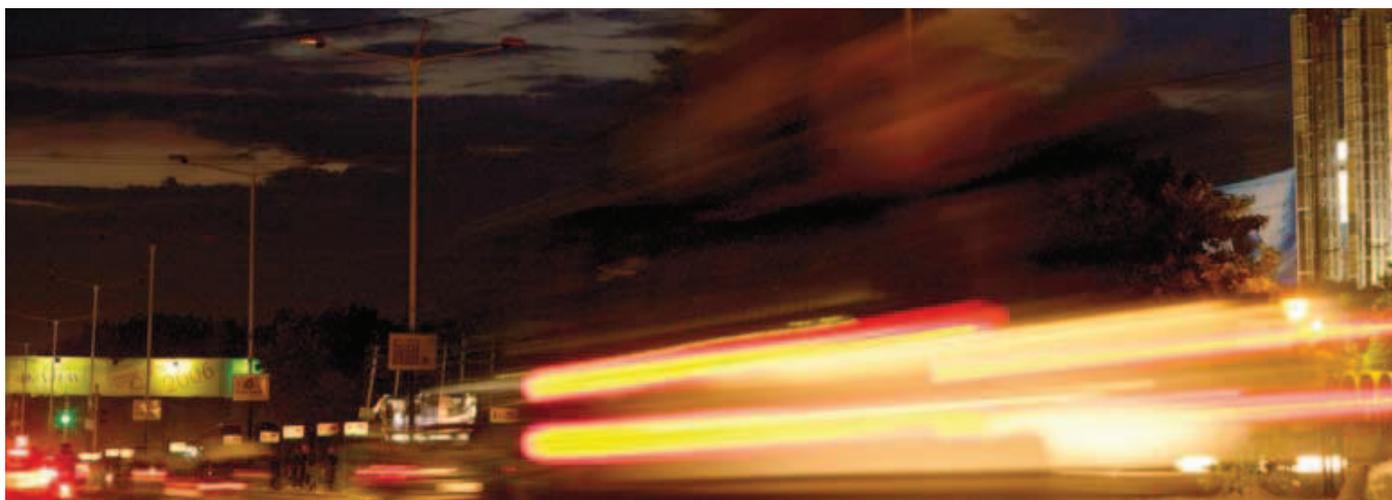


Management Discussion and Analysis



INDUSTRY STRUCTURE AND DEVELOPMENTS

Cairn India's role in the Indian hydrocarbons sector

A key player in the Indian oil and gas industry

Our partnerships with the GoI, state governments, regulators and other key industry participants have been carefully nurtured over the last 13 years. India is an attractive country for investment in the oil and gas industry: domestic demand exceeds supply and this is forecast to continue; fiscal terms are relatively favourable in comparison with other countries in the region; and the GoI has opened up new acreage to investors.

Cairn India is set to play an important role in the development of the oil and gas sector. By 2010, estimates suggest that we will operate approximately 20% of India's oil production, assuming that Indian production remains at current levels and that the Rajasthan northern block fulfils its targeted production level of about 150,000 bopd.

Indian domestic energy demand

India is the second most populous country in the world with a population of more than 1.1 billion. Rapid economic growth in India has led to significant increase in demand for crude oil and natural gas. India is currently the sixth largest consumer of oil and gas.

In 2005, India's world share of crude oil and natural gas consumption was 3% and 1.3% respectively.

India is a net importer of crude oil and natural gas. In 2005, India consumed 116 million tonnes of crude oil yet it produced only 36 million tonnes. Similarly, in 2005, India consumed 36.6 billion cubic metres of natural gas, but produced only 30.4 billion cubic metres.

OPPORTUNITIES AND CHALLENGES

Cairn India's competitive strengths

Cairn India has a combination of skills across the whole spectrum of upstream activities. With more than 30 hydrocarbon discoveries to our credit, we have an impressive fast-track development record. When we discovered natural gas in the Lakshmi field, it took us less than 30 months to start production and, at the Ravva field, we rapidly increased crude oil production from an initial 3,700 bopd to 35,000 bopd in 26 months. The Mangala Field Development Plan (FDP) was approved within 30 months of discovery.

As the operator of the largest producing oil field in the Indian private sector, Cairn India is one of the lowest cost producers in South Asia. In 2006, the average combined direct field cash operational expenditure at our production facilities in the Ravva and Cambay fields was less than US \$1 per boe and we have pioneered the use of cutting-edge technology to extend the production life of the fields.

With a five-fold increase in production volumes forecast by 2010, the pace of development is set to accelerate. This increase is underpinned by the sustained production from our existing assets, with a continued drilling programme in Ravva and important new developments planned in Block CB/OS-2 in the Cambay Basin.

The step-change in production occurs in 2009, when the Mangala field is planned to come on-stream in Rajasthan. Production from Bhagyam and Aishwariya is expected to follow. These fields have a targeted gross production of 150,000 barrels of oil per day (bopd) and will create value for the GoI, the Rajasthan State Government and all stakeholders.

Looking forward, exploration to date shows sustainable growth potential in Rajasthan, where the early application of enhanced oil recovery (EOR) techniques will help extend production. We also plan to maximise recovery from the thick section of the oil-bearing reservoir rock in the Barmer Hill formation.

Outside of Rajasthan and our producing fields, we already have an interest in 12 exploration blocks. We believe there is potential in the Indian sub continent – 80% of the 26 basins identified to date are under-explored and Cairn India is well placed to exploit these opportunities.



3.6bn boe

(Gross) Hydrocarbons In Place

2.2bn boe

(Gross) Under Active Oil Development Planning

1.4bn boe

(Gross) Identified In Other Fields

Business Review

PERFORMANCE REVIEW

Operational Review – Performance and Outlook

Cairn's gross operated production across India during 2006 was 82,771 boepd (net working interest 22,329 boepd).

