

auditors' report on financial statements

PERIOD ENDED DECEMBER 31, 2007

To
The Members of Cairn India Limited

1. We have audited the attached balance sheet of Cairn India Limited as at December 31, 2007 and also the profit and loss account and cash flow statement for the year ended December 31, 2007 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. 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, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2007 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, 2007;
 - b) in the case of the profit and loss account, of the loss for the year ended December 31, 2007; and
 - c) in the case of cash flow statement, of the cash flows for the year ended December 31, 2007.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

Per **Raj Agrawal**
Partner
Membership No.: 82028

PLACE : GURGAON
DATE : MARCH 31, 2008

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

Re: Cairn India Limited ('the Company')

- (i) The Company does not have any fixed assets. Therefore, the provisions of clause 4(i) of the Order are not applicable to the Company.
- (ii) Due to the nature of its business, the Company is not required to maintain any inventories and therefore, the provisions of clause 4 (ii) of the Order are not applicable to the Company.
- (iii) (a-d) As informed, 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. Therefore, the provisions of clause 4(iii) (b), (c) and (d) of the Order, are not applicable to the Company.
(e-g) As informed, 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. Therefore, the provisions of clause 4(iii) (f) and (g) of the Order, are not applicable to the Company.
- (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, for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas. Due to the nature of its business, the Company is not required to purchase any inventory or sell any goods. The Company has not purchased any fixed assets during the year.
- (v) (a) According to the information and explanations provided by the management, we are of the opinion that there are no transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4 (v) (b) of the Order are not applicable to the Company.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records in respect of the services provided by the Company. Accordingly the provisions of clause 4 (viii) of the Order are not applicable to the Company.
- (ix) (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including investor education and protection fund, provident fund, income-tax, service tax, and cess and other material statutory dues applicable to it. The provisions relating to employees' state insurance, sales tax, wealth tax, customs duty and excise duty are not applicable to the Company.
(b) According to the information and explanations given to us, no undisputed amounts payable in respect of investor education and protection fund, provident fund, income-tax, service tax, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable. The provisions relating to employees' state insurance, sales tax, wealth tax, customs duty and excise duty are not applicable to the Company.
(c) According to the information and explanations given to us, there are no dues of provident fund, income tax, service tax and cess which have not been deposited on account of any dispute. The provisions relating to sales tax, wealth tax, customs duty and excise duty are not applicable to the Company.
- (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 year is fifty per cent or more of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
- (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 a bank. The Company has no outstanding dues in respect of a financial institution or debenture holder.
- (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 Order 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 Order 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.
- (xvi) The Company did not have any term loans outstanding during the year.

auditors' report on financial statements - continued

- (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 year.
- (xx) We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.
- (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 Raj Agrawal

Partner

Membership No.: 82028

PLACE : GURGAON

DATE : MARCH 31, 2008

balance sheet

AS AT DECEMBER 31, 2007

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

	Schedules	As at December 31, 2007	As at December 31, 2006
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	17,783,994,200	17,653,143,790
Stock options outstanding	2	947,083,827	345,058,813
Reserves and surplus	3	276,084,115,059	275,017,836,642
		294,815,193,086	293,016,039,245
Loan funds			
Unsecured loans	4	-	204,707,562
		294,815,193,086	293,220,746,807
APPLICATION OF FUNDS			
Investments	6	294,137,285,184	266,818,710,140
Current assets, loans and advances			
Sundry debtors	7	12,708,168	-
Cash and bank balances	8	7,756,694	59,374,405,622
Other current assets	9	-	11,652,317
Loans and advances	10	54,753,419	44,128,081
		75,218,281	59,430,186,020
Less: Current liabilities and provisions			
Current liabilities	11	138,409,933	33,320,390,338
Provisions	12	339,307,153	-
		477,717,086	33,320,390,338
Net current assets		(402,498,805)	26,109,795,682
Debit balance in profit and loss account		1,080,406,707	292,240,985
		294,815,193,086	293,220,746,807
Notes to accounts	18		

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 Raj Agrawal
Partner
Membership No. 82028

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 31, 2008

profit and loss account

FOR THE YEAR ENDED DECEMBER 31, 2007

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

	Schedules	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
INCOME			
Revenue from operating activities		12,708,168	-
Other income	13	326,914,877	59,064,909
		339,623,045	59,064,909
EXPENDITURE			
Staff costs	14	623,373,725	345,961,595
Operating and other expenses	15	174,838,131	3,629,898
Unsuccessful exploration costs	5	8,879,197	-
Finance costs	16	208,799	1,714,401
		807,299,852	351,305,894
Loss before taxation		467,676,807	292,240,985
Fringe Benefit Tax		320,488,914	-
Loss for the year/period		788,165,721	292,240,985
Add: Accumulated losses at the beginning of the year/period		292,240,986	-
Deficit carried forward to balance sheet		1,080,406,707	292,240,985
Loss per share	17		
Basic		0.44	0.94
Diluted (considered anti-dilutive)		0.44	0.94
[Nominal value of shares Rs. 10]			
Notes to accounts	18		

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 Raj Agrawal
Partner
Membership No. 82028

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 31, 2008

statement of cash flows

FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts are in Indian Rupees, unless otherwise stated) (Brackets indicate cash outflow or deduction)

Particulars	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
Cash flow from operating activities		
Loss for the period	(467,676,807)	(292,240,985)
Adjustments for:		
- Employee compensation expense (stock options)	602,025,014	345,058,813
- Interest income	(96,166,487)	(59,064,909)
- Dividend from unquoted current investments	(203,116,558)	-
- Profit on sale of unquoted current investments	(27,631,832)	-
- Interest expense	208,799	9,101
Operating profit/(loss) before working capital changes	(192,357,871)	(6,237,980)
Movements in working capital:		
Decrease/(Increase) in sundry debtors	(12,708,168)	-
Decrease/(Increase) loans and advances	(16,395,098)	(3,488,695)
Increase/(Decrease) in current liabilities and provisions	125,944,305	6,541,667
Cash from/(used in) operations	(95,516,832)	(3,185,008)
Direct taxes paid	(24,488,240)	(10,639,386)
Net cash from/(used in) operating activities (A)	(120,005,072)	(13,824,394)
Cash flow from investing activities		
Long term, unquoted investments made during the period (net of share swap transaction of Rs. Nil, previous period Rs. 137,882,382,880, also refer note 7 under schedule 18)	(55,028,069,551)	(96,173,257,709)
Current, unquoted investments made during the period	(13,297,748,390)	-
Interest received	107,818,804	47,412,592
Dividend from unquoted current investments	203,116,558	-
Sale of unquoted current investments	8,271,805,178	-
Net cash from/(used in) investing activities (B)	(59,743,077,401)	(96,125,845,117)
Cash flow from financing activities		
Issue of equity shares for cash (including securities premium but net of share swap transaction of Rs. Nil, previous period Rs. 137,882,382,880, also refer note 7 under schedule 18)	2,093,606,560	155,511,284,700
Share issue expenses	(1,422,256,654)	(171,908,028)
Unsecured loans taken/(repaid) (net)	(204,707,562)	204,707,562
Security deposit recovered from/(paid) to a stock exchange	30,000,000	(30,000,000)
Interest paid	(208,799)	(9,101)
Net cash from financing activities (C)	496,433,545	155,514,075,134
Net increase in cash and cash equivalents (A+B+C)	(59,366,648,928)	59,374,405,622
Cash and cash equivalents at the beginning of the period	59,374,405,622	-
Cash and cash equivalents at the end of the period	7,756,694	59,374,405,622
Components of cash and cash equivalents as at		
	December 31, 2007	December 31, 2006
Balances with scheduled banks		
- on current accounts	7,756,694	52,833,331,612
- on deposit accounts	-	6,541,074,010
	7,756,694	59,374,405,622

Notes:

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard-3 on Cash flow statements.
- Brackets indicate a cash outflow or deduction

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Raj Agrawal
Partner
Membership No. 82028

