



# Directors' Report

## The Members,

Your Directors have pleasure in presenting the Sixth Annual Report on the business and operations of the Company and the Audited Financial accounts for the year ended 31 March, 2012.

The consolidated statements provide the results of Cairn India Limited together with those of its subsidiaries for the financial year ended 31 March, 2012.

### 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, 5,479,007 equity shares of INR 10/- each were allotted on exercise of Employee Stock Options by the employees of the Company and its subsidiaries. Accordingly, the issued and paid up capital of the Company has increased to INR 19,073,961,080 divided into 1,907,396,108 equity shares of INR 10/- each.

Subsequent to the close of the financial year, the Company allotted 79,588 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 19,074,756,960 divided into 1,907,475,696 Equity shares of INR 10/- each.

### REDEMPTION OF DEBENTURES

During the year under review, the Company has redeemed 10,000 Unsecured Redeemable Non-convertible "Series C" Debentures (NCDs) having face value aggregating to INR 100 crores. NCDs issued by your Company have a credit rating of CARE AAA.

### FINANCIAL HIGHLIGHTS

In INR million

	Standalone		Consolidated	
	For the financial year ended		For the financial year ended	
	31 March, 2012	31 March, 2011	31 March, 2012	31 March, 2011
Total Income	2,489	951	127,987	104,067
Total Expenditure	2,014	3,077	43,752	35,167
Profit/(loss) before tax	475	(2,126)	84,235	68,900
Taxes	35	-	4,857	5,556
Profit/(loss) after tax	440	(2,126)	79,378	63,344

### 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 & PROJECTS

A detailed review of operations and projects 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 financial year, stock options have been granted to the employees of the Company and its subsidiaries under CIPOP & CIESOP schemes. 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 set out in Annexure I to this Report in compliance with Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

During the year under review, 5,479,007 equity shares of INR 10 each were allotted pursuant to the exercise of stock options.



## SUBSIDIARY COMPANIES

As on 31 March, 2012, the Company had 30 subsidiaries including indirect subsidiaries. All these companies are 100% beneficially owned by Cairn India Limited. The Company has its representatives on the boards of subsidiary companies and monitors the performance of such companies regularly.

The Ministry of Corporate Affairs, vide its circular no. 2/2011 dated 8 February, 2011, had granted exemption to holding companies from attaching the financial statements of its subsidiaries to the company's Annual Report. In accordance with the said circular, 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. Further, the annual accounts of the subsidiaries are also available on the website of the Company. 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 contractual & regulatory approvals and the same are expected shortly. The Scheme when approved is proposed to be effective from 1 January, 2010.

## COMPLETION OF CAIRN VEDANTA DEAL

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 acquired 155,033,172 equity shares under an open offer made to the shareholders of the Company in April, 2011. It subsequently acquired 200,000,000 equity shares of the Company from Petronas International Corporation Ltd.

Pursuant to the conditions imposed by the Government of India, the Company along with its subsidiary Companies viz., Cairn Energy India Pty. Ltd. and Cairn Energy Hydrocarbons Limited, entered into an agreement with Oil and Natural Gas Corporation (ONGC) for acceptance of royalty as cost recoverable and withdrawal of the arbitration pertaining to cess in respect of Block

RJ-ON-90/1. Subsequently, the cess arbitration was withdrawn effective 30 November, 2011. Post fulfillment of conditions imposed by the Government of India, shares aggregating 30% of the issued share capital of the Company were transferred by Cairn UK Holdings Ltd. to Vedanta Group on 8 December, 2011. The shareholding of Vedanta Group, i.e. Twin Star Mauritius Holdings Limited, Sesa Goa Ltd. and Sesa Resources Ltd. now aggregates 59% of the issued capital. These Vedanta Group Companies now constitute the Promoter Group of the Company.