Operational activity has been largely focused on the continued appraisal of Block RJ-ON-90/1 in Rajasthan. There are now a total of more than 20 discoveries in this block including the world-class Mangala and Bhagyam oil fields in the northern part of the acreage.

An independent report, prepared by DeGolyer and McNaughton (D&M) in August 2006, estimates 3.4 billion boe in place in the combined discoveries in the Rajasthan block. Cairn India currently estimates there to be at least 3.6 billion boe hydrocarbons in place, of which 2.2 billion are under active development planning, with the remaining 1.4 billion, identified as 'contingent' in other fields, under review.

A summary of Cairn India's estimates of hydrocarbons initially in place, reserves and contingent resources is given as an annexure to this Management Discussion and Analysis.

The Mangala, Aishwariya, Saraswati, Raageshwari Oil and Raageshwari Deep Gas fields all have GoI development approval, while work on approvals for the development of other discoveries, in particular Bhagyam and Shakti, is ongoing. The FDP for Bhagyam was approved by the Operating Committee in May 2007 and has subsequently been submitted to the Management Committee for approval. The remaining discoveries require further appraisal or evaluation.

Ongoing drilling campaigns are taking place in India, while the other operated and non-operated exploration blocks in India are at various stages of evaluation.

"With a five-fold increase in production volumes forecast by 2010, the pace of development is set to accelerate."

THE RAJASTHAN STORY

Cairn first came into Rajasthan in 1997 but, despite some early technical success, it was only in mid 2003, after we had acquired the full 100% of the equity in the Rajasthan block, that we were able to control the pace and extent of our exploration effort. From the beginning we believed that the key ingredients for commercial success were present. It took perseverance and more than a dozen wells to zero in on the oil fairway. It enabled us, more than three years ago, to discover first the Mangala field and then the Aishwariya and Bhagyam fields. These three fields collectively will underpin a project that could produce 150,000 bopd.

The total oil and gas discoveries on the block is now more than 20 with 3.6 billion barrels of oil in place. Mangala, Bhagyam and Aishwariya in the northern section of the block will form the focus of our future development. In coming years, the other discoveries will feed into the development system to be put in place.

Production from Mangala is the first step in the process and Cairn India's development team is focused on realising this potential.

There are separate reservoirs containing hydrocarbons in Rajasthan as follows:

- The Fatehgarh is the name given to the primary reservoir rock of the Northern Rajasthan fields of Mangala, Aishwariya and Bhagyam.
- The Barmer Hill is a lower permeability reservoir which overlays the Fatehgarh.
- The Dharvi Dungar forms the secondary reservoirs in the Guda field and is the reservoir rock encountered in the recent Kaameshwari West discoveries.
- The Thumbli forms the youngest reservoirs encountered in the basin. The Thumbli is the primary reservoir for the Raageshwari field.

Management Discussion and Analysis – Continued



Our project in Rajasthan is considered a relatively low risk onshore project as opposed to working in the offshore environment with its inherent cost and operational challenges. The wells are shallow by world standards and we have very good understanding of the reservoir through extensive appraisal work. The oil can be extracted using standard oilfield technology and recovery can be further enhanced through proven tertiary recovery methods.

Crude oils have a vast array of properties and there are various definitions for 'light' and 'heavy' oil. The most common oilfield parameter used to define oil density is the American Petroleum Institute (API) gravity. The US Department of Energy and the World Petroleum Congress define heavy oils as those with gravities less than 22.3°API and light oils as those with gravities greater than 22.3°API.

Mangala is a sweet (low sulphur) and waxy crude with an API gravity of around 27 and pour point just over 40 degrees C. In the BP crude assay database, there are 94 crudes that are considered heavier than the Mangala crude and 31 crudes that are more viscous out of a total of more than 450 crude oils. So, although challenging, the properties of our Rajasthan crude are not unique. Cairn personnel have reviewed several of the projects producing similar crudes elsewhere in the world and have also visited some of the projects to gain first hand experience of those operations:

- New Zealand – Waxy oil is exported by pipelines and onward by sea tankers. Flow assurance issues are effectively managed by blending the waxy crude with light oil/condensates and adding chemicals/additives to improve flow characteristics.
- China – Heavy and waxy oil is transported over long distances by pre-heating prior to pumping and pumping light crude with the waxy crude essentially working as a diluent. Chemicals are also used in certain places to improve properties.
- Canada – Clean diluted bitumen (typically 50% bitumen, 50% naphtha) is transported from oil sands projects to refineries for further upgrading.

- Indonesia – Waxy oils have been transported in oil/water emulsion systems for over 30 years. Lighter oils have also been blended with waxy crudes to improve transport quality.
- Sudan – Waxy oil is heated and dosed with additives/chemicals prior to export when transporting crude over very long distance pipelines.

Rajasthan Midstream

Cairn India and ONGC have agreed at the Operating Committee to a solution for the midstream. The proposal, which is now awaiting approval by the GoI, is to include within the FDP a pipeline to transport the Rajasthan crude from Mangala to a coastal location in Gujarat. The proposed routing of the pipeline will allow access to the existing pipeline infrastructure and refinery network, with a final coastal delivery point that also affords access to the majority of India's refining capacity. It is proposed that the pipeline will fall within the definition of the field development activities and will accordingly be funded by the Joint Venture partners, Cairn India and ONGC, in proportion to their participating interest of 70% Cairn India and 30% ONGC. If the pipeline is included in the FDP and approved by the GoI, the costs would be recoverable under the PSC. The conceptual engineering and route identification for the pipeline are at an advanced stage.

RAJASTHAN BASIN – North West India, RJ-ON-90/1 Development Area (Cairn India 70%, Operator; ONGC 30%)

Civil construction work is now underway to meet the planned first oil production from Mangala in 2009. FDPs for the Mangala, Aishwariya, Saraswati and Raageshwari fields have been agreed by the GoI. The first phase of development drilling on Saraswati and the Raageshwari Oil fields has been completed and funding for the development has also been secured.