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 31, 2008

schedules to the financial statements

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

	As at December 31, 2007	As at December 31, 2006
Schedule - 1		
Share capital		
Authorised:		
2,250,000,000 (previous period : 2,250,000,000) equity shares of Rs. 10 each	22,500,000,000	22,500,000,000
Issued, subscribed and fully paid up:		
1,778,399,420 (previous period 1,765,314,379) equity shares of Rs.10 each *	17,783,994,200	17,653,143,790
	17,783,994,200	17,653,143,790
* Out of the above, 1,239,928,832 equity shares (previous period - 1,226,843,791 equity shares) of Rs. 10 each are held by Cairn UK Holdings Limited, the Holding Company together with its nominees including 861,764,893 equity shares (previous period - 861,764,893 equity shares) of Rs.10 each, which are allotted as fully paid up pursuant to contracts for consideration other than cash.		
Schedule - 2		
Stock options outstanding		
Employee stock options outstanding	2,496,094,791	1,091,273,035
Less: Deferred employee compensation outstanding	1,549,010,964	746,214,222
	947,083,827	345,058,813
Schedule - 3		
Reserves and surplus		
Securities premium account		
Opening balance	275,017,836,642	-
Add: Additions during the year/period	1,962,756,150	275,740,523,790
Less: Adjustment against share issue expenses	896,477,733	722,687,148
Closing Balance	276,084,115,059	275,017,836,642
Schedule - 4		
Unsecured loans		
Short term loan - overdraft from bank	-	204,707,562
	-	204,707,562
Schedule - 5		
Exploratory wells in progress		
Additions during the year	8,879,197	-
Less: Unsuccessful exploration costs for the year	8,879,197	-
	-	-
Schedule - 6		
Investments		
Long term investments in Subsidiary Companies (at cost)		
Unquoted and fully paid-up		
272,389,192 equity shares (previous period: 251,224,744 equity shares) of GBP 1 each in Cairn India Holdings Limited, U.K.	289,083,710,140	266,818,710,140
Current Investments (at lower of cost and market value)		
Unquoted and non trade		
Mutual Funds (Refer note 10 under Schedule 18 for details) *	5,053,575,044	-
	294,137,285,184	266,818,710,140
Aggregate amount of unquoted investments	294,137,285,184	266,818,710,140
Repurchase price of mutual fund units, represented by Net Asset Value	5,114,005,617	-
* Includes unutilized monies of the public issue. (Refer note 7 (c) in schedule 18)		

schedules to the financial statements - continued

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

	As at December 31, 2007	As at December 31, 2006
Schedule - 7		
Sundry Debtors		
Debts outstanding for a period exceeding six months		
- Unsecured, considered good	8,587,051	-
Other debts		
- Unsecured, considered good	4,121,117	-
	12,708,168	-
Schedule - 8		
Cash and bank balances		
Balances with scheduled banks *		
- on current accounts	7,756,694	52,833,331,612
- on deposit accounts	-	6,541,074,010
	7,756,694	59,374,405,622
* Includes unutilized monies of the public issue. (Refer note no.7 (c) in schedule 18)		
Schedule - 9		
Other current assets		
Interest accrued on bank deposits	-	11,652,317
	-	11,652,317
Schedule - 10		
Loans and advances		
Unsecured considered good:		
Advances recoverable in cash or in kind or for value to be received	19,220,341	3,488,695
Advances recoverable from Cairn Energy India Pty Limited, subsidiary company	663,452	-
Deposits	-	30,000,000
Advance income tax/tax deducted at source	34,869,626	10,639,386
	54,753,419	44,128,081
Schedule - 11		
Current liabilities		
Amounts payable to:		
- Cairn Energy PLC, the ultimate holding company	25,000,200	25,000,200
- Cairn UK Holdings Limited, the holding company	-	32,763,069,551
Sundry creditors - other than amounts due to medium, small or micro enterprises	111,964,248	530,341,208
Other liabilities	1,445,485	1,979,379
	138,409,933	33,320,390,338
There is no amount due to medium, small or micro enterprises which is included in sundry creditors.		
Schedule - 12		
Provisions		
Provision for Fringe Benefit Tax (net of advance tax payments, Rs.258,000, previous period - Nil)	339,034,153	-
Provision for gratuity	233,000	-
Provision for leave encashment	40,000	-
	339,307,153	-

schedules to the financial statements - continued

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

	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
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Schedule - 13

Other income

Interest on bank deposits (Gross, tax deducted at source Rs.23,103,927, previous period Rs.10,639,386)	96,166,487	59,064,909
Dividend from unquoted current investments	203,116,558	-
Profit on sale of unquoted current investments	27,631,832	-
	326,914,877	59,064,909

Schedule - 14

Staff costs

Salary, wages, bonus and other benefits	21,157,123	902,782
Gratuity expenses	191,588	-
Employee compensation expense (stock options)	602,025,014	345,058,813
	623,373,725	345,961,595

Schedule - 15

Operating and other expenses

Legal and professional expenses	109,461,763	-
Auditor's remuneration		
- Audit fees for statutory and consolidated financial statements	16,768,292	785,680
- Tax audit fees	563,283	-
- Limited review fees	1,013,590	-
- Other services	10,636,615	2,301,654
- Out of pocket expenses	552,200	29,533,980
Directors' sitting fees	700,000	500,000
Advertisement and publicity	14,320,506	-
Meetings and seminar	14,328,752	-
Repairs and maintenance (others)	140,235	-
Travel expenses	1,307,762	-
Communication expenses	4,777,141	-
Miscellaneous expenses	267,992	36,564
	174,838,131	3,629,898

Schedule - 16

Finance costs

Interest on bank overdraft	200,131	1,355,676
Other interest	-	358,725
Other finance costs	8,668	-
	208,799	1,714,401

Schedule - 17

Loss per share

Loss for the year/period as per profit and loss account	788,165,721	292,240,985
Weighted average number of equity shares in calculating basic loss per share	1,777,001,292	312,260,009
Add: Number of equity shares arising on grant of stock options	11,017,256	6,550,797
Weighted average number of equity shares in calculating diluted loss per share	1,788,018,548	318,810,806
Loss per share		
Basic	0.44	0.94
Diluted (considered anti-dilutive)	0.44	0.94

Schedule 18 - Notes to Accounts

1. Nature of Operations

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

The Company was 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')).

The Company has entered into Production Sharing Contracts (PSCs) and UJVs in respect of certain Blocks / Oil and Gas fields. Details of these PSCs / UJVs are as follows:

Block/Oil & Gas Field	Area	Participating Interest
Non – operated block		
PR-OSN-2004	Palar Basin offshore	25%
KK-DWN-2004	Kerala Konkan Basin offshore	40%

2. Statement of Significant Accounting Policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards notified under the Companies (Accounting Standard) Rules, 2006 and the relevant provisions of the Companies Act, 1956 under the historical cost convention and on an accrual basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period.

(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 Institute of Chartered Accountants of India ('ICAI') on 'Accounting for Oil and Gas Producing Activities'.

Expenditure incurred on the acquisition of a license interest is initially capitalised on a license by license basis. Costs are held, undepleted, within exploratory & development wells in progress until the exploration phase relating to the license 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.

(c) Depletion

The expenditure on producing properties is depleted 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) Site restoration costs

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

(e) Impairment

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

Schedule 18 - Notes to Accounts

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 amortisation

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 equipments	2 to 4 years
Plant and Equipment	2 to 4 years

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

(g) Intangible fixed assets and amortization

Intangible assets, other than oil and gas assets, have finite useful lives and are measured at cost and amortised 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 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, determined on an individual investment basis. 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 realizable value based on the estimated selling price. Inventory of stores and spares related to exploration and development activities are stated at cost, determined on FIFO basis, whereas stores and spares related to production activities are treated as routine expenses and charged to the profit and loss account, as and when purchased.

(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 along with attributable income and expenses in such Joint Ventures, in which it holds a participating interest. Joint venture cash and cash equivalent balances are considered by the Company to be the amounts contributed in excess of the Company's obligations to the joint ventures and are, therefore, disclosed within Loans and Advances.

(l) Revenue recognition

Revenue is recognized 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.

The company recognises Operator Fees as revenue from UJV (in which its foreign subsidiaries are partner) based on the provisions of respective PSCs entered into by UJV.

Schedule 18 - Notes to Accounts

Interest income

Interest income is recognised on a time proportion basis.

(m) Borrowing costs

Borrowing costs include interest and commitment charges on borrowings, amortisation of costs incurred in connection with the arrangement of borrowings and finance charges under leases. Costs incurred on borrowings directly attributable to development projects, which take a substantial period of time to complete, 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.

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 subsidiaries or 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 carry forward of unabsorbed depreciation and 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. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that 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).

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 cash flow statement comprise cash at bank and in hand and short-term investments, with an original maturity of 90 days or less.

(s) Employee Benefits

Retirement and Gratuity benefits

Retirement benefits in the form of Provident Fund and Superannuation Scheme are defined contribution schemes and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective authorities.

Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. The scheme is maintained and administered by an insurer to which the trustees make periodic contributions.

Schedule 18 - Notes to Accounts

Short term compensated absences are provided for on based on estimates. Long term compensated absences are provided for based on actuarial valuation made at the end of each financial year. The actuarial valuation is done as per projected unit credit method.

Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

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 of the Company is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. 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.

(t) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(u) Segment Reporting Policies

Identification of segments:

The Company's operating businesses are organized and managed according to the nature of products and services provided to offer similar products and serving similar markets.

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.

