Auditors' Report on Financial Statements
Period Ended December 31, 2006

To The Members of Cairn India Limited

1. We have audited the attached balance sheet of Cairn India Limited as at December 31, 2006 and also the profit and loss account and cash flow statement for period from August 21, 2006 to December 31, 2006 annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Without qualifying our opinion, attention is drawn to note 4(a)(ii) under schedule 13 relating to the Company having filed an application for the Central Government's approval relating to the appointment of its Managing Director, to whom Rs.861,370 are payable as remuneration, such approval being pending currently.

5. Further to our comments in the Annexure referred to above, we report that:

   i We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   ii In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   iii The balance sheet and profit and loss account dealt with by this report are in agreement with the books of account;

   iv In our opinion, the balance sheet and profit and loss account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   v On the basis of the written representations received from the directors, as on December 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

   vi In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

      a) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2006; and

      b) in the case of the profit and loss account, of the loss for the period from August 21, 2006 to December 31, 2006.

      c) in the case of cash flow statement, of the cash flows for the period from August 21, 2006 to December 31, 2006.

For S. R. Batliboi & Associates
Chartered Accountants

per Raman Sobti
Partner
Membership No. 89218

Place: Gurgaon
Date: March 12, 2007

Auditors' Report on Financial Statements – Continued

Annexure referred to in paragraph 3 of our report of even date

Re: Cairn India Limited

(i) The Company does not have fixed assets as at period end.

(ii) The Company does not have inventory as at period end.

(iii) (a) As informed to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

(b) As informed to us, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business. The Company has not purchased any fixed assets or inventory and has not sold any goods or services during the period. During the course of our audit, no major weakness has been noticed in the internal control system.

(v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars that need to be entered into the register maintained under section 301 have been so entered.

(b) There is no transaction made in pursuance of any contract or arrangement in respect of any one such party in the financial period.

(vi) The Company has not accepted any deposits from the public.

(vii) The provisions relating to internal audit are not applicable to the Company.

(viii) To the best of our knowledge and as explained, the Company has currently no product for which the Central Government has prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956.

(ix) (a) Undisputed statutory dues including income-tax have generally been regularly deposited with the appropriate authorities. Statutory dues like provident fund, employees' state insurance, sales-tax, service tax, wealth-tax, custom duty, excise duty, investor education and protection fund, cess, etc. are not applicable to the Company during the period.

(b) The Company was registered for a period of less than six months and hence we are not required to comment on whether undisputed amounts payable in respect of statutory dues were outstanding or not at the period end, for a period of more than six months from the date they became payable.

(c) According to the information and explanations given to us, there are no dues of income-tax which have not been deposited on account of any dispute. Statutory dues like provident fund, employees' state insurance, sales-tax, service tax, wealth-tax, custom duty, excise duty, investor education and protection fund, cess, etc. are not applicable to the Company during the period.

(x) The Company has been registered for a period of less than five years and hence we are not required to comment on whether or not the accumulated losses at the end of the financial period is fifty percent or more of its net worth and whether it has incurred cash losses in such financial period.

(xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to any bank. The Company has no outstanding dues in respect of financial institution or debenture holders.

(xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

Auditors' Report on Financial Statements – Continued

(xvi) The Company did not have any term loans outstanding during the period.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

(xix) The Company did not have any outstanding debentures during the period.

(xx) The money raised by public issue of the Company has not been utilised for any purpose at the period end and we have been informed that the same will be utilised for the objects of the public issue in future period.

(xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S. R. Batliboi & Associates
Chartered Accountants

per Raman Sobti
Partner
Membership No. 89218

Place: Gurgaon
Date: March 12, 2007

Balance Sheet
As At December 31, 2006

(All amounts are in Indian Rupees, unless otherwise stated)

	Schedules		As at December 31, 2006
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1		17,653,143,790
Stock options outstanding	2		345,058,813
Reserves and surplus	3		275,017,836,642
			293,016,039,245
Loan funds			
Unsecured loans	4		204,707,562
			293,220,746,807
APPLICATION OF FUNDS			
Investments	5		266,818,710,140
Current assets, loans and advances			
Cash and bank balances	6	59,374,405,622	
Loans and advances	7	44,128,081	
Other current assets	8	11,652,317	
		59,430,186,020	
Less: Current liabilities	9	33,320,390,338	
		33,320,390,338	
Net current assets			26,109,795,682
Debit balance in profit and loss account			292,240,985
			293,220,746,807
Notes to accounts	13		

The schedules referred to above and the notes to accounts form an integral part of the balance sheet.