## DIRECTORS

During the period under review, following changes were made in the composition of the Board:

- Mr. Rahul Dhir has been re-appointed as Managing Director and Chief Executive Officer of the Company for a period of 5 years commencing from 22 August, 2011.
- Mr. Malcolm Shaw Thoms resigned as non-executive Director with effect from 14 June, 2011.
- Mr. Rick Bott resigned as Executive Director and Chief Operating Officer with effect from 15 June, 2011.
- Mr. Indrajit Banerjee resigned as Executive Director and Chief Financial Officer with effect from 23 August, 2011.
- Mr. Mike Watts was appointed as an alternate Director to Ms. Jann Brown with effect from 26 September, 2011 and later ceased to be an alternate Director from 20 October, 2011.



- Sir Bill Gammell and Ms. Jann Brown resigned as non-executive Directors with effect from 8 December, 2011.
- Mr. Navin Agarwal and Mr. Tarun Jain were appointed as additional Directors of the Company with effect from 16 December, 2011. Mr. Navin Agarwal was also appointed as the Chairman of the Company on the said date.
- Ms. Priya Agarwal was appointed as additional Director of the Company effective 2 January, 2012.

Pursuant to the provisions of Section 260 of the Companies Act, 1956, Mr. Navin Agarwal, Mr. Tarun Jain and Ms. Priya Agarwal, hold office up to this Annual General Meeting. The Company has received notices from members of the Company sponsoring their candidature as Directors of the Company. They are proposed to be appointed as non-rotational Directors.

In accordance with the Articles of Association of the Company, Dr. Omkar Goswami and Mr. Aman Mehta, shall retire by rotation as Directors at the ensuing Annual General Meeting and are eligible for re-appointment.

A brief profile of the above-named Directors seeking appointment/re-appointment forms part of the Corporate Governance report.

## CORPORATE GOVERNANCE

Your company strives to ensure that best Corporate Governance practices are identified, adopted and consistently followed. Your Company believes that good governance is the basis for sustainable growth of the business

and for enhancement of stakeholder value. 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 & AUDITORS' REPORT

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 at its meeting held on 20 April, 2012 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.

Notes to the accounts, as referred to in the Auditors' Report, are self explanatory and therefore do not require further comments and explanation.

## 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, 2012 and of the profit of the Company for the year ended 31 March, 2012;



(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.

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

**Navin Agarwal**  
Chairman

#### **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 elsewhere in the Annual Report.

Place: Gurgaon  
Date: 20 April, 2012

#### **SHARE TRANSFER SYSTEM AND LISTING OF SHARES**

Details pertaining to share transfers and listing of shares are given in the Corporate Governance Report which forms part of the Annual Report. The Company has paid the annual listing fee for the year 2012-2013 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 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



## 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 2011- March 2012	Nil	1,006,415	4,733,714
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 2011- March 2012	2,238,077	1,063,695	3,175,387
4.	Options Exercised during April 2011- March 2012	2,238,077	856,432	2,384,498
5.	Total number of Shares arising as a result of exercise of options during April 2011- March 2012	2,238,077	856,432	2,384,498
6.	Options lapsed during April 2011- March 2012	NIL	1192499	1116526
7.	Variation of terms of options	None	None	None
8.	Money realised by exercise of options during April 2011- March 2012	Rs. 75,423,195	Rs. 8,564,320	Rs.481,525,733
9.	Total number of options in force as on 31 March, 2012	NIL	1,082,340	13,963,416
10.	Employee wise details of options granted during the year to:			
	(i) Senior Managerial Persons	None	Manu Kapoor 47,637 S V Nair 57,678 P Elango 64,860 Santosh Chandra 41,925 Sanjay Singh 13,730 Ajay Gupta 59,337 Ananthkrishnan B 52,807	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	S V Nair 57,678 P Elango 64,860 Ajay Gupta 59,337 Ananthkrishnan B 52,807	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	0.23	0.23	0.23
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)		473,170	
(iii) The impact of this difference on profits and on EPS of the Company			
Profit after Tax (PAT) (Rs. in thousands)		439,617	
Less: Additional employee Compensation cost based on fair value (Rs. in thousands)		473,170	
Adjusted PAT (Rs. in thousands)		(33,553)	
Adjusted EPS Basic (Rs.)		(0.02)	
Adjusted EPS Diluted (Rs.)		(0.02)	
13. Weighted-average exercise prices of options granted during April 2011- March 2012	NA	10	327.75
Weighted-average fair value of each option outstanding as on 31 March, 2012	NA	305.70	146.44
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	NA	7.95%	7.72%
(ii) expected life (in years)	NA	3.12	6.5
(iii) expected volatility	NA	46.52%	44.55%
(iv) expected dividends	NA	NA	NA
(v) price of the underlying share in market at the time of option grant	NA	311.97	275.46