All the material permits and permissions required to begin major construction work have been granted and Cairn India is in the process of procuring the major items of long-lead equipment required to establish the production facilities. It is planned to contract purpose built rigs which will be used to drill the development wells. These state-of-the-art rigs will allow the drilling of the



Civil construction work is now underway to meet the planned first oil production from Mangala in 2009.

Business Review

Mangala wells (some of which will be horizontal) and running of completions, which Cairn India intends to use to deliver the first phase of the target production rate of 150,000 bopd for the Rajasthan fields.

The detailed engineering design for the Mangala development is progressing in Houston; the design team comprises Cairn India personnel working alongside consultants from Mustang Engineering. The assessment of the impact of the severe flooding in Rajasthan last year on field development design and activities is ongoing. Work carried out to date confirms the viability of the current design and facilities locations, provided that reasonable flood protection measures are implemented as a contingency (these are currently being designed).

The GoI has approved the Declaration of Commerciality for Bhagyam, the second largest field in Block RJ-ON-90/1, along with the Shakti field. These fields are contained within a second development area of 430 km². The FDP for Bhagyam was approved by the Operating Committee in May 2007 and has subsequently been submitted to the Management Committee for approval. The current 2P base case for Bhagyam envisages a plateau production rate of 40,000 bopd and is under consideration by the Government of India.

Enhanced Oil Recovery (EOR)

Work is ongoing to confirm the optimal EOR techniques to implement in the Rajasthan block, with the aim of increasing ultimate oil recovery and extending the production plateau periods for each field. First phase of third party laboratory studies of the techniques for chemical flooding (polymer, alkaline, surfactant, or combinations of these) are complete for Mangala. Further laboratory studies on Mangala will now take place and simulation work is ongoing. A pilot project to be implemented in 2009-10 is currently being designed to demonstrate field-scale applicability of these techniques. Additional laboratory work continues for Bhagyam, to be followed by work on Aishwariya.

Reservoir Stimulation Programme

A programme of hydraulic fracture stimulation on various lower permeability reservoirs was completed in 2006. The hydraulic fracture programme highlighted the potential for new reserves in the lower permeability reservoirs.

Test results from two Barmer Hill wells highlighted the potential to unlock material oil resources in this reservoir at two of the three main fields. Additional work is required to quantify the potential of the Barmer Hill formation and will be addressed during the development drilling programme at Mangala and Aishwariya. Results on the Raageshwari Deep gas field from a single tested zone in Raageshwari-5 indicated a two-fold increase in productivity. Gas from the Raageshwari wells will be utilised as fuel for the Mangala development and subsequent northern area developments.

The Vijaya, Vandana, N-R and southern fields are also potential candidates for future fracture stimulation to access new reserves and/or accelerate production.

Southern Fields

In the south of the Rajasthan block, first commercial production by trucking from the Saraswati field is ready to start and will begin as soon as an arrangement for oil sales has been finalised with the GoI. First commercial production from the Raageshwari oil field is expected to commence within 12 months of Saraswati.

NORTHERN APPRAISAL AREA – Other than Development Area (Cairn India 100%)

The Ministry of Oil and Natural Gas (MoPNG), has awarded a six month extension to the Exploration Phase of the Northern Appraisal Area (NAA) of Rajasthan licence RJ-ON-90/1 from May 8, 2007.

The appraisal drilling on the discoveries made in 2006 (Kaameshwari West-2 and Kaameshwari West-3) has begun. These discoveries have opened up a new play in the Barmer Hill/lower Dharvi Dungar sands on the western margin of the basin. While reservoir quality is variable, an appraisal programme is underway to further delineate these discoveries and explore the full potential of the NAA. The area is covered by an exploration 3D seismic grid of 530 km² acquired in 2006. The Kaameshwari 220 km² appraisal 3D seismic programme started in July 2007. A further 88 km² 2D seismic grid has recently been completed to the east of Barmer.

Management Discussion and Analysis – Continued



Block RJ-ONN-2003/1 (Cairn India 30%, ENI Operator)

In early January 2007, the Operator commenced acquisition of a 3D seismic survey on this Rajasthan block, which was awarded in NELP V. The 3D programme was completed in May 2007.

CAMBAY BASIN – Western India

Block CB/OS-2: Lakshmi and Gauri Gas Fields
(Cairn India 40%, Operator)

Average gross production from the Lakshmi and Gauri fields for the year 2006 was 21,176 boepd (comprising average oil production of 3,452 bopd and average gas production of 106.3 mmscfd).

A drilling rig, the "Offshore Courageous", has been contracted from Scorpion Offshore for the further development of the field with a planned offshore four well infill development drilling programme scheduled to commence in H2 2007.

An upgrade to the oil handling facilities is underway and is scheduled for completion in late 2007 or early 2008.

The onshore CB-X tie in project has been completed and delivered first gas in Q2 2007.

The gas sales contracts (GSCs) with the buyers (GTCL and GPEC) have been successfully re-negotiated whereby the contractual terms for volume commitment and price have been reset and the Gauri gas field volume committed to the current buyers under the new pricing scheme.

CB-ONN-2001/1 (Cairn India 30%, ONGC Operator)

Following the acquisition of an 89 km² 3D seismic programme, two wells were drilled on this block in 2006. The final commitment well was drilled and abandoned in April 2007.

CB-ONN-2002/1 (Cairn India 30%, ONGC Operator)

Following the acquisition of a 100 km² 3D seismic programme on this block, three wells are scheduled to be drilled during 2007 and early 2008.

GS-OSN-2003/1 (Cairn India 49%, ONGC Operator)

The Operator completed acquisition of a 3D marine seismic programme on this block in May 2007.