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Raman Sobti
Partner
Membership No. 89218

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Indrajit Banerjee
Executive Director and
Chief Financial Officer

Marshall Mendonza
Company Secretary

Place: Gurgaon
Date: March 12, 2007

Accounts

Profit and Loss Account

For The Period From August 21, 2006 To December 31, 2006

(All amounts are in Indian Rupees, unless otherwise stated)	Schedules	Period from August 21, 2006 to December 31, 2006
INCOME		
Interest on bank deposits		59,064,909
		59,064,909
EXPENDITURE		
Payroll, operating and other expenses	10	349,591,493
Finance costs	11	1,714,401
		351,305,894
Loss for the period		**292,240,985**
Loss carried forward to balance sheet		**292,240,985**
Loss per share	12	
Basic		0.94
Diluted (considered anti-dilutive)		0.94
[Nominal value of shares Rs.10]		
Notes to accounts	13	

The schedules referred to above and the notes to accounts form an integral part of the profit and loss account.

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Raman Sobti	**Rahul Dhir**	**Aman Mehta**	**Indrajit Banerjee**	**Marshall Mendonza**
Partner	Managing Director and	Director	Executive Director and	Company Secretary
Membership No. 89218	Chief Executive Officer		Chief Financial Officer	

Place: Gurgaon
Date: March 12, 2007

Statement of Cash Flows

For The Period From August 21, 2006 To December 31, 2006

(All amounts are in Indian Rupees, unless otherwise stated) (Brackets indicate cash outflow or deduction)	Period from August 21, 2006 to December 31, 2006
Cash flow from operating activities	
Loss for the period	(292,240,985)
Adjustments for:	
– Employee compensation expense (stock options)	345,058,813
– Preliminary and share issue expenses adjusted against securities premium	(722,687,148)
Operating loss before working capital changes	(669,869,320)
Movements in working capital:	
Increase in current liabilities (net of Rs.32,763,069,551 being purchase consideration payable for investment in subsidiary, also refer note 9(b) under schedule 13)	557,320,787
Increase in loans and advances and other current assets	(55,780,398)
Cash used in operations	(168,328,931)
Net cash used in operating activities (A)	**(168,328,931)**
Cash flow from investing activities	
Long-term, unquoted investments made during the period (net of share swap transaction of Rs.137,882,382,880 also refer note 9(a) under schedule 13)	(96,173,257,709)
Net cash used in investing activities (B)	**(96,173,257,709)**
Cash flow from financing activities	
Issue of equity shares for cash (including securities premium but net of share swap transaction of Rs.137,882,382,880 also refer note 9(a) under schedule 13)	155,511,284,700
Unsecured loans – overdraft from bank	204,707,562
Net cash from financing activities (C)	**155,715,992,262**
Net increase in cash and cash equivalents (A+B+C)	**59,374,405,622**
Cash and cash equivalents at the beginning of the period	–
Cash and cash equivalents at the end of the period	59,374,405,622

Components of cash and cash equivalents as at	December 31, 2006
Balances with scheduled banks	
– on current accounts	52,833,331,612
– on deposit accounts	6,541,074,010
	59,374,405,622

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Raman Sobti
Partner
Membership No. 89218

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Indrajit Banerjee
Executive Director and
Chief Financial Officer

Marshall Mendonza
Company Secretary

Place: Gurgaon
Date: March 12, 2007

Schedules to the Financial Statements

(All amounts are in Indian Rupees, unless otherwise stated)	As at December 31, 2006

SCHEDULE – 1
Share capital

Authorised	
2,250,000,000 equity shares of Rs.10 each	22,500,000,000
Issued, subscribed and fully paid up:	
1,765,314,379 Equity Shares of Rs.10 each* (refer note 9(a) under schedule 13)	17,653,143,790
	17,653,143,790

* Out of the above:
– 1,226,843,791 equity shares of Rs.10 each are held by Cairn UK Holdings Limited, the Holding Company together with its nominees.
– 861,764,893 equity shares of Rs.10 each are allotted as fully paid up pursuant to contracts for consideration other than cash.

