 | 253.96 |
| Exercisable at the end of the year | Nil | NA | Nil | NA |

Weighted average fair value of options granted on the date of grant is INR 149.89 (31 March 2011: INR 161.08)
Weighted average share price at the date of exercise of stock options is INR 308.30 (31 March 2011: INR 319.43)

The details of exercise price for stock options outstanding as at 31 March 2012 are:

| SCHEME | Range of exercise price in INR | No. of options outstanding | Weighted average remaining contractual life of options (in years) | Weighted average exercise price in INR |
|---|---|---|---|---|
| CIPOP Plan | 10.00 | 1,082,340 | 2.00 | 10.00 |
| CIESOP Plan | 143-331.25 | 13,963,416 | 1.01 | 278.49 |
| CIPOP Plan – Phantom options | 10.00 | 1,038,206 | 1.40 | 10.00 |
| CIESOP Plan – Phantom options | 240.05-331.25 | 263,711 | 0.96 | 278.79 |
| The details of exercise price for stock options outstanding as at 31 March 2011 are: | | | | |
| CISMP Plan | 33.70 | 2,238,077 | 0.08 | 33.70 |
| CIPOP Plan | 10.00 | 2,147,663 | 1.25 | 10.00 |
| CIESOP Plan | 143-331.25 | 12,730,726 | 1.10 | 246.00 |
| CIPOP Plan – Phantom options | 10.00 | 1,347,429 | 1.38 | 10.00 |
| CIESOP Plan – Phantom options | 227-331.25 | 381,578 | 1.14 | 253.96 |

**Effect of Employees Stock Option Plans on Financial Position**
Effect of the employee share-based payment plans on the statement of profit and loss and on its financial position:

| Particulars | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Total Employee Compensation Cost pertaining to share-based payment plans | 129,046 | 416,401 |
| Compensation Cost pertaining to equity-settled employee share-based payment plan included above | 45,445 | 234,454 |
| Compensation Cost pertaining to cash-settled employee share-based payment plan included above | 83,601 | 181,947 |
| Equity settled employee stock options outstanding as at year end | 109,786 | 554,722 |
| Liability for cash settled employee stock options outstanding as at year end | 124,860 | 287,055 |
| Deferred compensation cost of equity settled options | 189,973 | 225,304 |
| Deferred compensation cost of cash settled options | 236,131 | 220,178 |

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 28. EMPLOYEE STOCK OPTION PLANS CONTINUED

**Inputs for Fair valuation of Employees Stock Option Plans**

The Share Options have also been fair 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 - CISMP | A | B |
|---|---|---|
| **Grant Date** | **24-Nov-06** | **24-Nov-06** |
| Stock Price/fair value of the equity shares on the date of grant (INR) | 160.00 | 160.00 |
| Vesting date | Refer vesting conditions | Refer vesting conditions |
| Vesting % | Refer vesting conditions | Refer vesting conditions |
| Volatility (Weighted average) | 44.08% | 46.59% |
| Risk free rate (Weighted average) | 7.05% | 6.94% |
| Time to maturity in years (Weighted average) | 2.45 | 2.00 |
| Exercise price – INR | 33.70 | 33.70 |
| Fair Value of the options (Weighted average) - INR | 131.69 | 130.69 |

| VARIABLES – CIPOP | | | | | | |
|---|---|---|---|---|---|---|
| **Grant Date** | **1-Jan-07** | **20-Sep-07** | **29-Jul-08** | **29-Jul-09** | **27-Jul-10** | **26-Jul-11** |
| Stock Price/fair value of the equity shares on the date of grant (INR) | 160.00 | 166.95 | 228.55 | 234.75 | 331.50 | 322.60 |
| Vesting date | 1-Jan-10 | 20-Sep-10 | 29-Jul-11 | 29-Jul-12 | 27-Jul-13 | 26-Jul-14 |
| Vesting % | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions |
| Volatility | 41.61% | 36.40% | 37.49% | 43.72% | 53.73% | 46.39% |
| Risk free rate | 7.33% | 7.23% | 9.37% | 5.78% | 6.99% | 8.37% |
| Time to maturity (years) | 3.12 | 3.12 | 3.12 | 3.12 | 3.12 | 3.12 |
| Exercise price (INR) | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Fair Value of the options (INR) | 152.05 | 158.97 | 221.09 | 226.40 | 323.39 | 316.80 |