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 |

Key managerial personnel

(Effective August 22, 2006)

Non Executive Directors

- | | |
|---|---|
| - Sir William Gammell, Director | - Norman Murray, Director |
| - Hamish Grossart, Director - upto September 20, 2007 | - Malcolm Thoms, Director – from September 20, 2007 |

Schedule 18 - Notes to Accounts

Executive Directors

- Rahul Dhir, Managing Director and Chief Executive Officer
- Lawrence Smyth, Director – Executive Director from March 1, 2007
- Indrajit Banerjee, Executive Director and Chief Financial Officer – from March 1, 2007
- Jann Brown, Director – upto February 28, 2007

b) Transactions during the period:

Nature of transactions	Current year Amount in Rs.	Previous period Amount in Rs.
Reimbursement of expenses incurred on behalf of the Company by:		
- Cairn Energy PLC	-	25,000,200
- Cairn Energy India Pty Limited	857,988	-
Reimbursement of expenses incurred by the Company on behalf of:		
- Cairn Energy India Pty Limited	1,100,000	-
Investment made during the period		
- Cairn India Holdings Limited	22,265,000,000	266,818,710,140
Shares issued during the period (share capital and securities premium)		
- Cairn UK Holdings Limited	2,093,606,560	209,331,980,060
Director's salary		
- Rahul Dhir	2,400,000	861,370
- Lawrence Smyth	1,800,000	-
- Indrajit Banerjee	3,563,120	-

c) Balances outstanding:

Nature of transactions	Current year Amount in Rs.	Previous period Amount in Rs.
Accounts recoverable		
- Cairn Energy India Pty Limited	663,452	-
Accounts payable (on gross basis)		
- Cairn Energy PLC	25,000,200	25,000,200
- Cairn UK Holdings Limited	-	32,763,069,551
- Rahul Dhir	3,261,370	861,370
- Lawrence Smyth	1,800,000	-
- Indrajit Banerjee	1,500,000	-

Note: The salaries to the key managerial personnel does not include gratuity and leave encashment benefits, as they are determined for the Company as a whole.

4. (a) Supplementary Statutory Information:

Managerial Remuneration

Remuneration paid or payable to Directors	Current year Amount in Rs.	Previous period Amount in Rs.
Salary and other benefits	8,123,120	1,641,370
Sitting fees	700,000	560,000

Note: As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, the amount pertaining to the directors is not ascertainable and, therefore, not included above.

- (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 18 - Notes to Accounts

5. The Company, during the previous 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. 1,619,164,881 (previous period 722,687,148) have been adjusted against securities premium.
6. Till December 31, 2007, the Company has entered into the following transactions:
- (a) Share capital movement in Cairn India Limited in current year and previous period-

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 as on December 31, 2006	1,765,314,379			293,393,667,580
February 8, 2007	13,085,041	Issued to its holding company, Cairn UK Holdings Limited under Green Shoe Option	160	2,093,606,560
Total as on December 31, 2007	1,778,399,420			295,487,274,140

- (b) During the year, the Company acquired from Cairn UK Holdings Limited 21,164,448 shares (previous period – 251,224,744 shares) in Cairn India Holdings Limited for total purchase consideration of Rs. 22,265,000,000 (previous year - Rs. 266,818,710,140).
The above transactions (except for the initial share capital) upto December 31, 2006 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.
7. (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) 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.
- (c) Details of utilisation of proceeds raised through the public issue:
- As on December 31, 2007, the Company (alongwith its subsidiaries) has utilised Rs. 71,682,135,044 (previous period Rs. Nil) for the purposes listed in the Prospectus out of the issue proceeds of Rs. 88,248,900,640. Till December 31, 2006, the Company had received amounts aggregating Rs. 52,607,948,000 out of such total funds received, which were lying in the Company's bank accounts. The funds utilised by the Company and its subsidiaries as on December 31, 2007 as against the stated objectives in the Prospectus is tabulated as under:

	Amount in Rs.
i) Acquisition of shares of Cairn India Holdings Limited from Cairn UK Holdings Limited	59,580,836,640
ii) Exploration/Development expenses	10,411,239,436
iii) Issue expenses	90,439,780
iv) General corporate expenses	1,599,619,188

Schedule 18 - Notes to Accounts

The unutilized monies out of the public issue being Rs. 16,566,765,596 is lying in following accounts of the Company and its subsidiaries as at the year end:

	As at December 31, 2007 (in Rs.)	As at December 31, 2006 (in Rs.)
- Mutual funds*	7,337,855,617	-
- Balances with banks	9,228,909,979	552,607,948,000

*includes unrealized gain of Rs. 60,430,573 on account of appreciation in the net asset value of the units and does not include unrealized exchange loss of Rs. 253,850,000

8. 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.687,903,804 (excluding options expired) has been considered as total charge, out of which an amount of Rs.342,844,991 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

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	
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.

*792,240 options have expired due to resignation of Mr. Lawrence Smyth, which is effective from April 2008.

The following table details the number of share options for the CISMP:

	Current year	Previous period
Outstanding at the beginning of the year	8,298,713	-
Granted during the year	-	8,298,713
Lapsed during the year	(792,240)	-
Exercised during the year	-	-
Outstanding at the end of the year	7,506,473	8,298,713

The Share Options under CISMP 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 (years)	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) (i) Under the CIPOP scheme, the Company has granted options equivalent to 1,708,195 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on January 1, 2007 at an exercise price of Rs.10 each. Based on the fair value of options, an amount of Rs. 231,123,603 (excluding the expired options) has been considered as total charge, out of which an amount of Rs. 77,041,201 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

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Schedule 18 - Notes to Accounts

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	160
Vesting date	January 1, 2010
Vesting %	100%
Volatility	41.61%
Risk free rate	7.33%
Time to maturity (years)	3.12
Fair Value of the options (Rs.)	152.05

- (ii) Under the CIPOP scheme, the Company again granted options equivalent to 3,235,194 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on September 20, 2007 at an exercise price of Rs.10 each. Based on the fair value of options, an amount of Rs.514,298,790 (excluding the expired options) has been considered as total charge, out of which an amount of Rs. 47,620,258 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	166.95
Vesting date	September 20, 2010
Vesting %	100%
Volatility	36.40%
Risk free rate	7.23%
Time to maturity (years)	3.12
Fair Value of the options (Rs.)	158.97

The following table details the number of share options for the CIPOP (2006):

	Current year	Previous period
Outstanding at the beginning of the year	-	-
Granted during the year	4,943,389	-
Lapsed during the year	(188,145)	-
Exercised during the year	-	-
Outstanding at the end of the year	4,755,244	-

- (c) (i) Under the CIESOP scheme, the Company has granted options equivalent to 3,467,702 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on January 1, 2007 at an exercise price of Rs.160 each. Based on the fair value of options, an amount of Rs.264,576,356 (excluding the expired options) has been considered as total charge, out of which an amount of Rs.88,192,119 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIESOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	160
Vesting date	January 1, 2010
Vesting %	100%
Volatility	41.04%
Risk free rate	7.50%
Time to maturity (years)	6.50
Fair Value of the options (Rs.)	87.30

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- (ii) Under the CIESOP scheme, the Company again granted options equivalent to 5,515,053 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on September 20, 2007 at an exercise price of Rs.166.95 each. Based on the fair value of options, an amount of Rs.500,325,608 (excluding the expired options) has been considered as total charge, out of which an amount of Rs.46,326,445 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	166.95
Vesting date	September 20, 2010
Vesting %	100%
Volatility	40.24%
Risk free rate	7.65%
Time to maturity (years)	6.50
Fair Value of the options (Rs.)	90.72

The following table details the number of share options for the CIESOP:

	Current year	Previous period
Outstanding at the beginning of the year	-	-
Granted during the year	8,982,755	-
Lapsed during the year	(437,045)	-
Exercised during the year	-	-
Outstanding at the end of the year	8,545,710	-

9. During the year, the Company has acquired interests in certain oil and gas blocks from its subsidiary companies, disclosed below, by way of assignment of interest. Since, these assignments of interest have been approved by the Management Committee (Government approval) after the year end, no accounting adjustments have been made in these financial statements and the expenses, till the date of approval, pertaining to these blocks have been booked in respective companies.

- 30% interest in block CB-ONN-2002/1 from Cairn Energy Gujarat Block 1 Limited
- 30% interest in block RJ-ONN-2003/1 from Cairn Exploration (No. 2) Limited
- 25% interest in block KG-ONN-2003/1 from Cairn Exploration (No. 4) Limited
- 25% interest in block VN-ONN-2003/1 from Cairn Exploration (No. 6) Limited
- 49% interest in block GS-OSN-2003/1 from Cairn Exploration (No. 7) Limited

10. Current investments - unquoted and non trade:

The details of investments in mutual fund units are as tabulated under:

Sr. No.	Particulars	As at December 31, 2007 (Amount in Rs.)	As at December 31, 2006 (Amount in Rs.)
1	20,594,145.28 units (previous period: nil), face value Rs 10 each, of ABN AMRO Mutual Fund of ABN AMRO Money Plus Fund-Institutional Plan-Growth Option	238,366,935	-
2	51,971,029.11 units (previous period: nil), face value Rs 10 each, of Birla Sun Life Mutual Fund under Birla Sun Life Liquid Plus-Institutional Plan – Growth Option	763,906,605	-
3	225,723.55 units (previous period: nil), face value Rs 1,000 each, of DSP Merrill Lynch Mutual Fund under DSP Merrill Lynch Liquid Plus Fund - Institutional Plan – Growth Option	250,000,000	-
4	28,699,826.62 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund-Short Term Plan - Wholesale Option – Growth	380,692,465	-
5	17,009,296.46 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Cash Management Savings Plus - Wholesale Plan Growth Option	290,000,000	-
6	23,353,354.94 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Quarterly Interval Fund-Plan A Wholesale Growth	250,000,000	-