SCHEDULE – 2
Stock options outstanding

Employee stock options outstanding (refer note 11 under schedule 13)	1,091,273,035
Less: Deferred Employee compensation outstanding	(746,214,222)
	345,058,813

SCHEDULE – 3
Reserves and surplus

Securities premium account *	275,017,836,642
	275,017,836,642

* net of Rs.722,687,148 adjusted against preliminary and share issue expenses (refer note 6 under schedule 13)

SCHEDULE – 4
Unsecured loans

Short-term loan – overdraft from bank	204,707,562
	204,707,562

SCHEDULE – 5
Investments

Long-term investments (at cost) – unquoted and non-trade 251,224,744 ordinary shares of £1 each, in Cairn India Holdings Limited, subsidiary company (refer note 9(b) under schedule 13)	266,818,710,140
	266,818,710,140

Schedules to the Financial Statements – Continued

(All amounts are in Indian Rupees, unless otherwise stated)

	As at December 31, 2006

SCHEDULE – 6
Cash and bank balances

Balances with scheduled banks	
– on current accounts *	52,833,331,612
– on deposit accounts	6,541,074,010
	59,374,405,622

* Out of these amounts, Rs.52,607,948,000 represent the unutilised monies out of the public issue (also refer note 10 (c) under schedule 13)

SCHEDULE – 7
Loans and advances

Unsecured considered good:	
Advances recoverable in cash or in kind or for value to be received	3,488,695
Deposits (refer note 8 under schedule 13)	30,000,000
Advance income tax	10,639,386
	44,128,081

SCHEDULE – 8
Other current assets

Interest accrued on bank deposits	11,652,317
	11,652,317

SCHEDULE – 9
Current liabilities

Amounts payable to:	
– Cairn UK Holdings Limited, the Holding Company *	32,763,069,551
– Cairn Energy PLC, the ultimate Holding Company	25,000,200
Sundry creditors	530,341,208
Other liabilities	1,979,379
	33,320,390,338

* payable towards acquisition of shares in Cairn India Holdings Limited (also refer note 9(b) under schedule 13). There is no amount due to small scale industrial undertakings which is included in sundry creditors.

Accounts

Schedules to the Financial Statements – Continued

(All amounts are in Indian Rupees, unless otherwise stated)		Period from August 21, 2006 to December 31, 2006
SCHEDULE – 10		
Payroll, operating and other expenses		
Salary and other benefits		902,782
Employee compensation expense (stock options)		345,058,813
Auditors' remuneration		
– Audit fees	785,680	
– Other services	2,301,654	
– Out of pocket expenses	6,000	3,093,334
Directors' sitting fees		500,000
Miscellaneous expenses		36,564
		349,591,493

SCHEDULE – 11
Finance costs

Interest on bank overdraft	1,355,676
Other interest	358,725
	1,714,401

SCHEDULE – 12
Loss per share

Loss as per profit and loss account	292,240,985
Weighted average number of equity shares in calculating basic loss per share	312,260,009
Add: Number of equity shares arising on grant of stock options for no consideration	6,550,797
Weighted average number of equity shares in calculating diluted loss per share	318,810,806
Loss per share	
Basic	0.94
Diluted (considered anti-dilutive)	0.94

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS

1. Nature of Operations

Cairn India Limited ('the Company' or 'Cairn') has been incorporated on August 21, 2006 and is a subsidiary of Cairn UK Holdings Limited.

The Company has been incorporated primarily to engage in the business of surveying, prospecting, drilling and exploring for, acquiring, developing, producing, maintaining, refining, storing, trading, supplying, transporting, marketing, distributing, importing, exporting and generally dealing in minerals, oils, petroleum, gas and related by-products and other activities incidental to the above. As part of its business activities, the Company also holds interests in its subsidiary companies which have been granted rights to explore and develop oil exploration blocks in India. The subsidiary companies are participants (together with other venturers) in Blocks/Oil & gas field permits granted by the Government of India ('GoI'). In terms of the Production Sharing Contract ('PSC') entered into between the GoI and the subsidiary companies together with other venture partners, in respect of each of these blocks, there are joint operating arrangements amongst the venturers (Unincorporated Joint Ventures ('UJVs')).

