Directors' Report

Dear Members,

Your Directors have pleasure in presenting the Fourth Annual Report on the business and operations of the Company and the Audited Financial accounts for the year ended 31 March, 2010.

FINANCIAL HIGHLIGHTS

In INR million

	Standalone		Consolidated	
	For the financial year ended		For the financial year ended	
	31 March, 2010 (Twelve months)	31 March, 2009 (Fifteen months)	31 March, 2010 (Twelve months)	31 March, 2009 (Fifteen months)
Total Income	1,634	2,980	20,307	19,837
Total Expenditure	2,367	1,860	10,143	9,958
Profit/(loss) before tax	(734)	1,121	10,163	9,879
Taxes	(44)	578	(348)	1,844
Profit/(loss) after tax	(689)	542	10,511	8,034

The consolidated statements provide the results of Cairn India Limited together with those of its subsidiaries for the financial year ended 31 March, 2010.

DIVIDEND

In view of the inadequacy of profits in Cairn India Limited, your Directors regret their inability to recommend any dividend.

CHANGES IN CAPITAL STRUCTURE

During the financial year under review, 306,316 equity shares of INR 10/- each were allotted on exercise of Employee Stock Options by the employees of the Company or of its subsidiaries. Accordingly, the issued and paid up capital of the Company has increased to INR 18,969,741,320 divided into 1,896,974,132 equity shares of INR 10/- each.

Subsequent to the close of the financial year, the Company allotted 239,288 equity shares of INR. 10/- each on exercise of Stock Options by the employees. Accordingly, the issued and paid up capital of the Company has increased to INR 18,972,134,200 divided into 1,897,213,420 equity shares of INR 10/- each

CONSOLIDATED FINANCIAL STATEMENTS

Your Company is also presenting the audited consolidated financial statements prepared in accordance with the Accounting Standard 21 issued by the Institute of Chartered Accountants of India. Information in aggregate for each subsidiary in respect of capital reserves, total assets, liabilities, investments, turnover, etc. is disclosed separately and forms part of the annual report.

OPERATIONS

A detailed review of operations has been included in the Management Discussion and Analysis Report, which forms a part of this Annual Report.

UTILISATION OF IPO PROCEEDS

The Company has fully utilised INR 88,249 million raised from its maiden offer to the public.

EMPLOYEE STOCK OPTION SCHEMES

Your Company has established share incentive schemes viz., Cairn India Senior Management Plan (CISMP), Cairn India Performance Option Plan (CIPOP) and Cairn India Employee Stock

Option Plan (CIESOP) pursuant to which options to acquire shares have been granted to select employees and Directors of the Company and its subsidiaries. The Company also has cash awards option plan (phantom stock options) for expatriate employees of the Company and its subsidiaries.

During the year, stock/cash options have been granted to the executive Directors and employees of the Company or of its subsidiaries. On exercise of the options so granted, the paid-up equity share capital of the Company will increase in terms of the Stock Option Plans mentioned above. The details of stock options granted by the Company are disclosed in compliance with Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and set out in Annexure I to this Report.

During the period under review, 306,316 equity shares of INR 10/- each were allotted pursuant to the exercise of the stock options.

SUBSIDIARY COMPANIES

As on 31 March, 2010, the Company had 31 subsidiaries including indirect subsidiaries. All these companies are beneficially owned 100% by Cairn India Limited.

These subsidiaries have their own Boards of Directors having the rights and obligations to manage such companies in the best interest of such Companies. The Company has its representatives on the Board of subsidiary companies and monitors the performance of such companies regularly.

Pursuant to the provisions of Section 212(8) of the Companies Act, 1956, the Company has obtained exemption from the Ministry of Corporate Affairs, Government of India from attaching the accounts of its subsidiaries to the Company's Annual Accounts for the financial year ended 31 March, 2010. The accounts of the subsidiaries are available for inspection by members on any working day at the Registered Office of the Company between 10 am and 12 noon. Members interested in obtaining copies are entitled to receive them on specific request. A statement pursuant to the approval under Section 212(8) of the Companies Act,1956, in respect of subsidiary companies forms part of the annual report.

SCHEME OF ARRANGEMENT

In order to simplify and consolidate the multi layered structure comprising foreign susidiaries, your Company had proposed a scheme of arrangement between Cairn India Limited, Cairn Energy India Pty Limited, Cairn Energy India West B.V., Cairn Energy Cambay B.V., Cairn Energy Gujarat B.V. and their respective shareholders and creditors (the 'Scheme'). The members of the Company had approved the Scheme with overwhelming majority in the Court convened meeting held on 18 February, 2010.

The Scheme has since been approved by the Hon'ble High Court of Judicature at Madras on 1 April, 2010. The matter is currently pending for final hearing before the Hon'ble High Court of Bombay.

DIRECTORS

Mr Philip Tracy ceased to be an alternate director with effect from 26 May, 2009. He was again appointed as an alternate Director to Sir William B. B. Gammell effective 27 May, 2010. Mr Rahul Dhir and Mr Indrajit Banerjee, directors of the Company, retire by rotation at the ensuing annual general meeting and being eligible, offer themselves for re-appointment. A brief profile of the above-named directors forms part of the Corporate Governance report.