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Sr. No.	Particulars	As at December 31, 2007	As at December 31, 2006
7	43,733,776.21 units(previous period: nil), face value Rs 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Floating Plan D – Growth	502,627,917	-
8	19,998,847.30 units (previous period: nil), face value Rs 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Flexible Income Plan – Growth	290,047,282	-
9	47,430,680.06 units (previous period: nil), face value Rs 10 each, of ING Mutual Fund under ING Liquid Plus Fund – Institutional Growth Option	500,000,000	-
10	242,823.20 units (previous period: nil), face value Rs 10 each, of Reliance Mutual Fund under Reliance Liquid Plus Fund – Institutional Option – Growth Plan	255,450,472	-
11	23,960,359.98 units (previous period: nil), face value Rs 10 each, of Reliance Mutual Fund under Reliance Quarterly Interval Fund-Series III -Institutional Growth Plan	250,000,000	-
12	20,000,000.00 units (previous period: nil), face value Rs 10 each, of SBI Mutual Fund under SBI Debt Fund Series - 90 Days - November 2007 – Growth	200,000,000	-
13	55,482,327.99 units (previous period: nil), face value Rs 10 each, of Tata Mutual Fund under Tata Floater Fund - Growth	639,783,369	-
14	20,898,812.55 units (previous period: nil), face value Rs 10 each, of Franklin Templeton Mutual Fund under Templeton Floating Rate Income Fund Short Term Plan Institutional Option - Growth	242,700,000	-
	TOTAL	5,053,575,044	-

The following investments were purchased and sold during the year (there was no purchase or sale of investments during previous period):-

1	18,535,141.015 units, par value of Rs. 10 each, of ABN AMRO Mutual Fund under ABN AMRO Cash Fund - Institutional Plus Plan – Daily Dividend Reinvestment Option
2	50,701,760.398 units, par value of Rs. 10 each, of ABN AMRO Mutual Fund under ABN AMRO Money Plus Fund-Institutional Plan- Daily Dividend Option
3	22,604,265.015 units, par value of Rs. 10 each, of ABN AMRO Mutual Fund under ABN AMRO Money Plus Fund-Institutional Plan-Growth Option
4	51,286,477.010 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Cash Plus-Institutional Premium Plan - Daily Dividend
5	51,393,934.559 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Floating Rate Fund-Long Term Plan-Weekly Dividend
6	1,175,375.415 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Cash Plus-Institutional (Growth)
7	62,395,963.596 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Sunlife Liquid Plus Fund – Institutional – Daily Dividend
8	1,055,356.222 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Sunlife Liquid Plus Fund – Institutional – Growth
9	799,966.925 units, par value of Rs. 1000 each, of DSP Merrill Lynch Mutual Fund under DSP Merrill Lynch Liquid Fund – Institutional Plan - Daily Dividend Reinvestment Option
10	810,376.138 units, par value of Rs. 1000 each, DSP Merrill Lynch Mutual Fund under DSP Merrill Lynch Liquid Plus Fund – Institutional Plan - Daily Dividend Reinvestment Option
11	30,429,402.715 units, par value of Rs. 10 each, of Standard Chartered Mutual Fund under Grindlays Floating Rate Fund – Long Term – Institutional Plan B - Daily Dividend Reinvestment Option
12	25,141,266.651 units, par value of Rs. 10 each, of Standard Chartered Mutual Fund under Grindlays Floating Rate Fund – Long Term – Institutional Plan B – Growth
13	74,125,061.345 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Cash Management Fund - Savings Plan – Daily Dividend Reinvestment Option
14	79,686,483.778 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Cash Management Fund - Savings Plus Plan – Wholesale - Daily Dividend Reinvestment Option
15	32,404,919.325 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund - Short Term Plan – Retail Option Dividend Reinvestment – Daily
16	24,820,364.948 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund - Short Term Plan – Retail Option – Growth

Schedule 18 - Notes to Accounts

17	18,698,998.482 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund - Short Term Plan – Wholesale – Growth
18	59,976,612.345 units, par value of Rs. 10 each, of HSBC Mutual Fund under HSBC Cash Fund - Institutional Plus – Daily Dividend Reinvestment Option
19	62,786,020.733 units, par value of Rs. 10 each, of HSBC Mutual Fund under HSBC Liquid Plus Fund – Institutional Plus - Daily Dividend Reinvestment Option
20	57,943,951.333 units, par value of Rs. 10 each, of HSBC Mutual Fund under HSBC Liquid Plus Fund – Institutional Plus – Growth
21	686,242.889 units, par value of Rs. 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Flexible Income Plan - Growth
22	100,777,456.602 units, par value of Rs. 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Floating Rate Plan D – Daily Dividend – Reinvest Dividend
23	131,634,015.968 units, par value of Rs. 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Liquid Plan - Super Institutional Dividend Daily
24	61,166,842.849 units, par value of Rs. 10 each, of ING Mutual Fund under ING Liquid Plus Fund - Institutional Daily Dividend Option
25	58,606,580.178 units, par value of Rs. 10 each, of ING Mutual Fund under ING Liquid Plus Fund - Institutional Growth Option
26	32,523,815.818 units, par value of Rs. 10 each, of Kotak Mahindra Mutual Fund under Kotak Flexi Debt Fund - Daily Dividend
27	40,671,100.686 units, par value of Rs. 10 each, of PRINCIPAL Mutual Fund under Principal Cash Management-Liquid Option-Institutional Premium - Daily Dividend
28	40,602,212.009 units, par value of Rs. 10 each, of PRINCIPAL Mutual Fund under Principal Floating Rate Fund - SMP – Institutional – Growth
29	502,053.962 units, par value of Rs. 1000 each, of Reliance Mutual Fund under Reliance Liquid Plus Fund – Institutional Option – Daily Dividend Plan
30	234,933.967 units, par value of Rs. 1000 each, of Reliance Mutual Fund under Reliance Liquid Plus Fund – Institutional Option – Growth Plan
31	406,648.782 units, par value of Rs. 1000 each, of Standard Chartered Mutual Fund under Standard Chartered Liquidity Manager Plus-A-Dividend Daily
32	60,938,518.404 units, par value of Rs. 10 each, of Sundaram BNP Paribas Mutual Fund under Sundaram BNP Paribas Liquid Plus Super Institutional Daily Dividend
33	58,603,615.153 units, par value of Rs. 10 each, of Sundaram BNP Paribas Mutual Fund under Sundaram BNP Paribas Liquid Plus Super Institutional Growth
34	64,847,479.846 units, par value of Rs. 10 each, of Tata Mutual Fund under Tata Floater Fund Growth
35	594,550.430 units, par value of Rs. 1000 each, of Tata Mutual Fund under Tata Liquid Super High Investment Plan – Daily
36	808,048.384 units, par value of Rs. 1000 each, of Franklin Templeton Mutual Fund under Templeton India Treasury Management Account-Super Institutional Plan - Daily Dividend

11. There is no foreign currency exposure in the Company as on December 31, 2007.

12. Subsequent to the year end, in the meeting of the Board of Directors held on March 17, 2008, the Company has proposed issue of 113,000,000 equity shares of Rs. 10 each at an issue price of Rs. 224.30 per share on preferential basis to two parties, subject to the approval of the shareholders of the Company.

13. In accordance of the provisions of Accounting Standard 22 'Accounting for taxes on income', the Company would have deferred tax assets, primarily comprising of accumulated tax losses and unamortized issue expenses. However, as the management is not virtually certain of subsequent realization of the asset, no deferred tax asset has been computed or recognised in these financial statements.

14. Prior period comparatives

These financial statements of the Company are for the year ended December 31, 2007 and previous reported period was from August 21, 2006 to December 31, 2006 as the Company was incorporated on August 21, 2006. Accordingly, previous period figures are not comparable. Previous period's figures have been regrouped where necessary to confirm to this year's classification.

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Raj Agrawal
Partner
Membership No. 82028

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 31, 2008

balance sheet abstract and company's general business profile

i) Registration Details

Registration No.	U11101MH2006PLC163934
State Code	11
Balance Sheet Date	31/12/07

ii) Capital raised during the year* (Amount in Rs. Thousands)

Public Issue	130,850
Rights Issue	-
Bonus Issue	-
Private Placement	-

* Does not include share premium

iii) Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	294,212,503
Total Assets	294,212,503
Sources of Funds	
Paid up Capital	17,783,994
Reserves & Surplus	277,031,199
Secured Loans	-
Unsecured Loans	-
Application of Funds	
Net Fixed Assets	-
Investments	294,137,285
Net Current Assets	(402,499)
Miscellaneous Expenditure	-
Accumulated losses	1,080,407

iv) Performance of the Company (Amount in Rs. Thousands)

Turnover (Total Income)	339,623
Total Expenditure	807,300
Profit/(Loss) before tax	(467,677)
Profit/(Loss) after tax	(788,166)
Loss per Share in Rs.	0.44
Dividend rate %	-

v) Generic Names of Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)	27090000
Product Description	Crude Oil
Item Code No. (ITC Code)	27112100
Product Description	Natural Gas

For and on behalf of the Board of Directors

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 31, 2008

auditors' report on financial statements

PERIOD ENDED DECEMBER 31, 2007

To The Members of Cairn India Limited

1. We have audited the attached balance sheet of Cairn India Limited as at December 31, 2007 and also the profit and loss account and cash flow statement for the year ended December 31, 2007 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. 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, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2007 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, 2007;
 - b) in the case of the profit and loss account, of the loss for the year ended December 31, 2007; and
 - c) in the case of cash flow statement, of the cash flows for the year ended December 31, 2007.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