KRISHNA-GODAVARI BASIN – Eastern India

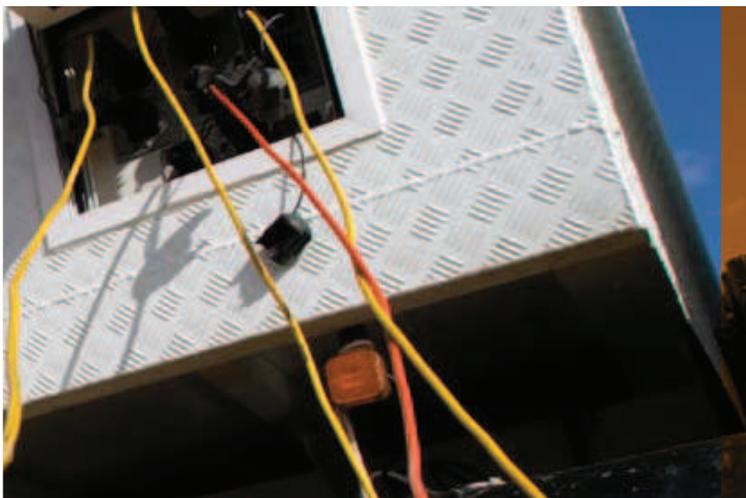
Ravva (Cairn India 22.5%, Operator)

Average gross production from the Ravva field for the year 2006 was 61,595 boepd (comprising average oil production of 49,695 bopd and average gas production of 71.4 mmscfd).

An extensive offshore infill development and exploration drilling programme on Ravva commenced in October 2006 and is ongoing. To date, production has commenced from three new infill wells and one successful appraisal well. In addition, two water injection wells have also been drilled and put into service to enhance the reservoir water-flood scheme. The Ravva field has been on plateau for a number of years and the current drilling programme is aimed at continuing strong production performance.

The rig is currently operating on an exploration well RX-8 on the MM301 prospect. A further three well workovers are planned with the rig to enhance production capacity.

The ceiling prices under each of the Ravva GSCs have been increased following re-negotiation with the buyer (GAIL). The ceiling price for associated gas has increased by 18% and the ceiling price for non-associated gas has increased by 30%.



Work is also ongoing to establish optimal enhanced oil recovery (EOR) techniques in the Rajasthan block with a view to extending plateau production and increasing ultimate recovery of oil.

KG-DWN-98/2 (Cairn India 10%, ONGC Operator)

The UD-1 ultra-deep water exploration well, located 140 km south of Ravva, was spudded in late September 2006 in 2,841 metres water depth after the acquisition and interpretation of an additional 255 km 2D seismic data. The well encountered gas in a secondary objective. Options for further appraisal are currently under consideration with the Operator.

KG-ONN-2003/1 (Cairn India 49%, Operator)*

Plans are underway to commence a seismic acquisition programme of 2D and 3D data on this block from late 2007 or early 2008.

NELP VI

Cairn India secured an interest in two new exploration blocks in India in the sixth New Exploration Licensing Policy round (NELP VI) – PR-OSN-2004/1 and KK-DWN-2004/1.

PR-OSN 2004/1 (Cairn India 35%, Operator)

This block covers an area of 9,400 km². A 2D seismic programme is being planned for early 2008.

KK-DWN-2004/1 (Cairn India 40%, ONGC Operator)

This block covers an area of 12,324 km². A 2D seismic programme is planned by the Operator in early 2008.

HIMALAYAN FORELAND BASIN – Northern India

Ganga Valley

GV-ONN-2002/1 (Cairn India 50%, Operator)

An aeromagnetic survey, commenced in January 2007, was completed in April 2007 and followed by a 2D seismic acquisition programme.

GV-ONN-97/1 (Cairn India 15%, ONGC Operator)

The first exploration well in the Himalayan Foreland Basin in which Cairn India participated (Tisua-1) was plugged and abandoned after encountering residual oil shows. A final commitment well on this block is expected to be drilled in late 2007 or early 2008.

GV-ONN-2003/1 (Cairn India 24%, Operator)*

Subject to receipt of the requisite approvals, a 2D seismic acquisition programme is scheduled to commence in late 2007 or early 2008.

VINDHYAN BASIN – Northern India

VN-ONN-2003/1 (Cairn India 49%, Operator)*

Seismic reprocessing is underway and a 2D seismic acquisition programme is expected to commence in 2008.

* Note: The PSC provides that ONGC is the proposed operator for the development and production of these blocks.

Management Discussion and Analysis – Continued

Cairn India has a robust risk management system that is implemented rigorously.



RISKS AND CONCERNS

As an oil and gas exploration and production company with current operations concentrated in India, Cairn India is, by virtue of the nature of its business and the area in which it operates, subject to a variety of business risks. Cairn India has a robust risk management system that is implemented rigorously to ensure we fully understand the risks and apply appropriate mitigation measures with regular management review of the Company risk profile. Outlined below is a description of the principal risk factors that may affect the Company's business. Such risk factors are not intended to be presented in any assumed order of priority. Any of the risks, as well as the other risks and uncertainties discussed in this document, could have a material adverse effect on our business. In addition, the risks set out below may not be exhaustive and additional risks and uncertainties, not presently known to the Company, or which the Company currently deems immaterial, may arise or become material in the future.

There are a number of steps prior to a decision by management to invest in or 'sanction' a project or new venture. Risks during this pre-sanction period include technical, engineering, commercial and regulatory risks. Typical risks include over or under-estimation of crude oil and natural gas initially in place and recoverable, inadequate front-end engineering design, not securing appropriate long-term commercial agreements or, where required, applicable governmental or regulatory consents, permits, licences or approvals.