2. Statement of Significant Accounting Policies

(based on the proposed plans of the Company and as adopted by the Board of Directors)

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act, 1956 under the historical cost convention and on an accrual basis.

(b) Oil and gas assets

The Company follows a successful efforts method for accounting for oil and gas assets as set out by the Guidance Note issued by the ICAI on 'Accounting for Oil and Gas Producing Activities'.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Costs are held, undepleted, within exploratory & development wells in progress until the exploration phase relating to the licence area is complete or commercial oil and gas reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets which cannot be directly related to individual exploration wells is expensed in the period in which it is incurred.

Exploration/appraisal drilling costs are initially capitalised within exploratory & development wells in progress on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that oil and gas reserves exist and there is a reasonable prospect that these reserves are commercial.

Where results of exploration drilling indicate the presence of oil and gas reserves which are ultimately not considered commercially viable, all related costs are written off to the profit and loss account. Following appraisal of successful exploration wells, when a well is ready for commencement of commercial production, the related exploratory and development wells in progress are transferred into a single field cost centre within producing properties, after testing for impairment.

Where costs are incurred after technical feasibility and commercial viability of producing oil and gas is demonstrated and it has been determined that the wells are ready for commencement of commercial production, they are capitalised within producing properties for each cost centre. Subsequent expenditure is capitalised when it enhances the economic benefits of the producing properties or replaces part of the existing producing properties. Any costs remaining associated with such part replaced are expensed in the financial statements.

Net proceeds from any disposal of an exploration asset within exploratory & development wells in progress are initially credited against the previously capitalised costs and any surplus proceeds are credited to the profit and loss account. Net proceeds from any disposal of producing properties are credited against the previously capitalised cost and any gain or loss on disposal of producing properties is recognised in the profit and loss account, to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

(c) Depletion

The Company depletes expenditure on producing properties within each cost centre.

Depletion is charged on a unit of production basis, based on proved reserves for acquisition costs and proved and developed reserves for other costs.

(d) Decommissioning

At the end of the producing life of a field, costs are incurred in removing and decommissioning production facilities. The Company recognises the full cost of decommissioning as an asset and liability when the obligation to rectify environmental damage arises. The decommissioning asset is included within producing properties of the related asset. The amortization of the asset, calculated on a unit of production basis based on proved and developed reserves, is included in the 'depletion, decommissioning and amortization' charge in the profit and loss account.

(e) Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors.

(i) An impairment loss is recognised where the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

(ii) After impairment, depreciation/depletion is provided in subsequent periods on the revised carrying amount of the asset over its remaining useful life.

(iii) Where there has been a charge for impairment in an earlier period, that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

(f) Other Tangible Fixed Assets, depreciation and amortization

Tangible assets, other than oil and gas assets, are stated at cost, less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which take a substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready to be put to use.

Depreciation is provided using the Straight Line Method as per the useful lives of the assets estimated by the management, or at the rates prescribed under Schedule XIV of the Companies Act 1956, whichever is higher. The expected useful economic lives are as follows:

Vehicles	2 to 4 years
Freehold buildings	10 years
Computers	2 to 4 years
Furniture and fixtures	2 to 4 years
Office equipment	2 to 4 years
Plant and Equipment	2 to 4 years

Leasehold improvements are amortized over the remaining period of the primary lease or useful life, whichever is shorter.

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

(g) Intangible fixed assets and amortization

Intangible assets, other than oil and gas assets, have finite useful lives and are measured at cost and amortized over their expected useful economic lives as follows:

Computer software	2 to 4 years

Goodwill arising on acquisition is capitalised and is subject to annual review for impairment.

(h) Leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss account on a straight-line basis over the lease term.

(i) Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. Current investments are measured at cost or market value, whichever is lower. All other investments are classified as long-term investments. Long-term investments are measured at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

(j) Inventory

Inventories of oil and condensate held at the balance sheet date are valued at net realisable value based on the estimated selling price. Inventory of stores and spares are stated at cost.

(k) Joint Ventures

The Company participates in several Joint Ventures which involve the joint control of assets used in the oil and gas exploration, development and producing activities. It accounts for its share of the assets and liabilities of Joint Ventures in which it holds a participating interest.