Per **Raj Agrawal**
Partner
Membership No.: 82028

PLACE : GURGAON
DATE : MARCH 31, 2008

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

Re: Cairn India Limited ('the Company')

- (i) The Company does not have any fixed assets. Therefore, the provisions of clause 4(i) of the Order are not applicable to the Company.
- (ii) Due to the nature of its business, the Company is not required to maintain any inventories and therefore, the provisions of clause 4 (ii) of the Order are not applicable to the Company.
- (iii) (a-d) As informed, 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. Therefore, the provisions of clause 4(iii) (b), (c) and (d) of the Order, are not applicable to the Company.
(e-g) As informed, 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. Therefore, the provisions of clause 4(iii) (f) and (g) of the Order, are not applicable to the Company.
- (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, for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas. Due to the nature of its business, the Company is not required to purchase any inventory or sell any goods. The Company has not purchased any fixed assets during the year.
- (v) (a) According to the information and explanations provided by the management, we are of the opinion that there are no transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4 (v) (b) of the Order are not applicable to the Company.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records in respect of the services provided by the Company. Accordingly the provisions of clause 4 (viii) of the Order are not applicable to the Company.
- (ix) (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including investor education and protection fund, provident fund, income-tax, service tax, and cess and other material statutory dues applicable to it. The provisions relating to employees' state insurance, sales tax, wealth tax, customs duty and excise duty are not applicable to the Company.
(b) According to the information and explanations given to us, no undisputed amounts payable in respect of investor education and protection fund, provident fund, income-tax, service tax, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable. The provisions relating to employees' state insurance, sales tax, wealth tax, customs duty and excise duty are not applicable to the Company.
(c) According to the information and explanations given to us, there are no dues of provident fund, income tax, service tax and cess which have not been deposited on account of any dispute. The provisions relating to sales tax, wealth tax, customs duty and excise duty are not applicable to the Company.
- (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 year is fifty per cent or more of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
- (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 a bank. The Company has no outstanding dues in respect of a financial institution or debenture holder.
- (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 Order 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 Order 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.
- (xvi) The Company did not have any term loans outstanding during the year.

auditors' report on financial statements - continued

- (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 year.
- (xx) We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.
- (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 Raj Agrawal

Partner

Membership No.: 82028

PLACE : GURGAON

DATE : MARCH 31, 2008

balance sheet

AS AT DECEMBER 31, 2007

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

	Schedules	As at December 31, 2007	As at December 31, 2006
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	17,783,994,200	17,653,143,790
Stock options outstanding	2	947,083,827	345,058,813
Reserves and surplus	3	276,084,115,059	275,017,836,642
		294,815,193,086	293,016,039,245
Loan funds			
Unsecured loans	4	-	204,707,562
		294,815,193,086	293,220,746,807
APPLICATION OF FUNDS			
Investments	6	294,137,285,184	266,818,710,140
Current assets, loans and advances			
Sundry debtors	7	12,708,168	-
Cash and bank balances	8	7,756,694	59,374,405,622
Other current assets	9	-	11,652,317
Loans and advances	10	54,753,419	44,128,081
		75,218,281	59,430,186,020
Less: Current liabilities and provisions			
Current liabilities	11	138,409,933	33,320,390,338
Provisions	12	339,307,153	-
		477,717,086	33,320,390,338
Net current assets		(402,498,805)	26,109,795,682
Debit balance in profit and loss account		1,080,406,707	292,240,985
		294,815,193,086	293,220,746,807
Notes to accounts	18		

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 Raj Agrawal
Partner
Membership No. 82028

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 31, 2008

profit and loss account

FOR THE YEAR ENDED DECEMBER 31, 2007

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

	Schedules	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
INCOME			
Revenue from operating activities		12,708,168	-
Other income	13	326,914,877	59,064,909
		339,623,045	59,064,909
EXPENDITURE			
Staff costs	14	623,373,725	345,961,595
Operating and other expenses	15	174,838,131	3,629,898
Unsuccessful exploration costs	5	8,879,197	-
Finance costs	16	208,799	1,714,401
		807,299,852	351,305,894
Loss before taxation		467,676,807	292,240,985
Fringe Benefit Tax		320,488,914	-
Loss for the year/period		788,165,721	292,240,985
Add: Accumulated losses at the beginning of the year/period		292,240,986	-
Deficit carried forward to balance sheet		1,080,406,707	292,240,985
Loss per share	17		
Basic		0.44	0.94
Diluted (considered anti-dilutive)		0.44	0.94
[Nominal value of shares Rs. 10]			
Notes to accounts	18		

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 Raj Agrawal
Partner
Membership No. 82028

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 31, 2008

statement of cash flows

FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts are in Indian Rupees, unless otherwise stated) (Brackets indicate cash outflow or deduction)

Particulars	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
Cash flow from operating activities		
Loss for the period	(467,676,807)	(292,240,985)
Adjustments for:		
- Employee compensation expense (stock options)	602,025,014	345,058,813
- Interest income	(96,166,487)	(59,064,909)
- Dividend from unquoted current investments	(203,116,558)	-
- Profit on sale of unquoted current investments	(27,631,832)	-
- Interest expense	208,799	9,101
Operating profit/(loss) before working capital changes	(192,357,871)	(6,237,980)
Movements in working capital:		
Decrease/(Increase) in sundry debtors	(12,708,168)	-
Decrease/(Increase) loans and advances	(16,395,098)	(3,488,695)
Increase/(Decrease) in current liabilities and provisions	125,944,305	6,541,667
Cash from/(used in) operations	(95,516,832)	(3,185,008)
Direct taxes paid	(24,488,240)	(10,639,386)
Net cash from/(used in) operating activities (A)	(120,005,072)	(13,824,394)
Cash flow from investing activities		
Long term, unquoted investments made during the period (net of share swap transaction of Rs. Nil, previous period Rs. 137,882,382,880, also refer note 7 under schedule 18)	(55,028,069,551)	(96,173,257,709)
Current, unquoted investments made during the period	(13,297,748,390)	-
Interest received	107,818,804	47,412,592
Dividend from unquoted current investments	203,116,558	-
Sale of unquoted current investments	8,271,805,178	-
Net cash from/(used in) investing activities (B)	(59,743,077,401)	(96,125,845,117)
Cash flow from financing activities		
Issue of equity shares for cash (including securities premium but net of share swap transaction of Rs. Nil, previous period Rs. 137,882,382,880, also refer note 7 under schedule 18)	2,093,606,560	155,511,284,700
Share issue expenses	(1,422,256,654)	(171,908,028)
Unsecured loans taken/(repaid) (net)	(204,707,562)	204,707,562
Security deposit recovered from/(paid) to a stock exchange	30,000,000	(30,000,000)
Interest paid	(208,799)	(9,101)
Net cash from financing activities (C)	496,433,545	155,514,075,134
Net increase in cash and cash equivalents (A+B+C)	(59,366,648,928)	59,374,405,622
Cash and cash equivalents at the beginning of the period	59,374,405,622	-
Cash and cash equivalents at the end of the period	7,756,694	59,374,405,622
Components of cash and cash equivalents as at		
	December 31, 2007	December 31, 2006
Balances with scheduled banks		
- on current accounts	7,756,694	52,833,331,612
- on deposit accounts	-	6,541,074,010
	7,756,694	59,374,405,622

Notes:

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard-3 on Cash flow statements.
- Brackets indicate a cash outflow or deduction

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Raj Agrawal
Partner
Membership No. 82028

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 31, 2008

schedules to the financial statements

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

	As at December 31, 2007	As at December 31, 2006
Schedule - 1		
Share capital		
Authorised:		
2,250,000,000 (previous period : 2,250,000,000) equity shares of Rs. 10 each	22,500,000,000	22,500,000,000
Issued, subscribed and fully paid up:		
1,778,399,420 (previous period 1,765,314,379) equity shares of Rs.10 each *	17,783,994,200	17,653,143,790
	17,783,994,200	17,653,143,790
* Out of the above, 1,239,928,832 equity shares (previous period - 1,226,843,791 equity shares) of Rs. 10 each are held by Cairn UK Holdings Limited, the Holding Company together with its nominees including 861,764,893 equity shares (previous period - 861,764,893 equity shares) of Rs.10 each, which are allotted as fully paid up pursuant to contracts for consideration other than cash.		
Schedule - 2		
Stock options outstanding		
Employee stock options outstanding	2,496,094,791	1,091,273,035
Less: Deferred employee compensation outstanding	1,549,010,964	746,214,222
	947,083,827	345,058,813
Schedule - 3		
Reserves and surplus		
Securities premium account		
Opening balance	275,017,836,642	-
Add: Additions during the year/period	1,962,756,150	275,740,523,790
Less: Adjustment against share issue expenses	896,477,733	722,687,148
Closing Balance	276,084,115,059	275,017,836,642
Schedule - 4		
Unsecured loans		
Short term loan - overdraft from bank	-	204,707,562
	-	204,707,562
Schedule - 5		
Exploratory wells in progress		
Additions during the year	8,879,197	-
Less: Unsuccessful exploration costs for the year	8,879,197	-
	-	-
Schedule - 6		
Investments		
Long term investments in Subsidiary Companies (at cost)		
Unquoted and fully paid-up		
272,389,192 equity shares (previous period: 251,224,744 equity shares) of GBP 1 each in Cairn India Holdings Limited, U.K.	289,083,710,140	266,818,710,140
Current Investments (at lower of cost and market value)		
Unquoted and non trade		
Mutual Funds (Refer note 10 under Schedule 18 for details) *	5,053,575,044	-
	294,137,285,184	266,818,710,140
Aggregate amount of unquoted investments	294,137,285,184	266,818,710,140
Repurchase price of mutual fund units, represented by Net Asset Value	5,114,005,617	-
* Includes unutilized monies of the public issue. (Refer note 7 (c) in schedule 18)		