| VARIABLES – CIESOP | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Grant Date** | **1-Jan-07** | **20-Sep-07** | **29-Jul-08** | **10-Dec-08** | **29-Jul-09** | **27-Jul-10** | **26-Jul-11** |
| Stock Price/fair value of the equity shares on the date of grant (INR) | 160.00 | 166.95 | 228.55 | 150.10 | 234.75 | 331.50 | 322.60 |
| Vesting date | 1-Jan-10 | 20-Sep-10 | 29-Jul-11 | 10-Dec-11 | 29-Jul-12 | 27-Jul-13 | 26-Jul-14 |
| Vesting % | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Volatility | 41.04% | 40.24% | 39.43% | 38.19% | 39.97% | 53.73% | 46.39% |
| Risk free rate | 7.50% | 7.65% | 9.20% | 6.94% | 6.91% | 6.99% | 8.37% |
| Time to maturity (years) | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 |
| Exercise price (INR) | 160.00 | 166.95 | 227.00 | 143.00 | 240.05 | 331.25 | 327.75 |
| Fair Value of the options (INR) | 87.30 | 90.72 | 130.42 | 79.80 | 122.24 | 141.56 | 190.16 |

| VARIABLES – CIPOP Phantom | | | | | | |
|---|---|---|---|---|---|---|
| **Grant Date** | **29-Jul-08** | **22-Jun-09** | **29-Jul-09** | **27-Jul-10** | **23-Dec-10** | **26-Jul-11** |
| Stock Price of the equity shares on the reporting date (INR) | 333.90 | 333.90 | 333.90 | 333.90 | 333.90 | 333.90 |
| Vesting date | 29-Jul-11 | 22-Jun-12 | 29-Jul-12 | 27-Jul-13 | 23-Dec-13 | 26-Jul-14 |
| Vesting % | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions |
| Volatility | 22.55% | 33.43% | 34.18% | 30.78% | 30.09% | 29.66% |
| Risk free rate | 7.62% | 8.46% | 8.46% | 8.48% | 8.49% | 8.50% |
| Time to maturity (years) | 0.33 | 0.22 | 0.33 | 1.32 | 1.73 | 2.32 |
| Exercise price (INR) | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Fair Value of the options (INR) | 341.20 | 324.09 | 345.27 | 346.06 | 325.27 | 325.69 |



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 28. EMPLOYEE STOCK OPTION PLANS CONTINUED

| VARIABLES – CIESOP Phantom | | | | | |
|---|---|---|---|---|---|
| **Grant Date** | **29-Jul-08** | **10-Dec-08** | **29-Jul-09** | **27-Jul-10** | **26-Jul-11** |
| Stock Price of the equity shares on the reporting date (INR) | 333.90 | 333.90 | 333.90 | 333.90 | 333.90 |
| Vesting date | 29-Jul-11 | 10-Dec-11 | 29-Jul-12 | 27-Jul-13 | 26-Jul-14 |
| Vesting % | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions | Refer vesting conditions |
| Volatility | 22.55% | 25.75% | 34.18% | 30.78% | 29.66% |
| Risk free rate | 7.62% | 7.49% | 8.46% | 8.48% | 8.50% |
| Time to maturity (years) | 0.33 | 0.70 | 0.33 | 1.32 | 2.32 |
| Exercise price (INR) | 227.00 | 143.00 | 240.05 | 331.25 | 327.75 |
| Fair Value of the options (INR) | 129.57 | 215.21 | 101.16 | 65.66 | 92.21 |

Volatility is the measure of the amount by which the price has fluctuated or is expected to fluctuate during the period. The measure of volatility used in Black-Scholes option-pricing model is the annualized standard deviation of the continuously compounded rates of return on the stock over a period of time. Time to maturity /expected life of options is the period for which the Cairn India Group expects the options to be live. Time to maturity has been calculated as an average of the minimum and maximum life of the options.

