

Directors' Report

The Members,

Your Directors have pleasure in presenting the Fifth Annual Report on the business and operations of the Company and the Audited Financial accounts for the year ended 31 March, 2011.

FINANCIAL HIGHLIGHTS

In INR million

	Standalone		Consolidated	
	For the financial year ended		For the financial year ended	
	31 March, 2011	31 March, 2010	31 March, 2011	31 March, 2010
Total Income	951	1,634	104,067	20,307
Total Expenditure	3,077	2,367	35,167	10,143
Profit/(loss) before tax	(2,126)	(734)	68,900	10,163
Taxes	-	(44)	5,556	(348)
Profit/(loss) after tax	(2,126)	(689)	63,344	10,511

The consolidated statements provide the results of Cairn India Limited together with those of its subsidiaries for the financial year ended 31 March, 2011.

DIVIDEND

In view of 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, 4,942,969 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 19,019,171,010 divided into 1,901,917,101 equity shares of INR 10/- each.

Subsequent to the close of the financial year, the Company allotted 213,131 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 19,021,302,320 divided into 1,902,130,232 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.

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, 4,942,969 equity shares of INR 10/- each were allotted pursuant to the exercise of stock options.

SUBSIDIARY COMPANIES

As on 31 March, 2011, the Company had 30 subsidiaries including indirect subsidiaries. All these companies are

beneficially owned 100% by Cairn India Limited. During the year under review, Cairn Energy Developments Pte. Ltd., subsidiary Company in Singapore was voluntarily dissolved w.e.f. 8 March, 2011.

The 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.

The Ministry of Corporate Affairs, vide its circular nos. 2/2011 & 3/2011 dated 8 February, 2011 & 21 February, 2011 respectively had granted general exemption to holding companies from attaching the financial statements of its subsidiaries to the company's Annual Report. In accordance with the said circulars, the Balance Sheet, Profit & Loss Account and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. The Company will make available the Annual Accounts of the subsidiary companies to any member of the Company who may be interested in obtaining the same. The annual accounts of the subsidiary companies will also be kept open for inspection at the Registered office of the Company and respective subsidiary Companies. The consolidated financial statements presented by the Company include the financial results of its subsidiary companies.

SCHEME OF ARRANGEMENT

In order to simplify and consolidate the multi layered structure comprising foreign subsidiaries, 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 Hon'ble High Courts of Madras and Bombay sanctioned the Scheme in

April, 2010 and June, 2010 respectively. The Scheme is now subject to receipt of certain contractual and regulatory approvals. The Scheme when approved is proposed to be effective from 1 January, 2010.

OPEN OFFER TO SHAREHOLDERS BY VEDANTA RESOURCES PLC

During the year under review, Cairn Energy PLC and Cairn UK Holdings Limited, promoters of the Company, agreed to sell a substantial part of their equity stake in the Company to Vedanta Resources PLC and persons acting in concert ('Vedanta') by way of a share purchase deed dated 15 August, 2010. In terms of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, Vedanta issued a Public Announcement on 17 August, 2010 to make an open offer to the equity shareholders of the Company. Vedanta also filed the draft Letter of Offer with SEBI, which was received by them on 31 August, 2010. After the receipt of SEBI's nod, the offer opened on 11 April, 2011 and closed on 30 April 2011. Vedanta acquired 155,033,172 number of equity shares under the open offer. Vedanta also acquired 200,000,000 equity shares of the Company from Petronas International Corporation Ltd. Subsequent to these acquisitions, Vedanta now holds 18.66% of the equity capital of the Company.

The deal for sale of shares by Cairn Energy PLC and Cairn UK Holdings Limited, promoters, to Vedanta is pending for regulatory approvals.

DIRECTORS

Mr. Philip Tracy ceased to be an alternate director with effect from 17 August, 2010. He was again appointed as an alternate Director to Ms. Jann Brown on 10 February, 2011 and ceased to be so on 23 May 2011.

In accordance with the Articles of Association of the Company, Mr. Naresh Chandra and Mr. Edward T Story, shall retire by rotation as Directors 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

The Corporate Governance and Management Discussion and Analysis reports form an integral part of this report and are set out as separate sections to this annual report. The Certificate of S. R. Batliboi & Co., chartered accountants, the statutory auditors of the Company 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 & Co., chartered accountants, auditors of the Company, retire at the conclusion of the ensuing annual general meeting and being eligible, offer themselves for re-appointment. The audit committee in its meeting held on 25 May, 2011 has also recommended the re-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 for the same.

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:

(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 31 March 2011 and of the profit of the Company for the year ended 31 March 2011

(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

CORPORATE SOCIAL RESPONSIBILITY

At Cairn, Corporate Social Responsibility (CSR) encompasses much more than social outreach programs and is an integral part of the way the Company conducts its business. Detailed information on the initiatives of the Company towards CSR activities is provided in the Corporate Social Responsibility section of the Annual Report.

LISTING

The Company has paid the annual listing fee for the year 2011-12 to Bombay Stock Exchange Limited and National Stock Exchange Limited of India.