Joint venture cash and cash equivalent balances are not freely available for use by the Company and are, therefore, disclosed within Loans and Advances.

(l) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue from operating activities

Revenue represents the Company's share of oil, gas and condensate production, recognised on a direct entitlement basis and tariff income received for third-party use of operating facilities and pipelines in accordance with agreements.

Other income

Interest income is recognised on a time proportion basis and is recognised within 'Other income' in the Profit and Loss account.

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

(m) Borrowing costs

Borrowing costs include interest and commitment charges on borrowings, amortization of costs incurred in connection with the arrangement of borrowings and finance charges under leases. Costs incurred on borrowings directly attributable to development projects are capitalised within the development/ producing asset for each cost-centre.

All other borrowing costs are recognised in the Profit and Loss account in the period in which they are incurred.

(n) Foreign currency transactions and translations

The Company translates foreign currency transactions into Indian Rupees at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Indian Rupees at the rate of exchange prevailing at the Balance Sheet date. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on reporting the Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations. Exchange differences arising in respect of fixed assets acquired from outside India are capitalised as a part of fixed asset.

All transactions of integral foreign operations are translated as if the transactions of those foreign operations were the transactions of the Company itself. In translating the financial statements of a non-integral foreign operation for incorporating in financial statements, the Company translates the assets and liabilities at the rate of exchange prevailing at the balance sheet date. Income and expenses of non-integral subsidiaries are translated using rates at the date of transactions. Resulting exchange differences are disclosed under the foreign currency translation reserve until the disposal of the net investment.

On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation are recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification are applied from the date of the change in the classification.

(o) Income taxes

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax are measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax assets and liabilities are measured, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the Company does not have a legal right to do so. Current and deferred tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits. At each Balance Sheet date the Company re-assesses unrecognised deferred tax assets. It recognises unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.

(p) Earnings Per Share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares, if any.

(q) Provisions

A provision is recognised when the Company has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

(r) Cash and Cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in-hand and short-term investments.

(s) Employee Benefits

Retirement and Gratuity benefits

Retirement benefits in the form of Provident Fund, Superannuation/Pension Schemes, if any, are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due.

In case of a gratuity plan for the benefit of employees, which is established based on certain eligibility criteria, the liability under the plan is provided based on actuarial valuation. The scheme is maintained and administered by an insurer to which the trustees make periodic contributions. In case there is no Gratuity plan for the benefit of employees, the Company accrues the gratuity liability on actuarial valuation done at the period-end, where considered material.

Provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial period, where considered material.

Employee Stock Compensation Cost

The cost of awards to employees under the Company's ultimate parent entity's Long-Term Incentive Plans ('the LTIP') and share option plans are recognised over the three years period to which the performance relates. The amount recognised is based on the fair value of the shares as measured at the date of the award. The awards under the LTIP are valued at the market price at grant date while the shares issued under share options are valued using options pricing model.

The costs of awards to employees in the form of cash but based on share performance (phantom options) are recognised over the period to which the performance relates. The amount recognised is based on the fair value of the liability arising from the transaction.

Measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the fair value method. Compensation expense is amortized over the vesting period of the option on a straight line basis.

2. Segmental Reporting

Business segments

The primary reporting of the Company has been prepared on the basis of business segments. The Company has only one business segment, which is the exploration, development and production of oil and gas and operates in a single business segment based on the nature of the products, the risks and returns, the organisation structure and the internal financial reporting systems. Accordingly, the figures appearing in these financial statements relate to the Company's single business segment.

Geographical segments

Secondary segmental reporting is prepared on the basis of the geographical location of customers. The operating interests of the Company are confined to India in terms of oil and gas blocks and customers. Accordingly, the figures appearing in these financial statements relate to the Company's single geographical segment being operations in India.

