FINANCIAL RESULTS

Your Directors have pleasure in presenting their Second Annual Report and Audited Accounts of your Company for the year ended December 31, 2007.

CAIRN INDIA LIMITED		CONSOLIDATED
Total income	339,623,045	11,446,716,192
Gross profit	–	8,288,529,027
Earnings before interest tax depreciation and amortisation	(467,468,008)	3,336,481,934
Profit/(loss) before tax	(467,676,807)	1,259,226,762
Profit/(loss) after tax	(788,165,721)	(245,441,899)

The above consolidated numbers include non-cash employee cost of Rs.780,364,594, depreciation, depletion and amortisation expenditure of Rs.2,077,055,825, unsuccessful exploration costs written off of Rs.2,512,282,298 and deferred tax of Rs.764,193,929. Profit before these items of charge is Rs. 5,888,454,747.

The Consolidated statements provide the results of Cairn India Limited together with those of its subsidiaries for the year ended December 31, 2007.

DIVIDEND

This being just the second year of operation for the Company, your Directors regret their inability to recommend any dividend.

OPERATIONS

Operations Review has been included in the Management Discussion and Analysis section which forms a part of this Annual Report.

EMPLOYEE STOCK OPTION SCHEME

The Company has established share incentive schemes pursuant to which options to acquire shares have been granted to select employees and Directors of Cairn India viz., Cairn India Senior Management Plan (CISMP), Cairn India Performance Option Plan (CIPOP) and Cairn India Employee Stock Option Plan (CIESOP).

During the year, stock options have been granted to the Executive Directors and employees of the Company. On exercising the options so granted, the paid-up equity share capital of the Company will increase by a like number of shares.

The details of stock options granted by the Company are disclosed in compliance with Clause 12 of the Securities Exchange Board of India (Employee Stock Options Scheme and Employee Stock Purchase Scheme), 1999 and set out in the Annexure to this Report.

SUBSIDIARY COMPANIES

Pursuant to the provisions of Section 212(8) of the Companies Act, 1956, the Company has obtained exemption from the Ministry of Corporate Affairs, New Delhi, vide its letter No 47/35/2008-CL-III dated February 22, 2008 to attach accounts of the subsidiaries. The accounts of the subsidiaries are available for inspection of members on any working day at the Registered Office of the Company between 10 am and 12 noon.

DIRECTORS

Mr. Malcolm Thoms was appointed as Additional Director on 20 September 2007. Pursuant to Section 260 of the Companies Act, 1956,he holds office up to this Annual General Meeting. The Company has received letters from some members of the Company sponsoring his candidature as Director of the Company together with security deposit of Rs.500/–. Mr. Malcolm Thoms is proposed to be appointed as non-rotational Director.

Mr. Rick Bott was appointed as Additional Director on 29 April 2008. He will assume office as Executive Director and Chief Operating Officer with effect from 15 June 2008. Pursuant to Section 260 of the Companies Act, 1956, he holds office up to this Annual General Meeting. The Company has received letters from some members of the Company sponsoring his candidature as Director of the Company together with security deposit of Rs.500/–.

Mr. Hamish M. Grossart resigned as Director during the year and was re-appointed as Alternate Director to Mr. Malcolm Thoms at the Board meeting held on September 20, 2007.

Mr. Lawrence Smyth resigned as Executive Director and COO with effect from 21 January 2008. Your Directors wish to place on record their sincere appreciation of the valuable contribution made by Mr. Lawrence Smyth during his tenure on the Board of the Company.

Rahul Dhir and Naresh Chandra retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

FINANCE

Your Company made a successful Preferential Issue of 113,000,000 Equity Shares to Petronas International Corporation Ltd and Orient Global Tamarind Fund Pte Ltd. amounting to Rs. 2534.59 Crs. The shares were issued at a premium of Rs. 214.30 per share of face value of Rs. 10/- each.

CORPORATE GOVERNANCE

The Corporate Governance and Management Discussion and Analysis Report form an integral part of this Report and are set out as a separate section to this Annual Report. The Certificate of the Practising Company Secretary certifying compliance with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with Stock Exchanges is annexed with the report on Corporate Governance.