## 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 2011-12 were within targets set at the beginning of the year.

Cairn India recognises the responsibility to minimise environmental impact from its activities. The last year has seen 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 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 2011-12.

##### 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:

- Ravva offshore platforms are equipped with solar arrays and wind mills to harness renewable energy. Hot water for laundry at living quarters is generated from solar water heater. The estimated value of renewable energy

used at Ravva during reporting year is 53.14 MWH.

- 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 cooler was installed in the oil handling train at Suvali plant, to recover the waste heat from the residual water stream and pre-heat the inlet oil stream, which helped in efficient oil-emulsion separation.
- In our Rajasthan asset, street lights at remote locations are being converted to solar powered lights. This not only promotes use of renewable energy but also avoids laying of transmission lines.



- Hot water requirement at the operations base in Rajasthan is being met through solar water heaters.
- A MoU was executed between Cairn and ONGC (Operator of North Tapti field) in March 2012, for processing the gas produced from ONGC's North Tapti field through Suvali plant. The gas processing is expected to commence during Q1 2012-13. This will help to utilise the spare gas processing capacity of Suvali plant, thereby reducing the per unit energy consumption for each unit of gas processed.
- Solar powered lights were installed in the Mangala processing terminal and the wellpads over the year. 34 solar lights were installed resulting in a saving of 1487 KWH.

#### **Additional investments and proposals being implemented for conservation of energy**

As part of operational planning, investment were made and new technologies were absorbed & adapted to reduce the carbon footprint of the Company like installation of windmills 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. As planned, the polymer

injection in the pilot area was started after successfully commissioning the pilot in August 2011. The polymer injection into the reservoir was established and detailed analysis procedures were set up. The results of polymer injection pilot are encouraging. The construction for the alkali surfactant polymer (ASP) phase of the pilot is in progress.

Produced Water Re-Injection (PWRI) unit's capacity was enhanced to handle a maximum of 90,000 barrels of water per day. PWRI unit is presently re-injecting 90 % of the produced water. For one of the sub-sea pipeline in Ravva field, flexible portion was replaced by spools and tied up with another riser located in bridged platform. The whole job was carried out without a barge which is conventional practice. This job was completed using in-house resources without hiring a barge resulting around 50% cost of saving.

##### **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.

##### **Expenditure on R&D**

Details outlined in the Table below.

#### **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**

Entire production of Cairn is sold domestically at present.

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 the policy of the Indian Government. At the current envisaged peak production rate of 300,000 bopd, Rajasthan block is expected to contribute around 40% of current domestic crude oil production.

##### **Foreign exchange used and earned**

During the period ended 31 March, 2012, the Company earned INR 87.96 million and incurred expenditure of INR 420.32 million in foreign exchange.

For and on behalf of the Board of Directors

**Navin Agarwal**  
Chairman

Place : Gurgaon  
Date : 20 April, 2012

In INR

S.No.	Particulars	Amount
1.	Capital	212,160,634
2.	Recurring	299,621,696
3.	Total*	511,782,330
4.	Total R&D expenditure as a % of total turnover	0.40%

\*These are consolidated numbers for the twelve months period ended 31 March, 2012