CORPORATE GOVERNANCE

Your Directors reaffirm their continued commitment to good corporate governance practices. A detailed report on the Corporate Governance and Management Discussion and Analysis Report, together with a certificate from Statutory Auditors forms an integral part of this report and are set out as separate sections in this annual report.

AUDITORS

M/s S. R. Batliboi & Associates, Chartered Accountants, auditors of the Company, retire at the conclusion of the ensuing annual gen-eral meeting but do not offer themselves for re-appointment. The Company has recieved a requisition to appoint M/s S.R Baltiboi & Co., Chartered Accountants, as the Statutory Auditor of the Company. Consequently a consent letter and certificate from M/s S.R Baltiboi & Co., Chartered Accountants stating that their appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Companies Act, 1956 has also been received. The Audit Committee in its meeting held on 27 May, 2010 has also recommended the appointment of M/s S. R. Batliboi & Co., as Statutory Auditors of the Company. Your directors also recommend their appointment.

FIXED DEPOSITS

The Company has not invited any deposits from the public under Section 58A of the Companies Act, 1956.

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 ('the Act') form 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 Annexure II to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

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

1 In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures
2 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 31 March, 2010 and of the profit of the Company for the year ended 31 March, 2010
3 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
4 The annual accounts have been prepared on a going concern basis

CORPORATE SOCIAL RESPONSIBILITY

Your Company is a responsible corporate citizen, and strives to give back to the community it operates in. A detailed report on CSR efforts of the Company forms part of this annual report.

LISTING

The Company has paid the annual listing fee for the year 2010-2011 to Bombay Stock Exchange Limited and National Stock Exchange of India Limited.

APPRECIATION

Your Directors wish to place on record their sincere appreciation of the concerted efforts and dedicated service of all employees, which contributed to the continous growth and performance of the Company. Your Directors wish to place on record their gratitude for the valuable assistance and co-operation extended to the Company by the Central Government, State Governments, Joint Venture Partners, Banks, Institutions, Investors and Customers.

For and on behalf of the Board of Directors

Sir William B.B. Gammell
Chairman

Place Gurgaon
Date 27 May, 2010

Annexures To The Directors' Report

ANNEXURE I

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

S. No.	Particulars	Cairn India Senior Management Plan	Cairn India Performance Option Plan (2006)	Cairn India Employee Stock Option Plan (2006)
1	Options granted during April 2009 - March 2010	Nil	994,768	5,405,144
2.	The Pricing Formula	Rs. 33.70 per Share	Rs. 10 per Share	Price determined by the Remuneration Committee but not less than the fair market value of a share on the date of grant
3.	Options Vested during April 2009 - March 2010	NIL	359,369	2,142,525
4.	Options Exercised during April 2009 - March 2010	NIL	190,983	115,333
5.	Total number of Shares arising as a result of exercise of options during April 2009 - March 2010	NIL	190,983	115,333
6.	Options lapsed during April 2009 - March 2010	NIL	1,377,051	1,557,846
7.	Variation of terms of options	None	None	None
8.	Money realized by exercise of options during April 2009 – March 2010	NIL	1,909,830	18,453,280
9.	Total number of options in force as on 31 March 2010	2,238,077	2,626,830	14,646,209
10.	Employee wise details of options granted during the year to:			
	(i) Senior Managerial Person	None	Indrajit Banerjee 65,845 Manu Kapoor 77,130 S V Nair 68,953 P Elango 53,290 Santosh Chandra 52,474	None
	(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of options granted during the year	None	Narayanan P S 67,747 Venkatesan T K 57,394 Ajay Gupta 51,099	None
	(iii) Identified employees who were granted options during any 1 year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants & conversions) of the Company at the time of grant	None	None	None
11.	Diluted Earnings Per Share (EPS) pursuant to issue of Shares on exercise of options calculated in accordance with Accounting Standard 20	(0.36)	(0.36)	(0.36)
12.	(i) Method of calculation of employee compensation cost		Intrinsic Value Method	
	(ii) Difference between the employee compensation cost so computed at 12(i) above and the employee compensation cost that shall have been recognised if it had used the fair value of the options (Rs. in thousands)		390,521	
	(iii) The impact of this difference on profits and on EPS of the Company			
	Profit after Tax (PAT) (Rs. in thousands)		(689,534)	
	Less: Additional employee Compensation cost based on fair value (Rs. in thousands)		390,521	
	Adjusted PAT (Rs. in thousands)		(1,080,055)	
	Adjusted EPS Basic (Rs.)		(0.57)	
	Adjusted EPS Diluted (Rs.)		(0.57)	
13	Weighted-average exercise prices of options granted during April 2009 - March 2010	NA	10	240.05
	Weighted-average fair value of each option outstanding as on 31 March 2010	135.50	200.23	110.99

14.	A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:			
(i)	risk-free interest rate	7.05%	7.77%	8.13%
(ii)	expected life (in years)	2.45	3.12	6.50
(iii)	expected volatility	44.08%	37.90%	40.14%
(iv)	expected dividends	NA	NA	NA
(v)	price of the underlying Share in market at the time of option grant	160	183.04	199.73

ANNEXURE II

Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

CONSERVATION OF ENERGY

Energy conservation measures taken

As a responsible Corporate Citizen and in adherence to our climate change strategy, we are continuously taking effective steps to conserve energy and to reduce methane and other Green House Gas (GHG) emissions, wherever feasible. GHG emissions in 2009 were within targets set at the beginning of the year notwithstanding a rise in energy use.