**Impact of Fair Valuation Method on net profits and EPS**

In March 2005, the Institute of Chartered Accountants of India has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to employee based share plan, the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation accounting in the financial statements. Applying the fair value based method defined in the said guidance note, the impact on the reported net profit and earnings per share would be as follows:

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Profit as reported | 79,377,496 | 63,344,000 |
| Add: Employee stock compensation under intrinsic value method | 129,046 | 416,401 |
| Less: Employee stock compensation under fair value method | (601,924) | (864,945) |
| Proforma profit | 78,904,618 | 62,895,456 |
| **Earnings Per Share (in INR)** | | |
| Basic | | |
| - As reported | 41.71 | 33.36 |
| - Proforma | 41.46 | 33.13 |
| Diluted | | |
| - As reported | 41.61 | 33.20 |
| - Proforma | 41.61 | 32.97 |

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 29. LEASES

**Finance lease: as lessee**

Fixed assets include office equipments and leaseholds improvements obtained under finance lease. The lease term is for 3 to 6 years and renewable for further period/years at the option of the Cairn India Group. There is no escalation clause in the lease agreements. There are no restrictions imposed by lease arrangements and there are no subleases.

| 31 March 2012 | Minimum lease payments | Principal amount due | Interest due |
|---|---|---|---|
| Within one year of the balance sheet date | 19,082 | 18,410 | 672 |
| Due in a period between one year and five years | Nil | Nil | Nil |
| Due after five years | Nil | Nil | Nil |
| **Total** | **19,082** | **18,410** | **672** |

| 31 March 2011 | Minimum lease payments | Principal amount due | Interest due |
|---|---|---|---|
| Within one year of the balance sheet date | 48,020 | 43,930 | 4,090 |
| Due in a period between one year and five years | 16,608 | 15,936 | 672 |
| Due after five years | Nil | Nil | Nil |
| **Total** | **64,628** | **59,866** | **4,762** |

Note: The interest rate on finance lease ranges from 3.77 % to 14.61%

**Operating Lease: as lessee**

Cairn India Group has entered into operating leases for office premises and office equipments, some of which are cancellable and some are non-cancellable. The leases have a life of 3 to 6 years. There is an escalation clause in the lease agreement during the primary lease period. There are no restrictions imposed by lease arrangements and there are no subleases. There are no contingent rents. The information with respect to non cancellable leases are as under:

| Particulars | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Lease payments made during the year | 44,943 | 145,179 |
| Within one year of the balance sheet date | 28,782 | 35,361 |
| Due in a period between one year and five years | 39,697 | Nil |
| Due after five years | Nil | Nil |

## 30. RELATED PARTY DISCLOSURES

**Names of related parties and related party relationship**

**Related parties where control exists**

| | |
|---|---|
| Holding / Ultimate holding company | Vedanta Resources Plc. (w.e.f. 8 Dec 2011) |
| | Vedanta Resources Holdings Limited (w.e.f. 8 Dec 2011) |
| | Volcan Investments Limited (w.e.f. 8 Dec 2011) |
| | Cairn UK Holdings Limited (upto 7 Dec 2011)* |
| | Cairn Energy Plc. (upto 7 Dec 2011)* |

* w.e.f. 8 December 2011 Cairn Energy Plc. and Cairn UK Holdings Limited only have significant influence over the company. Refer note 25.

**Related parties with whom transactions have taken place**

| | |
|---|---|
| Fellow subsidiaries | Capricorn Energy Limited, UK (upto 7 Dec 2011)** |
| | Cairn Energy Search Limited, UK (upto 7 Dec 2011)** |
| | Sterlite Industries (India) Limited (w.e.f. 8 Dec 2011) |

** w.e.f. 8 December 2011 they continue to be related parties as they are subsidiaries of Cairn Energy Plc.



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 30. RELATED PARTY DISCLOSURES CONTINUED

| | |
|---|---|
| Key management personnel | Rahul Dhir, Managing Director and Chief Executive Officer |
| | Winston Frederick Bott Jr., Executive Director and Chief Operating Officer |
| | (upto 15 Jun 2011) |
| | Indrajit Banerjee, Executive Director and Chief Financial Officer |
| | (upto 23 Aug 2011) |