schedules to the financial statements - continued

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

	As at December 31, 2007	As at December 31, 2006
Schedule - 7		
Sundry Debtors		
Debts outstanding for a period exceeding six months		
- Unsecured, considered good	8,587,051	-
Other debts		
- Unsecured, considered good	4,121,117	-
	12,708,168	-
Schedule - 8		
Cash and bank balances		
Balances with scheduled banks *		
- on current accounts	7,756,694	52,833,331,612
- on deposit accounts	-	6,541,074,010
	7,756,694	59,374,405,622
* Includes unutilized monies of the public issue. (Refer note no.7 (c) in schedule 18)		
Schedule - 9		
Other current assets		
Interest accrued on bank deposits	-	11,652,317
	-	11,652,317
Schedule - 10		
Loans and advances		
Unsecured considered good:		
Advances recoverable in cash or in kind or for value to be received	19,220,341	3,488,695
Advances recoverable from Cairn Energy India Pty Limited, subsidiary company	663,452	-
Deposits	-	30,000,000
Advance income tax/tax deducted at source	34,869,626	10,639,386
	54,753,419	44,128,081
Schedule - 11		
Current liabilities		
Amounts payable to:		
- Cairn Energy PLC, the ultimate holding company	25,000,200	25,000,200
- Cairn UK Holdings Limited, the holding company	-	32,763,069,551
Sundry creditors - other than amounts due to medium, small or micro enterprises	111,964,248	530,341,208
Other liabilities	1,445,485	1,979,379
	138,409,933	33,320,390,338
There is no amount due to medium, small or micro enterprises which is included in sundry creditors.		
Schedule - 12		
Provisions		
Provision for Fringe Benefit Tax (net of advance tax payments, Rs.258,000, previous period - Nil)	339,034,153	-
Provision for gratuity	233,000	-
Provision for leave encashment	40,000	-
	339,307,153	-

schedules to the financial statements - continued

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

	Year ended December 31, 2007	Period from August 21, 2006 to December 31, 2006
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Schedule - 13

Other income

Interest on bank deposits (Gross, tax deducted at source Rs.23,103,927, previous period Rs.10,639,386)	96,166,487	59,064,909
Dividend from unquoted current investments	203,116,558	-
Profit on sale of unquoted current investments	27,631,832	-
	326,914,877	59,064,909

Schedule - 14

Staff costs

Salary, wages, bonus and other benefits	21,157,123	902,782
Gratuity expenses	191,588	-
Employee compensation expense (stock options)	602,025,014	345,058,813
	623,373,725	345,961,595

Schedule - 15

Operating and other expenses

Legal and professional expenses	109,461,763	-
Auditor's remuneration		
- Audit fees for statutory and consolidated financial statements	16,768,292	785,680
- Tax audit fees	563,283	-
- Limited review fees	1,013,590	-
- Other services	10,636,615	2,301,654
- Out of pocket expenses	552,200	29,533,980
Directors' sitting fees	700,000	500,000
Advertisement and publicity	14,320,506	-
Meetings and seminar	14,328,752	-
Repairs and maintenance (others)	140,235	-
Travel expenses	1,307,762	-
Communication expenses	4,777,141	-
Miscellaneous expenses	267,992	36,564
	174,838,131	3,629,898

Schedule - 16

Finance costs

Interest on bank overdraft	200,131	1,355,676
Other interest	-	358,725
Other finance costs	8,668	-
	208,799	1,714,401

Schedule - 17

Loss per share

Loss for the year/period as per profit and loss account	788,165,721	292,240,985
Weighted average number of equity shares in calculating basic loss per share	1,777,001,292	312,260,009
Add: Number of equity shares arising on grant of stock options	11,017,256	6,550,797
Weighted average number of equity shares in calculating diluted loss per share	1,788,018,548	318,810,806
Loss per share		
Basic	0.44	0.94
Diluted (considered anti-dilutive)	0.44	0.94

Schedule 18 - Notes to Accounts

1. Nature of Operations

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

The Company was 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')).

The Company has entered into Production Sharing Contracts (PSCs) and UJVs in respect of certain Blocks / Oil and Gas fields. Details of these PSCs / UJVs are as follows:

Block/Oil & Gas Field	Area	Participating Interest
Non – operated block		
PR-OSN-2004	Palar Basin offshore	25%
KK-DWN-2004	Kerala Konkan Basin offshore	40%

2. Statement of Significant Accounting Policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards notified under the Companies (Accounting Standard) Rules, 2006 and the relevant provisions of the Companies Act, 1956 under the historical cost convention and on an accrual basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period.

(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 Institute of Chartered Accountants of India ('ICAI') on 'Accounting for Oil and Gas Producing Activities'.

Expenditure incurred on the acquisition of a license interest is initially capitalised on a license by license basis. Costs are held, undepleted, within exploratory & development wells in progress until the exploration phase relating to the license 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.

(c) Depletion

The expenditure on producing properties is depleted 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) Site restoration costs

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

(e) Impairment

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

Schedule 18 - Notes to Accounts

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 amortisation

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 equipments	2 to 4 years
Plant and Equipment	2 to 4 years

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

(g) Intangible fixed assets and amortization

Intangible assets, other than oil and gas assets, have finite useful lives and are measured at cost and amortised 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 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, determined on an individual investment basis. 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 realizable value based on the estimated selling price. Inventory of stores and spares related to exploration and development activities are stated at cost, determined on FIFO basis, whereas stores and spares related to production activities are treated as routine expenses and charged to the profit and loss account, as and when purchased.

(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 along with attributable income and expenses in such Joint Ventures, in which it holds a participating interest. Joint venture cash and cash equivalent balances are considered by the Company to be the amounts contributed in excess of the Company's obligations to the joint ventures and are, therefore, disclosed within Loans and Advances.

(l) Revenue recognition

Revenue is recognized 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.

The company recognises Operator Fees as revenue from UJV (in which its foreign subsidiaries are partner) based on the provisions of respective PSCs entered into by UJV.

Schedule 18 - Notes to Accounts

Interest income

Interest income is recognised on a time proportion basis.

(m) Borrowing costs

Borrowing costs include interest and commitment charges on borrowings, amortisation of costs incurred in connection with the arrangement of borrowings and finance charges under leases. Costs incurred on borrowings directly attributable to development projects, which take a substantial period of time to complete, 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.

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 subsidiaries or 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 carry forward of unabsorbed depreciation and 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. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that 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).

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 cash flow statement comprise cash at bank and in hand and short-term investments, with an original maturity of 90 days or less.

(s) Employee Benefits

Retirement and Gratuity benefits

Retirement benefits in the form of Provident Fund and Superannuation Scheme are defined contribution schemes and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective authorities.

Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. The scheme is maintained and administered by an insurer to which the trustees make periodic contributions.

Schedule 18 - Notes to Accounts

Short term compensated absences are provided for on based on estimates. Long term compensated absences are provided for based on actuarial valuation made at the end of each financial year. The actuarial valuation is done as per projected unit credit method.

Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

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 of the Company is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. 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.

(t) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(u) Segment Reporting Policies

Identification of segments:

The Company's operating businesses are organized and managed according to the nature of products and services provided to offer similar products and serving similar markets.

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.

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 |

Key managerial personnel

(Effective August 22, 2006)

Non Executive Directors

- | | |
|---|---|
| - Sir William Gammell, Director | - Norman Murray, Director |
| - Hamish Grossart, Director - upto September 20, 2007 | - Malcolm Thoms, Director – from September 20, 2007 |

Schedule 18 - Notes to Accounts

Executive Directors

- Rahul Dhir, Managing Director and Chief Executive Officer
- Lawrence Smyth, Director – Executive Director from March 1, 2007
- Indrajit Banerjee, Executive Director and Chief Financial Officer – from March 1, 2007
- Jann Brown, Director – upto February 28, 2007

b) Transactions during the period:

Nature of transactions	Current year Amount in Rs.	Previous period Amount in Rs.
Reimbursement of expenses incurred on behalf of the Company by:		
- Cairn Energy PLC	-	25,000,200
- Cairn Energy India Pty Limited	857,988	-
Reimbursement of expenses incurred by the Company on behalf of:		
- Cairn Energy India Pty Limited	1,100,000	-
Investment made during the period		
- Cairn India Holdings Limited	22,265,000,000	266,818,710,140
Shares issued during the period (share capital and securities premium)		
- Cairn UK Holdings Limited	2,093,606,560	209,331,980,060
Director's salary		
- Rahul Dhir	2,400,000	861,370
- Lawrence Smyth	1,800,000	-
- Indrajit Banerjee	3,563,120	-

c) Balances outstanding:

Nature of transactions	Current year Amount in Rs.	Previous period Amount in Rs.
Accounts recoverable		
- Cairn Energy India Pty Limited	663,452	-
Accounts payable (on gross basis)		
- Cairn Energy PLC	25,000,200	25,000,200
- Cairn UK Holdings Limited	-	32,763,069,551
- Rahul Dhir	3,261,370	861,370
- Lawrence Smyth	1,800,000	-
- Indrajit Banerjee	1,500,000	-

Note: The salaries to the key managerial personnel does not include gratuity and leave encashment benefits, as they are determined for the Company as a whole.