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

3. Related party disclosure

(a) Name of related parties:

Holding company — Cairn UK Holdings Limited, UK

Ultimate holding company — Cairn Energy PLC, UK

Subsidiary companies (effective December 20, 2006)

Cairn India Holdings Limited	Cairn Energy Hydrocarbons Limited
Cairn Energy Australia Pty Ltd	Cairn Energy India Holdings BV
Cairn Energy Group Holdings BV	Cairn Energy Netherlands Holdings BV
Cairn Energy Holdings Limited	Cairn Petroleum India Limited
Cairn Energy Discovery Limited	Cairn Energy Gujarat Block 1 Limited
Cairn Exploration (No. 2) Limited	Cairn Exploration (No. 4) Limited
Cairn Exploration (No. 6) Limited	Cairn Exploration (No. 7) Limited
Cairn Energy India Pty Ltd	Cairn Energy Gujarat BV
Cairn Energy India West BV	Cairn Energy Cambay BV
Cairn Energy India West Holdings BV	Cairn Energy Cambay Holdings BV
Cairn Energy Gujarat Holdings BV	CEH Australia Ltd
CEH Australia Pty Ltd	Cairn Energy Investments Australia Pty Ltd
Cairn Energy Asia Pty Ltd	Wessington Investments Pty Ltd
Sydney Oil Company Pty Ltd	Command Petroleum (PPL 56) Ltd

Fellow subsidiary companies

Capricorn Energy Limited	Holland Sea Search II BV
Holland Sea Search Holding N.V.	Cairn Energy International Holdings BV
Cairn Energy Bangladesh Block 7 BV	Cairn Energy Sangu Field Limited
Cairn Energy Exploration (Bangladesh) Limited	Cairn Energy Bangladesh Limited
Cairn Resources Management Limited	Energy Explorer Limited
Cairn Energy Management Limited	Cairn Oil Limited
Cairn Energy North Sea Limited	Cairn Energy Nepal Holdings Limited
Cairn Energy Assets Limited	Command Petroleum (Gulf) Ltd
Cairn Exploration (No.1) Limited	Cairn Energy Exploration and Production Company Limited
Cairn Energy Search Limited	Cairn Energy Dhangari Limited
Cairn Energy Karnali Limited	Cairn Energy Malangawa Limited
Cairn Energy Lumbini Limited	Cairn Energy Birganj Limited
Capricorn PA Exploration 1 Ltd	Capricorn PA Exploration 2 Ltd
Capricorn NEC Exploration 1 Ltd	Capricorn NEC Exploration 2 Ltd
Capricorn NEC Exploration 3 Ltd	Capricorn NEC Exploration 4 Ltd
Capricorn KG Exploration 1 Ltd	

Key managerial personnel (Effective August 22, 2006)

Non Executive Directors

Sir William B.B. Gammell, Director	Norman Murray, Director
Hamish Grossart, Director	Lawrence Smyth, Director

Executive Directors

Rahul Dhir, Managing Director and Chief Executive Officer	Jann Brown, Director – up to February 28, 2007

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

(b) Transactions during the period:

Nature of transactions	Amount in Rs.
Reimbursement of expenses incurred on behalf of the Company by:	
– Cairn Energy PLC	25,000,200
Investment made during the period	
– Cairn India Holdings Limited	266,818,710,140
Shares issued during the period (share capital and securities premium)	
– Cairn UK Holdings Limited	207,237,873,500
Directors' sitting fees	
– Sir William B.B. Gammell	100,000
– Norman Murray	80,000
– Hamish Grossart	80,000
	260,000
Director's salary	
– Rahul Dhir	861,370

(c) Balances outstanding:

Nature of transactions	Amount in Rs.
Accounts payable (on gross basis)	
– Cairn Energy PLC	25,000,200
– Cairn UK Holdings Ltd	32,763,069,551
Directors' sitting fees	
– Sir William B.B. Gammell	100,000
– Norman Murray	80,000
– Hamish Grossart	80,000
	260,000
Director's salary	
– Rahul Dhir	861,370

4. (a) Supplementary Statutory Information:
Managerial Remuneration

Remuneration paid and payable to Directors	Amount in Rs.
Salary and other benefits	861,370
Sitting fees	500,000

Notes:

(i) The above remuneration does not include provision for gratuity for Managing Director.

(ii) The above remuneration includes Rs.861,370 for the Managing Director, whose appointment is subject to the Central Government approval. The Company has filed an application on December 13, 2006 for such approval, which is currently pending.

(b) Additional information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956 is not applicable to the Company.

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

5. The Company has been advised by its ultimate parent company and a subsidiary company that they would not recharge certain expenses related to the initial public offer of the Company which have been paid/accrued by the parent entity. Accordingly, these expenses do not form a part of these financial statements.