**Related party transactions**

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

| Nature of the Transactions | Related Party | | 31 March 2012 | 31 March 2011 |
|---|---|---|---|---|
| Reimbursement of expenses to related party | Cairn Energy Plc. | | 1,300 | 7,857 |
| | Sterlite Industries (India) Limited | | 1,123 | - |
| | | **Total** | **2,423** | **7,857** |
| Expenses incurred on behalf of related party | Cairn Energy Search Limited | | - | 13,954 |
| | Cairn Energy Plc. | | 4,195 | 119,303 |
| | Capricorn Energy Limited | | 3,097 | 49,517 |
| | | **Total** | **7,292** | **182,774** |
| Shares issued including premium and stock option charge | Indrajit Banerjee | | 4,852 | 21,074 |
| | Rahul Dhir | | 282,669 | Nil |
| | | **Total** | **287,521** | **21,074** |
| Remuneration | Rahul Dhir | | 517,751 | 99,779 |
| | Winston Frederick Bott Jr. | | 47,848 | 68,545 |
| | Indrajit Banerjee | | 9,266 | 16,791 |
| | | **Total** | **574,865** | **185,115** |

In addition to the above remuneration, incentives and bonus of INR 30,986 thousand (31 March 2011: INR 23,234 thousand), INR 81,277 thousand (31 March 2011: INR 16,060 thousand) and INR 16,415 thousand (31 March 2011: INR 11,538 thousand) were paid to Rahul Dhir, Winston Frederick Bott Jr. and Indrajit Banerjee respectively. Remuneration to the key management personnel does not include provisions made for gratuity and leave benefits, as the same is determined on an actuarial basis for the Cairn India Group as a whole. However, a sum of INR 759 thousand (31 Mar 2011: Nil) was paid to Indrajit Banerjee towards leave benefits on cessation of employment.

Balances outstanding as at the end of the year:

| Nature of the Balance | Related Party | | 31 March 2012 | 31 March 2011 |
|---|---|---|---|---|
| Other current liabilities including trade payables | Cairn Energy Plc. | | - | 5,087 |
| | Capricorn Energy Limited | | 20,233 | 23,912 |
| | Sterlite Industries (India) Limited | | 1,011 | - |
| | | **Total** | **21,244** | **28,999** |
| Loans & Advances | Cairn Energy Plc. | | 5,260 | - |

## 31. CAPITAL AND OTHER COMMITMENTS

**Capital commitments** (net of advances)

Cairn India Group's share of Joint Ventures' Exploration activities and Development activities – INR 384,714 thousand (31 March 2011: – INR 4,405,446 thousand) and INR 8,742,748 thousand (31 March 2011: – INR 13,627,203 thousand) respectively.

**Other commitments**

Cairn India Group's share of Joint Ventures' minimum exploration commitments as per the production sharing contracts - INR 4,080,670 thousand (31 March 2011: – INR 10,344,366 thousand).

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 32. CONTINGENT LIABILITIES

**a. Ravva Joint Venture Arbitration proceedings : Base Development Cost**

Ravva joint venture had received a claim from the Director General of Hydrocarbons (DGH) for the period from 2000-2005 for USD 166.4 million for an alleged underpayment of profit petroleum to the Indian Government, out of which, Cairn India Group's share will be USD 37.4 million (approximately INR 1,688,000 thousand) [31 March 2011: USD 37.4 million (approximately INR 1,688,000 thousand)] plus potential interest at applicable rate (LIBOR plus 2% as per PSC).

This claim relates to the Indian Government's allegation that the Ravva JV has recovered costs in excess of the Base Development Costs ("BDC") cap imposed in the PSC and that the Ravva JV has also allowed these excess costs in the calculation of the Post Tax Rate of Return (PTRR). Joint venture partners initiated the arbitration proceedings and Arbitration Tribunal published the Award on 18 January, 2011 at Kuala Lumpur, allowing Claimants (including Cairn) to recover the Development costs spent to the tune of USD 278 million and disallowed over run of USD 22.3 million spent in respect of BDC along with 50% legal costs reimbursable to the Joint venture partners. Government of India has appealed before High Court in Malaysia against the Award. Hearing scheduled for week commencing 26 / 27 April 2012. Also, Government of India filed another application before High Court of New Delhi to set aside the part of the Award. Hearing before High Court of Delhi scheduled on 20 April 2012.

**b. Service tax**

One of the constituent company of the Cairn India Group has received five show cause notices from the tax authorities in India for non payment of service tax as a recipient of services from foreign service providers.