4. (a) Supplementary Statutory Information:

Managerial Remuneration

Remuneration paid or payable to Directors	Current year Amount in Rs.	Previous period Amount in Rs.
Salary and other benefits	8,123,120	1,641,370
Sitting fees	700,000	560,000

Note: As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, the amount pertaining to the directors is not ascertainable and, therefore, not included above.

- (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 18 - Notes to Accounts

5. The Company, during the previous 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. 1,619,164,881 (previous period 722,687,148) have been adjusted against securities premium.
6. Till December 31, 2007, the Company has entered into the following transactions:
- (a) Share capital movement in Cairn India Limited in current year and previous period-

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 as on December 31, 2006	1,765,314,379			293,393,667,580
February 8, 2007	13,085,041	Issued to its holding company, Cairn UK Holdings Limited under Green Shoe Option	160	2,093,606,560
Total as on December 31, 2007	1,778,399,420			295,487,274,140

- (b) During the year, the Company acquired from Cairn UK Holdings Limited 21,164,448 shares (previous period – 251,224,744 shares) in Cairn India Holdings Limited for total purchase consideration of Rs. 22,265,000,000 (previous year - Rs. 266,818,710,140).
The above transactions (except for the initial share capital) upto December 31, 2006 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.
7. (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) 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.
- (c) Details of utilisation of proceeds raised through the public issue:
- As on December 31, 2007, the Company (alongwith its subsidiaries) has utilised Rs. 71,682,135,044 (previous period Rs. Nil) for the purposes listed in the Prospectus out of the issue proceeds of Rs. 88,248,900,640. Till December 31, 2006, the Company had received amounts aggregating Rs. 52,607,948,000 out of such total funds received, which were lying in the Company's bank accounts. The funds utilised by the Company and its subsidiaries as on December 31, 2007 as against the stated objectives in the Prospectus is tabulated as under:

	Amount in Rs.
i) Acquisition of shares of Cairn India Holdings Limited from Cairn UK Holdings Limited	59,580,836,640
ii) Exploration/Development expenses	10,411,239,436
iii) Issue expenses	90,439,780
iv) General corporate expenses	1,599,619,188

Schedule 18 - Notes to Accounts

The unutilized monies out of the public issue being Rs. 16,566,765,596 is lying in following accounts of the Company and its subsidiaries as at the year end:

	As at December 31, 2007 (in Rs.)	As at December 31, 2006 (in Rs.)
- Mutual funds*	7,337,855,617	-
- Balances with banks	9,228,909,979	552,607,948,000

*includes unrealized gain of Rs. 60,430,573 on account of appreciation in the net asset value of the units and does not include unrealized exchange loss of Rs. 253,850,000

8. 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.687,903,804 (excluding options expired) has been considered as total charge, out of which an amount of Rs.342,844,991 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

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	
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.

*792,240 options have expired due to resignation of Mr. Lawrence Smyth, which is effective from April 2008.

The following table details the number of share options for the CISMP:

	Current year	Previous period
Outstanding at the beginning of the year	8,298,713	-
Granted during the year	-	8,298,713
Lapsed during the year	(792,240)	-
Exercised during the year	-	-
Outstanding at the end of the year	7,506,473	8,298,713

The Share Options under CISMP 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 (years)	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) (i) Under the CIPOP scheme, the Company has granted options equivalent to 1,708,195 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on January 1, 2007 at an exercise price of Rs.10 each. Based on the fair value of options, an amount of Rs. 231,123,603 (excluding the expired options) has been considered as total charge, out of which an amount of Rs. 77,041,201 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

schedules to the financial statements - continued

Schedule 18 - Notes to Accounts

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	160
Vesting date	January 1, 2010
Vesting %	100%
Volatility	41.61%
Risk free rate	7.33%
Time to maturity (years)	3.12
Fair Value of the options (Rs.)	152.05

- (ii) Under the CIPOP scheme, the Company again granted options equivalent to 3,235,194 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on September 20, 2007 at an exercise price of Rs.10 each. Based on the fair value of options, an amount of Rs.514,298,790 (excluding the expired options) has been considered as total charge, out of which an amount of Rs. 47,620,258 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	166.95
Vesting date	September 20, 2010
Vesting %	100%
Volatility	36.40%
Risk free rate	7.23%
Time to maturity (years)	3.12
Fair Value of the options (Rs.)	158.97

The following table details the number of share options for the CIPOP (2006):

	Current year	Previous period
Outstanding at the beginning of the year	-	-
Granted during the year	4,943,389	-
Lapsed during the year	(188,145)	-
Exercised during the year	-	-
Outstanding at the end of the year	4,755,244	-

- (c) (i) Under the CIESOP scheme, the Company has granted options equivalent to 3,467,702 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on January 1, 2007 at an exercise price of Rs.160 each. Based on the fair value of options, an amount of Rs.264,576,356 (excluding the expired options) has been considered as total charge, out of which an amount of Rs.88,192,119 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIESOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	160
Vesting date	January 1, 2010
Vesting %	100%
Volatility	41.04%
Risk free rate	7.50%
Time to maturity (years)	6.50
Fair Value of the options (Rs.)	87.30

Schedule 18 - Notes to Accounts

- (ii) Under the CIESOP scheme, the Company again granted options equivalent to 5,515,053 equity shares of the face value of Rs.10 each, under equity settlement method, to each of the eligible employees of the Company on September 20, 2007 at an exercise price of Rs.166.95 each. Based on the fair value of options, an amount of Rs.500,325,608 (excluding the expired options) has been considered as total charge, out of which an amount of Rs.46,326,445 pertaining to the year ended December 31, 2007 has been charged to the Profit and Loss Account.

The Share Options under CIPOP 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	
Stock Price – fair value of the equity shares on the date of grant (Rs.)	166.95
Vesting date	September 20, 2010
Vesting %	100%
Volatility	40.24%
Risk free rate	7.65%
Time to maturity (years)	6.50
Fair Value of the options (Rs.)	90.72

The following table details the number of share options for the CIESOP:

	Current year	Previous period
Outstanding at the beginning of the year	-	-
Granted during the year	8,982,755	-
Lapsed during the year	(437,045)	-
Exercised during the year	-	-
Outstanding at the end of the year	8,545,710	-

9. During the year, the Company has acquired interests in certain oil and gas blocks from its subsidiary companies, disclosed below, by way of assignment of interest. Since, these assignments of interest have been approved by the Management Committee (Government approval) after the year end, no accounting adjustments have been made in these financial statements and the expenses, till the date of approval, pertaining to these blocks have been booked in respective companies.

- 30% interest in block CB-ONN-2002/1 from Cairn Energy Gujarat Block 1 Limited
- 30% interest in block RJ-ONN-2003/1 from Cairn Exploration (No. 2) Limited
- 25% interest in block KG-ONN-2003/1 from Cairn Exploration (No. 4) Limited
- 25% interest in block VN-ONN-2003/1 from Cairn Exploration (No. 6) Limited
- 49% interest in block GS-OSN-2003/1 from Cairn Exploration (No. 7) Limited

10. Current investments - unquoted and non trade:

The details of investments in mutual fund units are as tabulated under:

Sr. No.	Particulars	As at December 31, 2007 (Amount in Rs.)	As at December 31, 2006 (Amount in Rs.)
1	20,594,145.28 units (previous period: nil), face value Rs 10 each, of ABN AMRO Mutual Fund of ABN AMRO Money Plus Fund-Institutional Plan-Growth Option	238,366,935	-
2	51,971,029.11 units (previous period: nil), face value Rs 10 each, of Birla Sun Life Mutual Fund under Birla Sun Life Liquid Plus-Institutional Plan – Growth Option	763,906,605	-
3	225,723.55 units (previous period: nil), face value Rs 1,000 each, of DSP Merrill Lynch Mutual Fund under DSP Merrill Lynch Liquid Plus Fund - Institutional Plan – Growth Option	250,000,000	-
4	28,699,826.62 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund-Short Term Plan - Wholesale Option – Growth	380,692,465	-
5	17,009,296.46 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Cash Management Savings Plus - Wholesale Plan Growth Option	290,000,000	-
6	23,353,354.94 units (previous period: nil), face value Rs 10 each, of HDFC Mutual Fund under HDFC Quarterly Interval Fund-Plan A Wholesale Growth	250,000,000	-

schedules to the financial statements - continued

Schedule 18 - Notes to Accounts

Sr. No.	Particulars	As at December 31, 2007	As at December 31, 2006
7	43,733,776.21 units(previous period: nil), face value Rs 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Floating Plan D – Growth	502,627,917	-
8	19,998,847.30 units (previous period: nil), face value Rs 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Flexible Income Plan – Growth	290,047,282	-
9	47,430,680.06 units (previous period: nil), face value Rs 10 each, of ING Mutual Fund under ING Liquid Plus Fund – Institutional Growth Option	500,000,000	-
10	242,823.20 units (previous period: nil), face value Rs 10 each, of Reliance Mutual Fund under Reliance Liquid Plus Fund – Institutional Option – Growth Plan	255,450,472	-
11	23,960,359.98 units (previous period: nil), face value Rs 10 each, of Reliance Mutual Fund under Reliance Quarterly Interval Fund-Series III -Institutional Growth Plan	250,000,000	-
12	20,000,000.00 units (previous period: nil), face value Rs 10 each, of SBI Mutual Fund under SBI Debt Fund Series - 90 Days - November 2007 – Growth	200,000,000	-
13	55,482,327.99 units (previous period: nil), face value Rs 10 each, of Tata Mutual Fund under Tata Floater Fund - Growth	639,783,369	-
14	20,898,812.55 units (previous period: nil), face value Rs 10 each, of Franklin Templeton Mutual Fund under Templeton Floating Rate Income Fund Short Term Plan Institutional Option - Growth	242,700,000	-
	TOTAL	5,053,575,044	-