AUDITORS

M/s. S. R. Batliboi & Associates, Chartered Accountants, Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

HUMAN RESOURCES

Company's industrial relations continued to be harmonious during the period under review.

PARTICULARS OF EMPLOYEES

Particulars of employees required to be furnished under Section 217(2A) of the Companies Act, 1956 forms part of this report. However as per the provisions of Section 219(1)(b)(iv) of the Act, the report and accounts are being sent to the shareholders of the Company excluding the particulars of employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information on Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo is given in the Annexure to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, the directors confirm that:

i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

ii) appropriate accounting policies have been selected and applied consistently and have made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at December 31, 2007 and of the loss of the Company for the year ended December 31, 2007;

iii) proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv) the annual accounts have been prepared on a going concern basis.

APPRECIATION

Your Directors express their gratitude to the Company's stakeholders, shareholders, business partners and suppliers for their understanding and support. Your Directors record their appreciation and gratitude to the banks for their continued and timely assistance in meeting the Company's resource requirement. Finally your Directors acknowledge the dedicated services rendered by all the employees of the Company.

For and on behalf of the Board of Directors
SIR WILLIAM B.B.GAMMELL
Chairman

PLACE: NEW DELHI
DATE: APRIL 29, 2008

annexure to the directors' report

Disclosure pursuant to the provisions of Securities and Exchange Board of India
(Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

CAIRN INDIA SENIOR MANAGEMENT PLAN (CISMP)

a	Options granted	8,298,713
b	The Pricing Formula	Rs.33.70 per share
c	Options Vested	3,030,318
d	Options Exercised*	792,240
e	The total number of shares arising as a result of exercise of option*	792,240
	*after December 31, 2007	
f	Options lapsed	Nil
g	Variation of terms of options	NIL
h	Money realized by exercise of option	Rs. 26,698,488
i	Total number of options in force as on December 31, 2007	8,298,713
j	Employee wise details of options granted to:	
	i) Senior Managerial Person	
	Rahul Dhir – 6,714,233	
	Lawrence W. Smyth – 1,584,480	
	ii) Any other employee who receives a grant in any one year of option amount to 5% or more of options granted during the year.	NIL
	iii) Identified employees who were granted option during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	NIL
k	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard 20.	N/A
l	Method of calculation of employee compensation cost	
	The company has calculated the employee compensation cost using the fair value of the stock options (Black Scholes option pricing model)	
	Difference between the employee compensation cost so computed at (l) above and the employee compensation cost that shall have been recognised if it had used the fair value of the options	NIL
	The impact of this difference on profits and on EPS of the Company	Amount in million
	Profit after Tax (PAT)	(Rs.788.17)
	Less: Additional employee	
	Compensation cost based on fair value	NIL
	Adjusted PAT	(Rs.788.17)
	Adjusted EPS Basic	(Rs.0.44)
	Diluted	(Rs.0.44)
m	Weighted-average exercise price and fair value of Stock Options granted:	

Stock Options granted on	Weighted average exercise price (in Rs.)	Weighted average fair value (in Rs.) Face value Rs.10	Closing market price at NSE on the date of grant (in Rs.)
November 24, 2006	33.70	131.50	Cairn India Limited was not listed on grant date

n Description of the method and significant assumptions used during the year to estimate the fair value of the options, including the following weighted average information:

The Black Scholes option pricing model was developed for estimating fair value of traded options. Since Option pricing model require use of substantive assumptions, changes therein can materially affect fair value of options. The option pricing models do not necessarily provide a reliable measure of fair value options.