These notices cover periods from 1 April 2006 to 31 March 2011. A writ petition has been filed with Chennai High Court challenging the scope of some services in respect of first show cause notice (1 April 2006 to 31 March 2007).

The replies to the first, second, third, fourth and fifth show cause notices have already been filed before the authorities.

Should future adjudication go against Cairn India Group, it will be liable to pay the service tax of approximately INR 1,124,795 thousand (31 March 2011: INR 1,117,612 thousand) plus potential interest of approximately INR 660,333 thousand (31 March 2011: INR 439,445 thousand), although this could be recovered in part, where it relates to services provided to Joint Venture of which constituent company of the Cairn India Group is operator.

**c. Tax holiday on gas production**

Section 80-IB (9) of the Income Tax Act, 1961 allows the deduction of 100% of profits from the commercial production or refining of mineral oil. The term 'mineral oil' is not defined but has always been understood to refer to both oil and gas, either separately or collectively.

The 2008 Indian Finance Bill appeared to remove this deduction by stating [without amending section 80-IB (9)] that "for the purpose of section 80-IB (9), the term 'mineral oil' does not include petroleum and natural gas, unlike in other sections of the Act". Subsequent announcements by the Finance Minister and the Ministry of Petroleum and Natural Gas have confirmed that tax holiday would be available on production of crude oil but have continued to exclude gas.

Cairn India Group filed a writ petition to the Gujarat High Court in December 2008 challenging the restriction of section 80-IB to the production of oil. Gujarat High Court did not admit the writ petition on the ground that the matter needs to be first decided by lower tax authorities. A Special Leave Petition has been filed before Supreme Court against the decision of Gujarat High court.

In the event this challenge is unsuccessful, the potential liability for tax and related interest on tax holiday claimed on gas is approximately INR 2,425,774 thousand (31 March 2011: INR 2,400,000 thousand).

Based on the legal opinions received, the management is of the view that the liability in the cases mentioned in (a) to (c) above are not probable and accordingly no provision has been considered necessary there against.



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 33. DERIVATIVE INSTRUMENTS AND UNHEDGED FOREIGN CURRENCY EXPOSURE

Cairn India Group has taken USD put/INR call options aggregating to USD 515,000 thousand, equivalent to INR 24,300,000 thousand (31 March 2011: USD 135,000 thousand, equivalent to INR 6,000,000 thousand) and forward contracts for sale of USD 10,000 thousand, equivalent to INR 503,200 thousand (31 March 2011: USD 10,000 thousand, equivalent to INR 466,000 thousand).

Particulars of Unhedged Foreign Currency Exposure at the Balance Sheet date

| Particulars | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Borrowings | - | 13,222,292 |
| Trade receivables | 14,968,428 | 14,828,644 |
| Investments | 142,271 | 127,197 |
| Cash and bank balances | 55,859,339 | 34,881,550 |
| Other assets | 3,128,861 | 97,347 |
| Loans and advances | 23,685,497 | 20,358,028 |
| Other current liabilities including trade payables | 6,483,697 | 6,147,870 |

Cairn India Group had also taken certain derivative contracts to hedge the discount percentage on sale / purchase of crude oil. Quantity of crude oil hedged as at 31 March 2012 is Nil mmbbls (31 March 2011: 1.5 mmbbls).

## 34. SCHEME OF ARRANGEMENT

The shareholders of the Company have approved a Scheme of Arrangement between the Company and some of its wholly owned subsidiaries, to be effective from 1 January 2010. The Scheme of Arrangement has been approved by the Hon'ble High Court of Madras and the Hon'ble High Court of Bombay. However, it is pending for approval from other regulatory authorities. Pending receipt of such approvals, no accounting impact of the scheme has been given in these financial statements. After the implementation of the scheme, the Company will directly own the Indian businesses, which are currently owned by some of its wholly owned subsidiaries and as contemplated in the scheme, any goodwill arising in the Company pursuant to the scheme, shall be adjusted against the securities premium account.

**35.** The Board of Directors, subject to the approval of the shareholders, have reappointed the Managing Director of the Company for a period of five years w.e.f. 22 August 2011 .