6. The Company, during the current period, has relied on a legal opinion from an expert confirming that the preliminary expenses and share issue expenses can be set-off against the securities premium account as per provisions of Section 78 of the Companies Act, 1956. Accordingly, preliminary/issue expenses amounting to Rs.722,687,148 have been adjusted against securities premium.

7. The Company has accrued for the lead management fee, selling commission and underwriting commission (together referred to as 'commission') of Rs.398.340.000 (excluding service tax) being 1.5% of the gross proceeds of the initial public offering and pre-IPO placement to be retained by the Company. However, no accrual has been made in these financial statements for discretionary bonus as management has not decided to exercise such discretion at this stage.

8. The Company has placed a security deposit of Rs.30,000,000 with the designated Stock Exchange (i.e. the National Stock Exchange) and provided a bank guarantee of Rs.688,427,290 to the designated Stock Exchange, being, in aggregate, 1% of the amount of securities offered for subscription to the public. The said security deposit together with bank guarantee is required as per clause 42 of the listing agreement, signed by the Company after the period end with the stock exchanges for ensuring compliance, within the prescribed or stipulated period, with all prevailing requirements of law and the listing requirements and conditions. The security deposit and the bank guarantee will be released by the designated Stock Exchange after the Company obtains No Objection Certificate from Securities and Exchange Board of India as per prescribed guidelines.

9. During the period, the Company has entered into the following transactions:

(a) Share capital movement in Cairn India Limited

Date	Number of Shares	Description	Issued at Rs. per Share (including securities premium)	Amount (including securities premium) Rs.
August 21, 2006	50,000	Initial share capital	10	500,000
October 12, 2006, November 22, 2006, December 8, 2006	365,028,898	Issued to its holding company, Cairn UK Holdings Limited, a body corporate, at a securities premium of Rs.180 per equity share, being the higher end of the price band at which the equity shares were being marketed in relation to the initial public offering (IPO)	190	69,355,490,620
December 20, 2006	861,764,893	Issued to its holding company, Cairn UK Holdings Limited by way of share swap arrangement for acquiring 135,267,264 ordinary shares of the Company's subsidiary, Cairn India Holdings Limited.	160	137,882,382,880
December 29, 2006	538,470,588	IPO and pre-IPO placement	160	86,155,294,080
Total	**1,765,314,379**			**293,393,667,580**

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

(b) During the period, the Company has acquired 251,224,744 shares in Cairn India Holdings Limited for total purchase consideration of Rs.266,818,710,140 including Rs.32,763,069,551 for which purchase consideration was payable to Cairn UK Holdings Limited at December 31, 2006. The purchase consideration for this investment was finalised in February 2007 after considering the final amount payable on exercise of Green Shoe Option.

The above transactions (except for the initial share capital) are based on the terms and conditions prescribed by the Share Purchase Agreement executed between Cairn Energy PLC, Cairn UK Holdings Limited, Cairn India Holdings Limited and the Company dated October 12, 2006 and in accordance with the approvals in this behalf received from the Foreign Investment Promotion Board, Government of India and from other relevant regulatory authorities in India and as per applicable valuation norms. This strategic investment has been made to acquire the oil and gas assets of CIHL and its subsidiaries.

10. (a) The Company has issued 328,799,675 equity shares pursuant to its Initial Public Offer ('IPO') in December 2006 and allotted these shares on December 29, 2006 after filing prospectus dated December 22, 2006 with the Registrar of Companies. The Company has also allotted 209,670,913 equity shares on December 29, 2006 to certain investors as part of pre-IPO placement in November 2006.

(b) Subsequent to the period end, the Company received approval of listing from National Stock Exchange and Bombay Stock Exchange on January 4, 2007 and January 6, 2007 respectively. The equity shares, allotted to the investors based on its prospectus filed with Registrar of Companies on December 22, 2006, were listed in National Stock Exchange and Bombay Stock Exchange on January 9, 2007.

The management is of the view that allotment of equity shares on December 29, 2006 was completed on that day and subsequent listing was a procedural requirement not affecting the completion of IPO before the period end. Accordingly, the share issue expenses relating to IPO have been accrued in these financial statements.