APPRECIATION

Your Directors wish to place on record their sincere appreciation of the concerned efforts and dedicated service of all employees, which contributed to the continuous growth and consequent 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 25 May, 2011

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 2010 - March 2011	Nil	584,144	3,027,463
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 2010 - March 2011	NIL	777,498	3,903,265
4.	Options Exercised during April 2010 - March 2011	NIL	922,045	4,020,924
5.	Total number of Shares arising as a result of exercise of options during April 2010 - March 2011	NIL	922,045	4,020,924
6.	Options lapsed during April 2010 - March 2011	NIL	141,268	922,020
7.	Variation of terms of options	None	None	None
8.	Money realized by exercise of options during April 2010 - March 2011	NIL	Rs. 9,220,450	Rs. 661,259,192
9.	Total number of options in force as on 31 March 2011	2,238,077	2,147,664	12,730,726
10.	Employee wise details of options granted during the year to:			
	(i) Senior Managerial Person	None	Indrajit Banerjee 41,036 Manu Kapoor 22,041 S V Nair 40,308 P Elango 35,451 Santosh Chandra 30,231	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	Venkatesan T K 30,778 Ajay Gupta 35,944	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	(1.12)	(1.12)	(1.12)
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)		456,750	
	(iii) The impact of this difference on profits and on EPS of the Company			
	Profit after Tax (PAT) (Rs. in thousands)		(2,126,721)	
	Less: Additional employee Compensation cost based on fair value (Rs. in thousands)		456,750	
	Adjusted PAT (Rs. in thousands)		(2,583,471)	
	Adjusted EPS Basic (Rs.)		(1.36)	
	Adjusted EPS Diluted (Rs.)		(1.36)	

13.	Weighted-average exercise prices of options granted during April 2010 - March 2011	NA	10.00	331.25
	Weighted-average fair value of each option outstanding as on 31 March 2011	135.31	248.94	123.83
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%	7.28%	7.61%
(ii)	expected life (in years)	2.45	3.09	6.50
(iii)	expected volatility	44.08%	44.16%	42.98%
(iv)	expected dividends	NA	NA	NA
(v)	price of the underlying Share in market at the time of option grant	160.00	256.93	244.48

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 2010 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. Last year saw on-ground implementation of many such planned measures in Rajasthan upstream as well as pipeline projects that were targeted at prevention & control of pollution and improvement of environmental performance. We have also continued with our initiatives on energy and resource conservation at our Ravva and Suvali facilities.

The Company regularly monitored air emission sources and the ambient air quality,

and was able to maintain emission levels within regulatory standards in 2010-11.

Measures taken for reduction of energy consumption & consequent impact

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

- Augmenting renewable energy harnessing potential. Additional windmills were installed at Ravva offshore platforms in March 2010. Installation of 400 Watt wind mills at the platforms has resulted in energy saving of 0.589 MWH.
- Solar powered lights were installed in the plant, living quarters and explosive magazine area at Ravva in July 2010. Installation of the 14 Watt solar powered lights have resulted in energy saving of 0.1232 MWH.
- During the ongoing Ravva infill drilling campaign new well designs have been implemented by using different technology to previous campaigns.

These technologies are:

- 'Stand alone screens with SSD' for zonal isolation and swell packer for compartmentalization of open hole section.
 - 'Stand alone screen with ICDs and swell packers' in the horizontal section of RD-10 to provide uniform drainage.
 - Slimline TRSVs for 4-1/2" Tubing inside 7" casing.
- Absorption of these technologies has helped us reduce total carbon footprint and total cost of each well by:
 - Reduction in Casing size in top hole section.
 - Replacing the Casing, Cementing, Perforation and Gravel Packing in the reservoir section with Stand Alone screens and swell packers for zonal isolation and sand control.
 - Saving of 2 days of rig time by elimination of the above operations.
 - Energy conservation at our Suvali plant was achieved by installation of new "Energy Efficient" Air compressor in February 2011. Determination of energy savings and performance monitoring is in progress.
 - Several energy conservation initiatives at the Cairn's Gurgaon office have resulted in saving of approximately 200,708 kwh (units) of electricity. These initiatives are:
 - Ensuring that all except the emergency lights are turned off after working hours and on holidays.
 - Air handling units start at 7 am and are turned off when the employees leave office.
 - Lights in empty cubicles are turned off post 6 pm.
 - On all working days, lights are turned on only by the employees when they arrive on duty.

Additional investments and proposals being implemented for conservation of energy

Additional funds were allocated during the year for energy conservation. 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. Studies by research institutes to define optimum formulations for increased oil recovery have been conducted. A field scale EOR pilot plant has been set up within the Mangala Processing Terminal. Eight wells have been drilled and completed for the EOR pilot. The injection sequence planned in the pilot is nearly 5 months each of initial water flood followed sequentially by polymer slug, alkali-surfactant-polymer (ASP) slug, chase polymer slug and chase water flood. The water flood phase of the EOR pilot has already commenced and the facilities for polymer flood are under construction. Re-injection of produced water separated at the Ravva terminal, back into the reservoir helps reduce discharge of waste water to sea and extraction 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 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 reducing the environmental imprint by 85% over single wells, Rotary steerable drilling and high end Logging. While Drilling technology, customised compact well head equipment, usage of environmentally friendly bio degradable base oil in the synthetic oil based mud system on onshore drilling applications which is not only environmentally

friendly but also re used in multiple wells thus avoiding dumping of thousands of barrels of drilling fluids. The use of modern horizontal well technology, sand control technology integral with sleeve devices, hydraulic fracturing technology, Sand Jet Perforating, Micro seismic for frac modelling and multiphase metering technology were taken/used for the well construction for the development 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 thus leading to drilling and completing the wells faster than most companies in the world leading to much less fuel oil and energy consumed / utilised for this project than one would normally do in this scale of development. 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 also 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	1,002,025,131*
2	Recurring	48,300,192
3	Total	1,050,325,323
4	Total R&D expenditure as a % of total turnover	1.01%

*These are consolidated numbers for the Twelve months period ended 31 March 2011

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, 2011, the Company earned INR 23.94 million and incurred expenditure of INR 345.76 million in foreign exchange.

For and on behalf of the Board of Directors

Sir William B.B. Gammell
Chairman

Place Gurgaon
Date 25 May, 2011

FOREIGN EXCHANGE EARNINGS AND OUTGO

Activities relating to exports; initiatives taken to increase exports; development