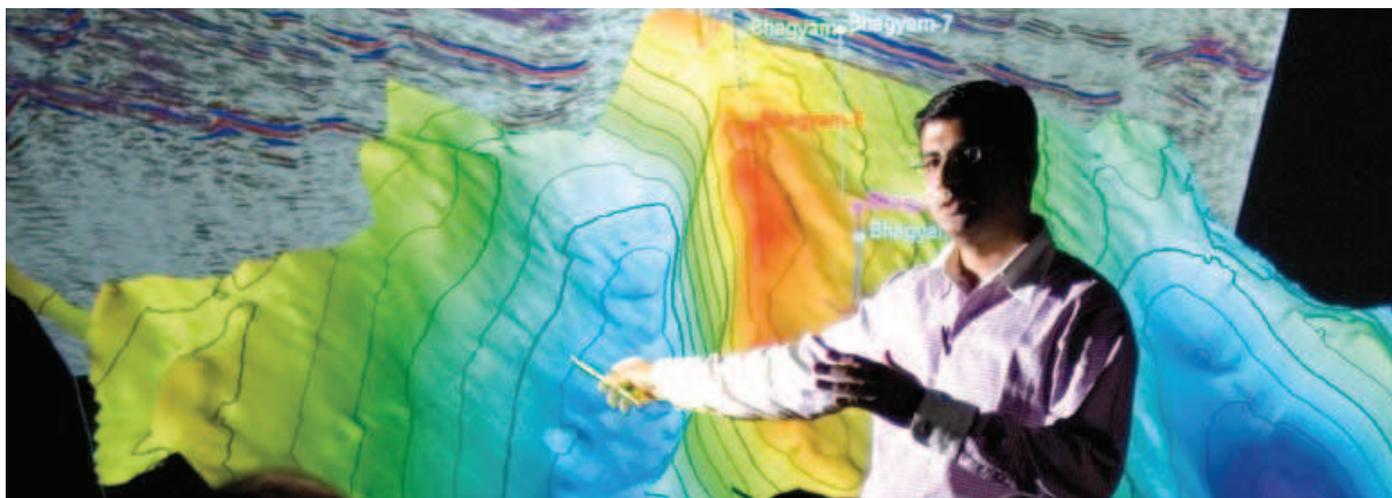
This can cause delays to commercialisation of reserves and may have a material effect on the medium-to long-term cash flow and income of the Company.

Project delivery is subject to technical, commercial, contractor and economic risks. Projects can be delayed or unsuccessful for many reasons, including cost and time overruns of projects under construction, availability, competence and capability of human resources and contractors, mechanical and technical difficulties and infrastructure constraints. In addition, some development projects may require the use of new and advanced technologies or produce hydrocarbons from challenging reservoirs, which can exacerbate such problems.

The Company's revenues are dependent on the continued performance of its operating facilities. Operational risks include maintaining asset integrity and this can be affected by a number of factors including improper operating and maintenance regimes and plant availability. These in turn can be significantly impacted by unplanned shutdowns and/or equipment failure, the performance by and sharing of risk between JV partners and the location of some of the Company's operations (which may expose them to natural hazards such as cyclones, flooding and earthquakes). If these risks materialise, the Company may not be able to meet its planned HSE standards, output levels or unit operating costs. These factors may have an effect on cost control, or a potentially material impact on the Company's reputation and the results of its operations.

INTERNAL CONTROLS

Cairn India has internal control systems that are commensurate with the size and nature of its business. The internal control systems and procedures are robust enough to ensure effectiveness of controls and their compliance in order to mitigate risks and thereby support management to achieve its business objectives and improve operations. The internal audit function has the necessary powers to check the adequacy and effectiveness of internal control systems. The Company has outsourced the internal audit function to review systems, policies and procedures and their adherence. An annual internal audit programme is prepared and approved by the audit committee, giving details of the areas to be covered for audit based on their criticality. The areas covered in this audit programme are taken up for review by the internal auditors as per the agreed schedule and Company procedures ensure the implementation of observations and suggestions made by them. A qualified and independent audit committee monitors and reviews the internal controls and the effectiveness of the Company's internal audit function along with risk management systems and receives an update on the internal audit work plan on an ongoing basis. The internal audit findings and recommendations of the internal auditor, together with the management's responses, are discussed with the audit committee on a periodic basis.



FINANCIAL PERFORMANCE

Cairn India Limited ('Cairn India') was incorporated on August 21, 2006. In December 2006, Cairn India made an Initial Public Offering (IPO) of its equity shares. Post the successful completion of the IPO, Cairn India was, on January 9, 2007, listed on the National Stock Exchange and the Bombay Stock Exchange.

Cairn India's Initial Public Offering of 328,799,675 equity shares was fully subscribed aggregating Rs.52,608 million at the issue price of Rs.160. The Company also placed Rs.33,547 million in pre-IPO. The Company also exercised its Green Shoe Option for 13,085,041 shares. Cairn India is now listed on the National Stock Exchange and the Bombay Stock Exchange with a total share capital of 1,778 million shares and an investor base of over 300,000 shareholders. Cairn UK Holdings Limited owns 69% of the share capital, 10% is held by Petronas and 21% is held by institutional and individual shareholders.

In line with the objects of the public offering, part of the proceeds of the IPO have been utilised towards acquisition of Indian assets from Cairn UK Holdings Limited. The Company has retained about USD 600 million, which shall be utilised towards development of the Rajasthan block and other producing fields in addition to further exploration and appraisal activities. To fund the development of the Rajasthan block, the Company also has in place a USD 850 million syndicated revolving credit facility entered into with International Finance Corporation and a syndicate of commercial banks led by The Royal Bank of Scotland.

Currently all operating assets are held by Cairn India Holdings Ltd through its subsidiaries. Cairn India acquired the Indian assets from Cairn UK Holdings Limited by acquiring a majority ownership of Cairn India Holdings Ltd (including its subsidiaries) on December 20, 2006 and subsequently on December 29, 2006, acquired 100% ownership of Cairn India Holdings Ltd.