The main assumptions used in the Black-Scholes option pricing model during the year were as follows:

Risk free interest rate	6.82% to 7.46%
Expected life of options from the date of grant	Up to 4.1 Years
Expected Volatility	39.67% to 45.99%
Expected Dividend yield	
Industry average	not considered
Cairn India	Nil

Calculation of Fair Value based on Black Scholes Model

ASSUMPTIONS

Risk Free Interest rate		6.82% to 7.46%
Expected life of option (Vesting period of the option)		Up to 4.1 Years
Expected Volatility		39.67% to 45.99%
Previous year the rate was 25% based on peer group. In the current year expected volatility in the company has been considered.		
Stock Price (Closing Price of share on NSE on date of the grant)	**DATE OF GRANT**	**PRICE (RS)**
	24-11-06	not listed
Exercise Price (Grant Price of the Option as per the information furnished)	**DATE OF GRANT**	**PRICE (RS)**
	24-11-06	33.70
Dividend yield rate		
Based on Company's dividend policy as well as the estimated dividend yield of certain companies of the Oil & Gas Industries during FY 2007)		
	INDUSTRY AVERAGE	**NOT CONSIDERED**
	Cairn India	Nil
Employee compensation cost using the Valuation as per Black Scholes Model		
	DATE OF GRANT	**FAIR VALUE (RS PER SHARE)**
	24-11-06	131.50

CONCLUSION

CISMP

Employee compensation cost for Cairn India Senior Management Plan (CISMP) of the Company using the Black Scholes method of stock option is estimated at Rs. 986 million for the options, which were granted during the financial year 2006 (Rupees nine hundred and eighty six million.)

CAIRN INDIA PERFORMANCE OPTION PLAN (2006) (CIPOP)

a	Options granted	4,943,389
b	The Pricing Formula	Rs.10 per share
c	Options Vested	NIL
d	Options Exercised	NIL
e	The total number of shares arising as a result of exercise of option	NIL
f	Options lapsed	669676
g	Variation of terms options	NIL
h	Money realised by exercise of option	NIL
i	Total number of options in force as on December 31, 2007	4,273,713
j	Employee wise details of options granted to:	
	i) Senior Managerial Person	

		Rolf Stork	128,809
Jon Hafsmo	169,340	John McNeill	162,567
David Nisbet	243,851	P Elango	133,100
Indrajit Banerjee	214,045	P. Senthil Kumar	96,902
Rahul Dhir	239,288#	Lawrence Smyth	242,243#

Note:#subsequently cancelled

	ii) Any other employee who receives a grant in any one year of option amount to 5% or more of options granted during the year.	NIL
	iii) Identified employees who were granted option during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	NIL
k	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard 20.	N/A
l	Method of calculation of employee compensation cost	
	The Company has calculated the employee compensation cost using the fair value of the stock options.	
	Difference between the employee compensation cost so computed at (l) above and the employee compensation cost that shall have been recognised if it had used the fair value of the options.	NIL
	The impact of this difference on profits and on EPS of the Company	NIL

m Weighted-average exercise price and fair value of Stock Options granted Rs.164.55

n Description of the method and significant assumptions used during the year to estimate the fair value of the options

The Black Scholes option pricing model was developed for estimating fair value of traded options. Since Option pricing model require use of substantive assumptions, changes therein can materially affect fair value of options. The option pricing models do not necessarily provide a reliable measure of fair value options.

The main assumptions used in the Black-Scholes option pricing model during the year were as follows:

Options granted on 1st January 2007	Assumptions
Vesting %	100%
Volatility	41.61%
Risk free rate	7.33%
Time to maturity (years)	3.12

Options granted on 20th September 2007	Assumptions
Vesting %	100%
Volatility	36.40%
Risk free rate	7.23%
Time to maturity (years)	3.12

CAIRN INDIA EMPLOYEE STOCK OPTION PLAN (2006) (CIESOP)

a Options granted 8,982,755

b The Pricing Formula

In the case of the Initial Grant, the issue price as ascertained in the floatation and for other Options such price as determined by the Remuneration Committee (in any event not being less than the fair market value of a Share on the date of grant).

c Options Vested NIL

d Options Exercised NIL

e The total number of shares arising as a result of exercise of option NIL

f Options lapsed 437,045

g Variation of terms options NIL

h Money realised by exercise of option NIL

i Total number of options in force as on December 31, 2007 8,545,710

j Employee wise details of options granted to

i) Senior Managerial Person. N/A

ii) Any other employee who receives a grant in any one year of option amount to 5% or more of options granted during the year. NIL

iii) Identified employees who were granted option during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant. NIL

k Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard 20 N/A

l Method of calculation of employee compensation cost

The Company has calculated the employee compensation cost using the fair value of the stock options.