## 36. OIL & GAS RESERVES AND RESOURCES

Cairn India Group's gross reserve estimates are based on forecast production profiles over the remaining life of the field, determined on an asset-by-asset basis, using appropriate petroleum engineering techniques. The management's internal estimates of hydrocarbon reserves and resources at the year end is as follows-

| Particulars | Gross proved and probable hydrocarbons initially in place | | Gross proved and probable reserves and resources | | Net proved and probable reserves and resources | |
|---|---|---|---|---|---|---|
| | (mmboe) | | (mmboe) | | (mmboe) | |
| | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 | 31 March 2012 | 31 March 2011 |
| Rajasthan MBA Fields | 2,090 | 2,054 | 636 | 656 | 445 | 459 |
| Rajasthan MBA EOR | - | - | 308 | 308 | 216 | 216 |
| Rajasthan Block Other Fields | 2,088 | 1,976 | 178 | 152 | 125 | 107 |
| Ravva Fields | 690 | 709 | 70 | 88 | 16 | 20 |
| CBOS/2 Fields | 182 | 180 | 13 | 15 | 5 | 6 |
| Other fields* | 792 | 707 | 426 | 364 | 99 | 40 |
| **Total** | **5,842** | **5,626** | **1,631** | **1,583** | **906** | **848** |

*includes KG-DWN-98/2, participating interest of which is proposed to be assigned outside the Group.

# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 36. OIL & GAS RESERVES AND RESOURCES CONTINUED

Cairn India Group's net working interest in proved and probable reserves is as follows-

| Particulars | Proved and probable reserves | | Proved and probable reserves (developed) | |
|---|---|---|---|---|
| | Oil (mmstb) | Gas (bscf) | Oil (mmstb) | Gas (bscf) |
| Reserves as at 1 April 2010* | 335.91 | 26.68 | 62.06 | 26.68 |
| Additions / revision during the year | (2.21) | 1.69 | 105.98 | 1.69 |
| Production during the year | 29.10 | 8.20 | 29.10 | 8.20 |
| **Reserves as at 31 March 2011**** | **304.60** | **20.17** | **138.94** | **20.17** |
| Additions / revision during the year | 59.96 | 2.21 | 94.10 | 2.21 |
| Production during the year | 35.92 | 7.22 | 35.92 | 7.22 |
| **Reserves as at 31 March 2012***** | **328.64** | **15.16** | **197.12** | **15.16** |

* Includes probable oil reserves of 57.61 mmstb (of which 14.75 mmstb is developed) and probable gas reserves of 11.13 bscf (of which 11.13 bscf is developed)

** Includes probable oil reserves of 55.93 mmstb (of which 26.7 mmstb is developed) and probable gas reserves of 9.45 bscf (of which 9.45 bscf is developed)

*** Includes probable oil reserves of 87.03 mmstb (of which 51.39 mmstb is developed) and probable gas reserves of 6.40 bscf (of which 6.40 bscf is developed)

mmboe = million barrels of oil equivalent
mmstb = million stock tank barrels
bscf = billion standard cubic feet
1 million metric tonnes = 7.4 mmstb
1 standard cubic meter =35.315 standard cubic feet
MBA = Mangala, Bhagyam & Aishwarya
EOR = Enhanced Oil Recovery

## 37. 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*

The operating interests of the Cairn India Group are confined to the Indian sub-continent in terms of oil and gas blocks and customers. Accordingly, the figures appearing in these financial statements relate to Cairn India Group's single geographical segment, being operations in the Indian sub-continent.



# Notes to Consolidated Financial Statements Continued

FOR THE YEAR ENDED 31 MARCH 2012

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

## 38. PREVIOUS YEAR FIGURES

During the year ended 31 March 2012, the revised Schedule VI notified under the Companies Act 1956, became applicable to Cairn India Limited, for preparation and presentation of its financial statements. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosures made in the financial statements. Cairn India Group has also presented its financial statements largely in accordance with the requirements of revised Schedule VI and has hence reclassified and regrouped the previous year figures to confirm to this year's classification.

As per our report of even date

**For S. R. Batliboi & Co.**
Firm Registration No.:301003E
Chartered Accountants

**For and on behalf of the Board of Directors**

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

Navin Agarwal
Chairman

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Place: Gurgaon
Date: 20 April 2012

Sunil Bohra
Deputy Chief Financial Officer

Neerja Sharma
Company Secretary