(c) Details of utilisation of proceeds raised through public issue during the period:

The proceeds out of the Company's IPO, as referred to in note 10 (a) above, amounting to Rs.52,607,948,000 are lying in balances with scheduled banks on current accounts at the period end, being the funds available for following purposes as per the above mentioned prospectus:

i) acquisition of shares in Cairn India Holdings Limited;
ii) to part finance the development of the Rajasthan Block, as well as further development of other producing fields;
iii) to finance the exploration and appraisal activities of the company; and
iv) general corporate purposes as set out in the prospectus.

11. The shareholders of the Company have approved Cairn India Senior Management Plan (CISMP), Cairn India Performance Option Plan (CIPOP) and Cairn India Employee Stock Option Plan (CIESOP) at an extra ordinary general meeting held on November 17, 2006, such plans being adopted by the Board of Directors of the Company on the same day.

(a) Under the CISMP scheme, the Company has granted options, under equity settlement method, to two directors on November 24, 2006 at exercise price of Rs.33.70 per equity share. Based on the fair value of options, an amount of Rs.1,091,273,035 has been considered as total charge, out of which an amount of Rs.345,058,813 pertaining to the period ended December 31, 2006 has been charged to the Profit and Loss Account.

Schedules to the Financial Statements – Continued

SCHEDULE – 13: NOTES TO ACCOUNTS – CONTINUED

The options are subject to performance conditions as under:

Description		
Names of the eligible employees	Rahul Dhir, Managing Director	Lawrence Smyth, Director
Number of options granted	6,714,233	1,584,480
Lock in period	12 months from the date of allotment of equity shares under this scheme.	12 months from the date of allotment of equity shares under this scheme.
Vesting Schedule	• 1/3rd of the options will vest on the day following the date on which the equity shares have been admitted to listing on the Stock Exchanges ('admission date').	• 1/2 of the options will vest on the day following the date on which the equity shares have been admitted to listing on the Stock Exchanges.
	• 1/3rd of the options will vest 18 months after the admission date.	• 1/4th of the options will vest on the date on which all major equipment for the start-up of the Mangala field is delivered to site.
	• 1/3rd of the options will vest on achieving 30 days' consecutive production of over 150,000 boepd from the Rajasthan Block.	• 1/4th of the options will vest on achieving 100,000 boepd from the Mangala Field.

The Share Options have been valued using an Option Pricing Model (Black Scholes Model). The main inputs to the model and the Fair Value of the options, based on an independent valuation, are as under:

Variables	Rahul Dhir			Lawrence Smyth		
Stock Price – fair value of the equity shares on the date of grant (Rs.)	160	160	160	160	160	160
Vesting Date	January 9, 2007	July 9, 2008	April 1, 2010	January 9, 2007	July 9, 2008	December 31, 2009
Vesting %	33 1/3%	33 1/3%	33 1/3%	50%	25%	25%
Volatility	45.99%	41.49%	39.67%	45.99%	41.49%	39.67%
Risk free rate	6.82%	7.22%	7.46%	6.82%	7.22%	7.44%
Time to maturity	0.88	2.37	4.10	0.88	2.37	3.85
Fair Value of the options (Rs.)	128.21	131.55	135.31	128.21	131.55	134.79

(b) Under CIPOP, the Company will grant options equivalent to 88,265,718 equity shares (when aggregated with the number of options to be granted pursuant to the CIESOP) of the face value of Rs.10 each at an exercise price of Rs.10 each to each of the eligible employees of the Company.

(c) Under CIESOP, the Company will grant options equivalent to 88,265,718 equity shares (when aggregated with the number of options to be granted pursuant to the CIPOP) of the face value of Rs.10 each at an exercise price which will be determined by the Remuneration Committee, but not less than the fair market value of the equity shares on the date of grant to each of the eligible employees of the Company.

12. Prior period comparatives

The Company was incorporated on August 21, 2006 and accordingly, statement of profit and loss of the Company has been prepared for the period from August 21, 2006 to December 31, 2006 ('the period') and the balance sheet has been prepared as at December 31, 2006. Accordingly, there are no prior period comparative figures.

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Raman Sobti
Partner
Membership No. 89218

Rahul Dhir
Managing Director and
Chief Executive Officer

Aman Mehta
Director

Indrajit Banerjee
Executive Director and
Chief Financial Officer

Marshall Mendonza
Company Secretary

Place: Gurgaon
Date: March 12, 2007