Since Cairn India was incorporated on August 21, 2006, the financial statements of Cairn India Limited have been prepared for the period August 21, 2006 to December 31, 2006 and the balance sheet has been prepared as at December 31, 2006. The Consolidated Statements provide the results of Cairn India Limited together with those of its subsidiaries for the period December 20, 2006 (date of acquisition of majority ownership of Cairn India Holdings Ltd (including its subsidiaries)) to December 31, 2006. The Consolidated Statements incorporate the financial results for the relevant period in respect of all its 27 subsidiaries which are owned 100% by Cairn India Limited as at December 31, 2006. The consolidated results of Cairn India Limited are therefore not indicative of the financial performance of the entire Company along with its subsidiaries for the full year 2006. Key consolidated financial numbers for Cairn India Limited for the period August 21, 2006 to December 31, 2006 are summarised below.

Amount in Rupees

Total income	449,632,050
Gross profit	305,400,011
Earnings before interest tax depreciation and amortisation	(6,677,921)
Profit/(loss) before tax	(130,130,717)
Profit/(loss) after tax	(186,557,677)

The above numbers include non-cash employee cost of Rs.345,058,813 depreciation, depletion and amortisation expenditure of Rs.61,225,521, unsuccessful exploration costs written off of Rs.59,480,772 and deferred tax of Rs.43,860,662. Profit before these items of charge is Rs.323,068,091.

Management Discussion and Analysis – Continued



HUMAN RESOURCES

Through our people we maintain our leading edge and technical, professional and leadership skills.

Managing Change

In March 2006, a reorganisation of the Edinburgh and India offices was announced to prepare the Company for the IPO of the Cairn India business. Cairn India now employs more than 400 people and will continue to recruit in the coming months and years to meet its growth plans.

Cairn India went through three large-scale organisational changes in 2006. First was the outsourcing of transactional processes in many functions to a third-party vendor. Second was the relocation of the Corporate Office from Chennai to Gurgaon, near New Delhi, and the third was a restructuring of the Cairn India organisation. These changes had a big impact on Cairn employees and their families, and so it was imperative that they were managed with respect, dignity and fairness throughout the process. With the relocation to Gurgaon starting in the middle of the academic year, Cairn India was very flexible towards employees with families and appropriate terms and conditions were put in place. For example, Cairn India extended a special working pattern of ten days 'on' and four days 'off' for employees whose children were studying. This was extended until the end of the academic year to assist employees whose children were in their final years of schooling and who therefore did not want to relocate.

In the future, given the unprecedented demand for oil and gas industry professionals, a key challenge is to motivate and retain staff. In India we started a new initiative called the 'Build Alumni' programme to ensure that we stay connected to our alumni. This programme also helps us understand the key factors that can retain staff.

Cairn India aims to grow leaders who can achieve the Company's vision, encourage colleagues to contribute, set clear priorities and keep the team motivated, involved and interested. Most importantly, Cairn India requires its leaders to create a climate where people make the most of their potential. Cairn India strives to provide a healthy, safe and secure working environment

for all our staff. All employees have access to appropriate occupational health support. This is true whether working in our offices or out at one of our operating locations. Appropriate health care facilities and emergency evacuation services are also in place at all our operating locations.

In India, we have had a 'Wellness Programme' in place for a number of years, spending over US \$500,000 in the past three years. The programme aims to promote a healthy work-life balance for employees and their families based on three pillars: health, happiness and energy. The Wellness Committee, comprising members from all functions of the Company, organises HSE programmes, medical support, team building, sports and social activities.

Employee strength of the Company as on December 31, 2006 was 405.

HEALTH SAFETY AND ENVIRONMENT

Cairn India is committed to accomplishing excellence in Health, Safety and Environment (HSE) performance in its operations.

The Rajasthan project is committed to first class HSE performance throughout all phases of its activities. The project team's primary goal is to achieve an incident and injury free project.

HSE is an integral part of Cairn India's Business Management System. Cairn India is committed to protecting all the employees who come in contact with the physical and natural environments in which we work. Cairn India's HSE policy commits to us to maintaining a sustainable environment and a 'no net loss' of biodiversity in the areas where we operate. In addition:

- Cairn India has adopted international standards, processes and procedures in its HSE management system which has delivered extremely good HSE performance to date.
- UK Safety Case approach applied to the CB/OS-2 development.
- UK COMAH Regulations being applied to the Rajasthan Development.
- Operating sites are ISO 14001 certified and progressing towards OSHAS 18001 certification.



Cairn India now employs more than 400 people and will continue to recruit in the coming months and years to meet its growth plans.

- International HSE standards developed for Rajasthan Construction.
- Implementing DuPont 'STOP' Safety Management System in Cairn India.

Our injury rates have shown continuous improvement and are lower than the industry benchmark.

Responsibility for HSE lies with each and every team member.

Our focus is on process and workplace safety to ensure that we maintain the technical integrity of our facilities and staff behaviours to achieve an injury free workplace.

Our goal is zero incidents and zero injuries. Successful safety performance will depend on recognition and elimination of all potential hazards and unsafe behaviours.

The operations and project teams fully endorse Cairn India's HSE vision, which strives to achieve the following:

- A healthy, safe and secure working environment.
- No accidents, no injuries and no harm to people.
- Environmental impacts minimised.
- A positive contribution to local communities.
- HSE as a personal value.

Summary of Cairn India's Estimates of Hydrocarbons Initially in Place, Reserves and Contingent Resources

We use various measures of hydrocarbons to make decisions regarding exploration priorities and investment in field developments. In the exploration phase, our estimates of hydrocarbons initially in place, and the associated estimate of prospective resources are subject both to a binary risk (probability of success or failure) and considerable uncertainty of volumetric magnitude. Following successful exploration and appraisal work, and as a field progresses through development to production, it becomes possible

for us to make better estimates of the volumes of hydrocarbon reserves and resources that, in varying degrees of certainty or uncertainty, will ultimately be recoverable. These estimates change and improve over time as the field is produced.