Difference between the employee compensation cost so computed at (I) above and the employee compensation cost that shall have been recognised if it had used the fair value of the options. NIL

The impact of this difference on profits and on EPS of the Company NIL

m Weighted-average exercise price and fair value of Stock Options granted Rs.164.27

n Description of the method and significant assumptions used during the year to estimate the fair value of the options.

The Black Scholes option pricing model was developed for estimating fair value of traded options. Since Option pricing model require use of substantive assumptions, changes therein can materially affect fair value of options. The option pricing models do not necessarily provide a reliable measure of fair value options.

The main assumptions used in the Black-Scholes option pricing model during the year were as follows:

Options granted on 1st January 2007	Assumptions
Vesting %	100%
Volatility	41.04%
Risk free rate	7.50%
Time to maturity (years)	6.50

Options granted on 20th September 2007	Assumptions
Vesting %	100%
Volatility	40.24%
Risk free rate	7.65%
Time to maturity (years)	6.50

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

CONSERVATION OF ENERGY

Energy conservation measures taken

Our focus on the impact of our operations on climate change leads to our energy conservation strategy where we can best evaluate our performance through measurement of emissions to the atmosphere.

As part of our climate change strategy, we have been monitoring and setting targets for both methane and other GHG emissions since 2000, and have implemented several initiatives to reduce these emissions including the installation of high efficiency flares, third stage compression, gas ejector system and improving plant operations to minimise volumes of gas flared during plant upsets.

These emissions to air from our production plants are primarily due to combustion of produced gas for power generation to meet the energy requirements for producing well field operations, well fluid phase separation and some heating of crude oil to aid water separation as well as maintaining a small flare for safety reasons.

For 2007 we set a target for our GHG emissions from our producing fields (normalised to per unit tonne of hydrocarbon produced). Methane being part of GHG was not considered separately. The 2007 targets were based on experience from previous year and performance of aging fields. In 2007, we have performed better than our planned targets of GHG emissions per unit production. We have achieved 3% reduction over our planned targeted emissions, which is significant considering aging of field and thereby increase in energy demand.

Additional investments and proposals being implemented for reduction of consumption of energy

In 2007 we have installed gas ejector system in Suvali that has reduced flaring by recovering of low pressure gas. The recovered gas was further used for power generation thereby reducing consumption of free gas used as fuel.

Impact of the above measures for reduction of energy consumption and consequent impact on the cost of production

The above measure has resulted in lower methane emissions due to reduction in flaring. We have also been able to substantially reduce fuel gas consumption from April 2007 by approximately 20% when compared against the previous three months.

TECHNOLOGY ABSORPTION

RESEARCH AND DEVELOPMENT (R&D)

Specific areas in which R&D was carried out by the Company

Cairn India initiated laboratory studies on core and fluid samples from the Mangala Field which are specifically related to developing Enhanced Oil Recovery (EOR) techniques appropriate for the field. This will be extended to the Bhagyam and Aishwariya fields in 2007 when the Company is planning to join a joint industry research project looking at new methods and chemicals for possible application in EOR schemes for Mangala, Bhagyam and Aishwariya.

We have developed our methodology for evaluating biodiversity importance and sensitivity. This methodology was tested during the assessment of new licence blocks in India.

In Rajasthan, we commissioned the Arid Forest Research Institute, a Government of India research institution to conduct a biodiversity baseline study. The aim of the study is to map the existing biodiversity around our proposed development sites and suggest measures for conservation and sustainable use. The study will be conducted over two years. The first level of field monitoring during the winter season has been completed and monitoring during other seasons are in progress. The biodiversity baseline data will be used during the implementation of the greenbelt program to avoid introduction of invasive floral species.