Cairn India recognises the responsibility to minimise environmental impact from its activities. The challenges of proactively managing environmental issues during the construction phase of the MPT and the pipeline project have been successfully achieved through active support and in partnership with the contractors.

The Company regularly monitored air emission sources and the ambient air quality, and was able to maintain emission levels within regulatory standards in 2009.

Measures taken for reduction of energy consumption & consequent impact

During the period under review, several energy conservation initiatives were adopted and were taken, some of which are listed below:

At Ravva

- Solar street lighting poles were installed, which resulted in the reduction in usage of 615 units of conventional energy.
- All conventional water heaters were replaced with solar water heaters as a result of which energy consumption was reduced by 40,000 units per annum.
- 18 conventional high pressure sodium street light lamps were replaced with LED lamps in plant street lighting systems.

At the Gurgaon office

Several energy conservation initiatives at Cairn India's Gurgaon office have resulted in saving of around 350,000 units of electricity, thus reducing the office's carbon footprint. These include:

- Ensuring that all except the emergency lights are switched off after working hours and on holidays.
- Efficient and judicious use of energy efficient lights and air handling units.

Additional investments and proposals being implemented for conservation of energy

Additional funds were allocated during the year for energy conservation measures. New technologies were absorbed & adapted to reduce the carbon foot print of the Company like installation of wind mills and solar arrays on platforms, solar water heaters and LED street lights, wherever feasible.

TECHNOLOGY ABSORPTION, ADAPTION & INNOVATION

Research & Development (R&D)

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

Cairn has been actively pursuing the application of EOR (Enhanced Oil Recovery) technology in the Mangala, Bhagyam and Aishwariya Fields. Core flood studies have been carried out in 2 independent laboratories in order to determine the efficiency of the various chemical flood processes like polymer injection and alkali-surfactant-polymer (ASP) flooding. Studies are ongoing in research institutes with a view to optimise the chemical formulations that could increase oil recovery in these fields using minimum of chemical quality. In-

house simulation & modelling work has also been carried out to determine the efficiency at field level. A field scale EOR pilot implementation is already underway to take the application of this technology from lab to a restricted area in the field.

Re-injection of produced water separated at the Ravva terminal, back into the reservoir helps reduce discharge of waste water to sea and abstraction of ground water for injection purposes. Produced Water Re-Injection (PWRI) has been designed and implemented to treat and handle a maximum capacity of 45,000 barrels of water per day. The PWRI was successfully commissioned in Q2 2008 and is presently re-injecting 50% of the produced water.

Various other technology absorption, adaption and innovation initiatives/methods like Rapid Rig for drilling wells, customised well designs, multi well pad approach, Rotary steerable/Logging While Drilling technology, customised compact well head equipment, usage of high cost synthetic oil based mud system on onshore drilling applications, horizontal well technology, sand control technology integral
with sleeve devices, hydraulic fracturing technology, Sand Jet Perforating, Micro seismic for frac modelling, multiphase metering technology were taken/used for the development & drilling of the oil fields in Rajasthan.

Benefits derived as a result of this R&D

All these initiatives are helping the Company in improving the overall efficiency, lowering the land impact & environmental concerns, cost effectiveness & project economics. Cairn's research in EOR applications for the MBA fields 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.

Cairn's study with the National Geophysical Research Centre (NGRI) on salinity changes of ground water sets an example of 'good industry practice'. We are reassured that our operation in Ravva does not have an adverse impact on ground water and the environment.

Expenditure on R&D

Details outlined in the Table below.

in INR

No.	Particulars	Amount
1	Capital	962,452
2	Recurring	-
3	Total	962,452
4	Total R&D expenditure as a % of total turnover	0.05%

Note These are consolidated numbers for the Twelve months period ended 31 March, 2010

FOREIGN EXCHANGE EARNINGS AND OUTGO

Activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and export plans

India imports approximately 75% of its oil and gas requirement and in this situation, the export of crude oil and natural gas, which are the main products of Cairn are not relevant in this sector.

However, by discovering new oil & gas finds and bringing them into production, Cairn is working towards enhancing energy security and increasing the self sufficiency of the nation which is in line with policy of the Indian Government. At peak production rate, Rajasthan block is expected to contribute more than 20% of domestic crude oil production.

Foreign exchange used and earned

During the period ended 31 March, 2010, the Company earned INR 32.04 million and incurred expenditure of INR 188.82 million in foreign exchange.

For and on behalf of the Board of Directors

Sir William B.B. Gammell
Chairman

Place Gurgaon
Date 27 May, 2010