The following investments were purchased and sold during the year (there was no purchase or sale of investments during previous period):-

1	18,535,141.015 units, par value of Rs. 10 each, of ABN AMRO Mutual Fund under ABN AMRO Cash Fund - Institutional Plus Plan – Daily Dividend Reinvestment Option
2	50,701,760.398 units, par value of Rs. 10 each, of ABN AMRO Mutual Fund under ABN AMRO Money Plus Fund-Institutional Plan- Daily Dividend Option
3	22,604,265.015 units, par value of Rs. 10 each, of ABN AMRO Mutual Fund under ABN AMRO Money Plus Fund-Institutional Plan-Growth Option
4	51,286,477.010 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Cash Plus-Institutional Premium Plan - Daily Dividend
5	51,393,934.559 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Floating Rate Fund-Long Term Plan-Weekly Dividend
6	1,175,375.415 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Cash Plus-Institutional (Growth)
7	62,395,963.596 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Sunlife Liquid Plus Fund – Institutional – Daily Dividend
8	1,055,356.222 units, par value of Rs. 10 each, of Birla Sun Life Mutual Fund under Birla Sunlife Liquid Plus Fund – Institutional – Growth
9	799,966.925 units, par value of Rs. 1000 each, of DSP Merrill Lynch Mutual Fund under DSP Merrill Lynch Liquid Fund – Institutional Plan - Daily Dividend Reinvestment Option
10	810,376.138 units, par value of Rs. 1000 each, DSP Merrill Lynch Mutual Fund under DSP Merrill Lynch Liquid Plus Fund – Institutional Plan - Daily Dividend Reinvestment Option
11	30,429,402.715 units, par value of Rs. 10 each, of Standard Chartered Mutual Fund under Grindlays Floating Rate Fund – Long Term – Institutional Plan B - Daily Dividend Reinvestment Option
12	25,141,266.651 units, par value of Rs. 10 each, of Standard Chartered Mutual Fund under Grindlays Floating Rate Fund – Long Term – Institutional Plan B – Growth
13	74,125,061.345 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Cash Management Fund - Savings Plan – Daily Dividend Reinvestment Option
14	79,686,483.778 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Cash Management Fund - Savings Plus Plan – Wholesale - Daily Dividend Reinvestment Option
15	32,404,919.325 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund - Short Term Plan – Retail Option Dividend Reinvestment – Daily
16	24,820,364.948 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund - Short Term Plan – Retail Option – Growth

Schedule 18 - Notes to Accounts

17	18,698,998.482 units, par value of Rs. 10 each, of HDFC Mutual Fund under HDFC Floating Rate Income Fund - Short Term Plan – Wholesale – Growth
18	59,976,612.345 units, par value of Rs. 10 each, of HSBC Mutual Fund under HSBC Cash Fund - Institutional Plus – Daily Dividend Reinvestment Option
19	62,786,020.733 units, par value of Rs. 10 each, of HSBC Mutual Fund under HSBC Liquid Plus Fund – Institutional Plus - Daily Dividend Reinvestment Option
20	57,943,951.333 units, par value of Rs. 10 each, of HSBC Mutual Fund under HSBC Liquid Plus Fund – Institutional Plus – Growth
21	686,242.889 units, par value of Rs. 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Flexible Income Plan - Growth
22	100,777,456.602 units, par value of Rs. 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Floating Rate Plan D – Daily Dividend – Reinvest Dividend
23	131,634,015.968 units, par value of Rs. 10 each, of ICICI Prudential Mutual Fund under ICICI Prudential Liquid Plan - Super Institutional Dividend Daily
24	61,166,842.849 units, par value of Rs. 10 each, of ING Mutual Fund under ING Liquid Plus Fund - Institutional Daily Dividend Option
25	58,606,580.178 units, par value of Rs. 10 each, of ING Mutual Fund under ING Liquid Plus Fund - Institutional Growth Option
26	32,523,815.818 units, par value of Rs. 10 each, of Kotak Mahindra Mutual Fund under Kotak Flexi Debt Fund - Daily Dividend
27	40,671,100.686 units, par value of Rs. 10 each, of PRINCIPAL Mutual Fund under Principal Cash Management-Liquid Option-Institutional Premium - Daily Dividend
28	40,602,212.009 units, par value of Rs. 10 each, of PRINCIPAL Mutual Fund under Principal Floating Rate Fund - SMP – Institutional – Growth
29	502,053.962 units, par value of Rs. 1000 each, of Reliance Mutual Fund under Reliance Liquid Plus Fund – Institutional Option – Daily Dividend Plan
30	234,933.967 units, par value of Rs. 1000 each, of Reliance Mutual Fund under Reliance Liquid Plus Fund – Institutional Option – Growth Plan
31	406,648.782 units, par value of Rs. 1000 each, of Standard Chartered Mutual Fund under Standard Chartered Liquidity Manager Plus-A-Dividend Daily
32	60,938,518.404 units, par value of Rs. 10 each, of Sundaram BNP Paribas Mutual Fund under Sundaram BNP Paribas Liquid Plus Super Institutional Daily Dividend
33	58,603,615.153 units, par value of Rs. 10 each, of Sundaram BNP Paribas Mutual Fund under Sundaram BNP Paribas Liquid Plus Super Institutional Growth
34	64,847,479.846 units, par value of Rs. 10 each, of Tata Mutual Fund under Tata Floater Fund Growth
35	594,550.430 units, par value of Rs. 1000 each, of Tata Mutual Fund under Tata Liquid Super High Investment Plan – Daily
36	808,048.384 units, par value of Rs. 1000 each, of Franklin Templeton Mutual Fund under Templeton India Treasury Management Account-Super Institutional Plan - Daily Dividend

11. There is no foreign currency exposure in the Company as on December 31, 2007.

12. Subsequent to the year end, in the meeting of the Board of Directors held on March 17, 2008, the Company has proposed issue of 113,000,000 equity shares of Rs. 10 each at an issue price of Rs. 224.30 per share on preferential basis to two parties, subject to the approval of the shareholders of the Company.

13. In accordance of the provisions of Accounting Standard 22 'Accounting for taxes on income', the Company would have deferred tax assets, primarily comprising of accumulated tax losses and unamortized issue expenses. However, as the management is not virtually certain of subsequent realization of the asset, no deferred tax asset has been computed or recognised in these financial statements.

14. Prior period comparatives

These financial statements of the Company are for the year ended December 31, 2007 and previous reported period was from August 21, 2006 to December 31, 2006 as the Company was incorporated on August 21, 2006. Accordingly, previous period figures are not comparable. Previous period's figures have been regrouped where necessary to confirm to this year's classification.

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Raj Agrawal
Partner
Membership No. 82028

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 31, 2008

balance sheet abstract and company's general business profile

i) Registration Details

Registration No.	U11101MH2006PLC163934
State Code	11
Balance Sheet Date	31/12/07

ii) Capital raised during the year* (Amount in Rs. Thousands)

Public Issue	130,850
Rights Issue	-
Bonus Issue	-
Private Placement	-

* Does not include share premium

iii) Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	294,212,503
Total Assets	294,212,503
Sources of Funds	
Paid up Capital	17,783,994
Reserves & Surplus	277,031,199
Secured Loans	-
Unsecured Loans	-
Application of Funds	
Net Fixed Assets	-
Investments	294,137,285
Net Current Assets	(402,499)
Miscellaneous Expenditure	-
Accumulated losses	1,080,407

iv) Performance of the Company (Amount in Rs. Thousands)

Turnover (Total Income)	339,623
Total Expenditure	807,300
Profit/(Loss) before tax	(467,677)
Profit/(Loss) after tax	(788,166)
Loss per Share in Rs.	0.44
Dividend rate %	-

v) Generic Names of Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)	27090000
Product Description	Crude Oil
Item Code No. (ITC Code)	27112100
Product Description	Natural Gas

For and on behalf of the Board of Directors

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 31, 2008