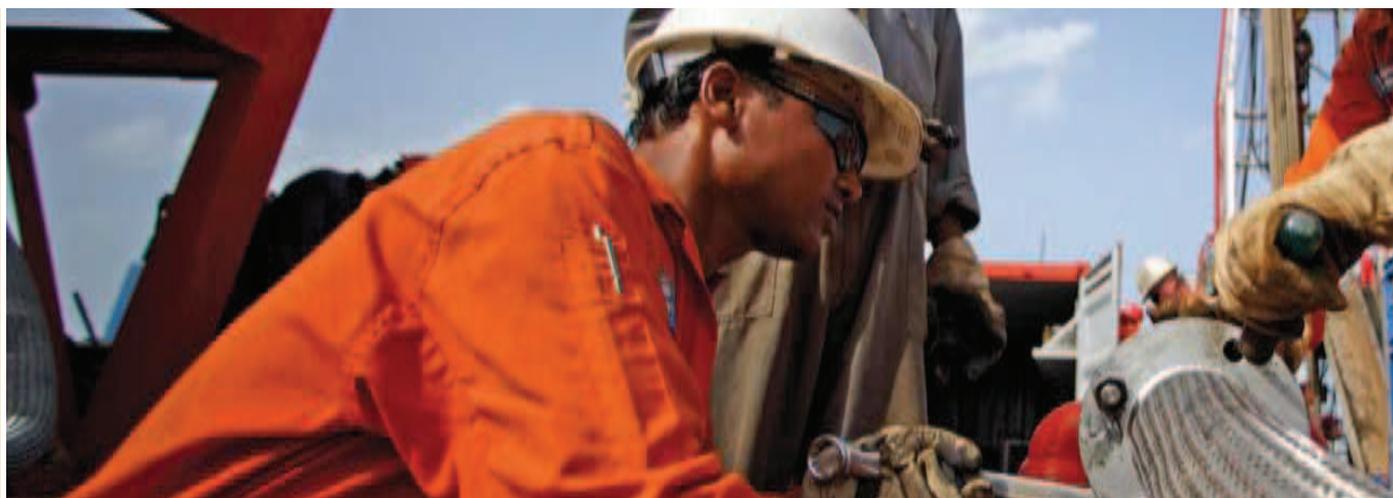
We rely primarily on estimates of proved plus probable, or 2P reserves, for purposes of significant capital investment decisions. For purposes of financial accounting under Indian GAAP, proved, or 1P, reserves will have additional significance in that only proved reserves at the beginning of an accounting period may be compared with production for the period to determine the period's depletion charge on a unit of production basis.

Finally, as a further measure of the potential commerciality of known accumulations of hydrocarbons in our areas, we also use estimates of possible reserves (3P) and contingent resources. The estimation of these 3P reserves and resources, and the likelihood that they may in the future be reclassified as proven or probable reserves, depends on our ability to prove commercial and technical viability of recovery within a reasonable timeframe.

We employ reserves and resources definitions in line with SPE/WPC International Standards, which provide detailed descriptions for each category of reserves and resources. In fact, to date we have applied more stringent standards, only classifying reserves upon FDP approvals and firm plans for development timing and scope.

Set forth in the table below is certain data regarding our estimates of gross hydrocarbons initially in place, gross and net working interest reserves and gross contingent resources from fields within the Rajasthan Block, the Ravva fields and fields within Block CB/OS-2, as at 31 December 2006. All of our estimates with respect to Rajasthan block fields assume that we will be granted an extension of the Rajasthan block PSC at least until 2041 (through which time we estimate economically viable production will be possible), except for the estimates of proved reserves where we have only included volumes that can be produced by 2020, the current year of expiration of the Rajasthan Block PSC.

Management Discussion and Analysis – Continued



Cairn India Estimate – Hydrocarbon Reserves and Resources (December 31, 2006)

	Gross(2P) HIIP	Gross Proved	NWI ⁽¹⁾ Proved	Gross Proved & Probable	NWI ⁽¹⁾ Proved & Probable	Gross 2P Contingent
Rajasthan Block	mmboe	mmboe	mmboe	mmboe	mmboe	mmboe
Mangala	1202	220 ⁽²⁾	154	428 ⁽²⁾	300	120 ⁽⁴⁾
Bhagyam	468	0	0	144 ⁽³⁾	101 ⁽³⁾	56 ⁽⁴⁾
Aishwariya	249	0	0	56 ⁽³⁾	39 ⁽³⁾	20 ⁽⁴⁾
Total MBA	1919	220⁽²⁾	154	628⁽²⁾⁽³⁾	440⁽³⁾	196⁽⁴⁾
Raj. Block Small Fields ⁽⁵⁾	298	4	3	8	5	6
Raj. Block Other Fields ⁽⁶⁾	1337	0	0	0	0	67
Rajasthan Block Total	3554	224⁽²⁾	156	636⁽²⁾⁽³⁾	445⁽³⁾	269
Ravva Fields	554	78	18	95	21	0
CB/OS-2 Fields ⁽⁷⁾	126	9	3	14	6	15
KG-DWN-98/2	302	0	0	0	0	144
Total	4536	310⁽²⁾	177	745⁽²⁾⁽³⁾	472⁽³⁾	428

The totals in the above table have been rounded to the nearest whole number.