We conducted pilot feasibility study on bioremediation of drilling waste both at laboratory and field level with The Energy and Resources Institute (TERI) in Rajasthan. This was carried out to identify environmentally friendly waste management options for the drilling waste that will be generated during development drilling in Rajasthan. The results have been very encouraging.

In 2007 we have completed the laboratory scale analysis of drilling waste for use in cement kilns. Cement plants have shown interest to use the drilling waste as raw material source and alternative fuel. We have assigned the feasibility study to National Council of Cement & Building Materials (NCCBM), a Government of India research institution. The results indicate that it is technically feasible, but the technical and commercial viability needs to be further investigated in 2008.

We had engaged the National Geo-physical Research Centre (NGRI), a reputed Government of India institute, to assess the impact on the ground water with regard to salinity changes, draw down, subsidence and any other impacts due to continuous ground water withdrawal near the coastline around Ravva. The geological field surveys commenced in June 2006 and the study was completed in 2007. The independent study has reported that the continuous withdrawal of ground water for Ravva plant and reservoir operations has not resulted in any impact on the groundwater salinity.

Additionally in Ravva we have installed Produced Water Re-injection System that is aimed at injecting the treated produced water into the sub-sea sub-surface formation. This will eliminate surface marine discharge of process effluent and minimise the requirement of groundwater usage. We have completed the installation of the PWRI system in 2007 and will be commissioning it in early 2008.

Benefits derived as a result of the above R&D

Cairn India's research into EOR applications for Mangala, Bhagyam and Aishwariya has the potential to unlock additional oil reserves within these fields and a long term strategy for EOR is being developed with this end in mind.

Support lab and field scale studies by research institutions on bio-remediation and alternate waste disposal methods to provide feasible solutions for improved drilling waste management.

Improved understanding of biodiversity in locations proposed for operations and a management programme to reduce the impact on biodiversity from our activities.

Reduced water consumption and waste water discharge at Ravva having significant positive impact on environment.

Future plan of action

We will continue to investigate and optimise chemical EOR schemes for Cairn India's Rajasthan fields in the laboratory before initiating one or more field-scale demonstration projects once production has commenced. In addition in 2007 Cairn will join the joint industry research project on chemical EOR at the University of Texas, Austin. This project is screening new chemical types for EOR, developing improved simulation techniques to predict EOR field results as well as conducting laboratory tests in support of these objectives.

CORPORATE SOCIAL RESPONSIBILITY

IFC – CAIRN LINKAGE PROGRAM

Year 2007 marked the beginning of a new partnership between Cairn India and the World Bank's International Finance Corporation (IFC).The IFC and Cairn India signed a Cooperation and Administration Agreement for the joint designing, funding and implementation of sustainable socio-economic development programmes in Barmer, Rajasthan. The partnership aims to leverage the presence of Cairn India's significant investments in the region. The programme components include:

- Establishing an Enterprise Centre to promote local economic development
- Rural Dairy Development Project
- Child and Maternal Health Awareness Initiative

The above programme components are under implementation with over 1200 local persons trained on basic trades till date and over 350 households are regular milk suppliers to the 13 milk collection and 1 bulk chilling centre set up in rural areas of Barmer district.

Community Development & Welfare Programme in Bihar

Exploration activities have commenced in the Bihar block in 2007 with the acquisition of seismic data. As part of the proactive intervention we had launched community development programmes in Health (Capacity building and raising awareness), Infrastructure (promoting vermi-composting) and Education (Introducing Computer education in schools) in our operational area of Dharbhanga, Madhubani and Samastipur.

Expenditure on R&D	Amount in Rupees
i) Capital	13,612,533*
ii) Recurring	NIL
iii) Total	13,612,533
iv) Total R&D expenditure as a percentage of total turnover	0.13%

*these are consolidated numbers for the full year ended December 2007

For and on behalf of the Board of Directors

SIR WILLIAM B.B.GAMMELL

Chairman

PLACE NEW DELHI

DATE APRIL 29, 2008