- (1) Our net working interest reflects our simple ownership interest in the relevant PSC before Gol royalty interests.
- (2) The estimates of the proved reserves and proved plus probable reserves/resources data for Mangala assume that production from the Mangala field commences in early 2009.
- (3) The FDP for Bhagyam was not approved as at December 31, 2006 and the development timing of Aishwariya has still to be agreed but, reflecting the close proximity of these fields to Mangala and the probability that they will be developed in a reasonable timeframe, volumes for Bhagyam and Aishwariya have been included within probable reserves/resources in our estimates and in the independent reserves estimates of DeGolyer and MacNaughton.
- (4) These contingent resources estimates for the MBA fields assume our Enhanced Oil Recovery (EOR) plans are successful.
- (5) Comprises Saraswati and Raageshwari fields. Production from the Raageshwari Deep gas field, which we estimate separately contains proved plus probable reserves of approximately 36 mmboe, will be consumed as fuel for the heating of water in our Mangala waterflood project and, to that extent, cannot technically be classified under SPE/WPC definitions as proved plus probable reserves.
- (6) Comprises GS V, N-E, Kameshwari, Shakti, N-I, N-P, Bhagyam South, N-I North, NC-West, Vijaya and Vandana, Mangala (Barmer Hill), Aishwariya (Barmer Hill) and Guda.
- (7) Comprises Lakshmi Gas, Lakshmi Oil, Gauri Gas, Gauri Oil, Ambe Gas and CB-X fields.

DeGolyer and MacNaughton's Independent Estimates of Hydrocarbons Initially in Place, Reserves and Contingent Resources

We engaged DeGolyer and MacNaughton, independent petroleum engineering consultants, to prepare estimates of the proved, probable, and possible oil, condensate, and sales gas reserves and the contingent resources contained within our areas. The estimation of oil and gas reserves and resources is subject to uncertainty and different, reasonable estimates may be produced by different engineers analysing the same geological, technical and commercial data. As a result, there are differences between our estimates and DeGolyer and MacNaughton's estimates.

Set forth in the table on the next page is a summary of DeGolyer and MacNaughton's estimates of gross hydrocarbons initially in place, gross and net working interest reserves and gross contingent resources from fields within the Rajasthan Block, the Ravva fields (except for hydrocarbons in place where DeGolyer and MacNaughton did not provide any report) and fields within Block CB/OS-2 as on December 31, 2006.

D&M Estimate – Hydrocarbon Reserves and Resources (December 31, 2006)

	Gross(2P) HIIP	Gross Proved	NWI Proved	Gross Proved & Probable	NWI Proved & Probable	Gross 2P Contingent
Rajasthan Block	mmboe	mmboe	mmboe	mmboe	mmboe	mmboe
Mangala	1206	146	102	334	233	121
Bhagyam	557	71	50	156	109	56
Aishwariya	281	23	16	60	42	20
Total MBA	2045	240	168	550	385	196
Raj. Block Small Fields	146	4	3	9	7	33
Raj. Block Other Fields	1204	5	4	9	7	42
Rajasthan Block Total	3395	249	174	569	398	271
Ravva Fields ⁽¹⁾	–	88	20	102	23	23
CB/OS-2 Fields	138	16	6	26	11	7
KG-DWN-98/2	220	0	0	0	0	102
Total	3753	354	201	697	432	403

The totals in the above table have been rounded to the nearest whole number.

- (1) The total includes no hydrocarbons in place estimate for Ravva where DeGolyer and MacNaughton did not provide any report.



3.6bn boe of hydrocarbons in place in Rajasthan block.

A summary of the most significant differences between our estimates and DeGolyer and MacNaughton's estimates follows.

Mangala Proved Reserves. We estimate 220 mmbob while DeGolyer and MacNaughton estimate 146 mmbob. The reason for this difference is that the DeGolyer and MacNaughton estimate does not include reserves associated with our intended water injection programme due to the absence of a successful pilot project or analogous waterflood operations in the same hydrocarbon province. DeGolyer and MacNaughton did include recovery factors for waterflood operations in its estimate of Mangala's probable reserves.

Bhagyam and Aishwariya Proved Reserves. We have not estimated any proved reserves attributable to the Bhagyam and Aishwariya fields due to our determination that these fields are not sufficiently mature from a project perspective while DeGolyer and MacNaughton have estimated 71 mmbob and 23 mmbob respectively. DeGolyer and MacNaughton's estimation of proved reserves in the Aishwariya and Bhagyam fields consider the Declaration of Commerciality (DoC) documents filed by Cairn India and approved by the DGH on behalf of the GoI on November 14, 2006 as well as the proximity of the fields to the Mangala field infrastructure.

Mangala Proved Plus Probable Reserves/Resources. We estimate 428 mmbob in proved plus probable reserves/resources for the Mangala field while DeGolyer and MacNaughton only estimate 334 mmbob reserves. This difference is attributable to our assumption that the Rajasthan Block PSC will be extended until our estimate of the end of the economic life of the field in 2041 and so we have included within our estimate all reserves/resources that we forecast to produce by 2041 and that we believe are otherwise capable of being classified as proved and probable. DeGolyer and MacNaughton, however, have only included within proved and probable reserves those volumes that they forecast can be produced by 2025 assuming a five year extension to the Rajasthan Block PSC. The Rajasthan Block PSC, by its terms, does not have a single defined extension period but provides that the parties may negotiate to seek mutual agreement on an initial five year extension and possibly further extensions to the contract so long as production remains economically viable.

These materials contain forward-looking statements regarding Cairn India, our corporate plans, future financial condition, future results of operations, future business plans and strategies. All such forward-looking statements are based on our management's assumptions and beliefs in the light of information available to them at this time. These forward-looking statements are, by their nature, subject to significant risks and uncertainties and actual results, performance and achievements may be materially different from those expressed in such statements. Factors that may cause actual results, performance or achievements to differ from expectations include, but are not limited to, regulatory changes, future levels of industry product supply, demand and pricing, weather and weather related impacts, wars and acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions. Cairn India undertakes no obligation to revise any such forward-looking statements to reflect any changes in Cairn India's expectations with regard thereto or any change in circumstances or events after the date hereof. Unless otherwise stated the reserves and resource numbers within this report represent the views of Cairn India and do not represent the views of any other party, including the Government of India, The Directorate General of Hydrocarbons or any of Cairn India's joint venture partners.