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16 August 2010

**CAIRN ENERGY PLC ("Cairn")  
Proposed part sale of shareholding in Cairn India Limited ("Cairn India") to  
Vedanta Resources Plc ("Vedanta")**

**Transaction Highlights**

- Cairn to sell a maximum of 51 per cent of Cairn India to Vedanta
- Consideration of up to US \$8,480m (INR 396,561m), based on US \$8.66 (INR 405) per Cairn India share\*
- A premium of approximately 32 per cent to the Cairn India average closing price for 90 days prior to 14 August 2010
- Put and call options, exercisable after July 2012 and July 2013, to ensure a majority interest in Cairn India can be sold (exercisable at US \$8.66 (INR 405))
- Intention to return a substantial proportion of the proceeds from the transaction to Cairn shareholders
- Retained cash will provide Cairn with financial flexibility to pursue an active exploration programme in its leading acreage position in Greenland and future growth opportunities
- Continued exposure to Rajasthan through the retained shareholding in Cairn India
- Completion expected before end of 2010

**Sir Bill Gammell, Chief Executive of Cairn said:**

*"I am delighted to announce the proposed disposal of a significant shareholding in Cairn India in line with our objective of adding and realising value for shareholders.*

*The transaction will result in a substantial return of cash to shareholders.*

*The transaction will also ensure we have the financial flexibility to focus on an active multi year exploration and drilling programme in Greenland and also consider further material growth opportunities."*



## **Background to and Reasons for the Proposed Transaction**

Cairn has today entered into a conditional agreement with Vedanta, for the sale of a maximum 51 per cent of the fully-diluted share capital of Cairn India on completion (the "Proposed Transaction"). The size of the interest in Cairn India sold by Cairn may be reduced down to 40 per cent of the fully-diluted share capital of Cairn India on completion as described below (see "Implementation of the Proposed Transaction"). Cairn is expected to receive a cash consideration of between US \$8,480m (51 per cent sold) and US \$6,651m (40 per cent sold), depending on both the number of shares comprised within the fully-diluted share capital of Cairn India at completion and the size of the interest in Cairn India sold to Vedanta pursuant to the Proposed Transaction.

The Cairn Board believes that the Proposed Transaction delivers positive benefits in line with Cairn's strategic goals. Cairn's long-stated objective has been to add value for its shareholders through exploration and to realise such value at the appropriate time. The IPO of Cairn India in 2007 provided a return of cash to shareholders and created sufficient financial flexibility to allow the fast-track development of Cairn's world-class discoveries in Rajasthan.

The completion of the first phase of the Rajasthan development represents a significant milestone for the Cairn Group, with the project now producing approximately 125,000 barrels per day. The project is now materially derisked and as a result, significant value has been created for Cairn shareholders. The Cairn Board therefore believes that now is an appropriate time to realise further value from its shareholding in Cairn India, whilst at the same time maintaining exposure to the ongoing business through a significant retained shareholding.

## **Strategy of the Cairn Group following the Disposal**

Cairn's strategy is to establish commercial reserves from strategic positions in high-potential exploration plays in order to create and deliver shareholder value.

Cairn has focused on gaining early entry into frontier basin plays such as in India and Greenland. Following completion of the Proposed Transaction, the Cairn Group's principal focus will be to advance its exploration programme in its frontier basin positions in Greenland and continue to pursue its proven strategy of building shareholder value from growth opportunities.

Immediately following the Proposed Transaction, Cairn's asset base will comprise:

- A leading operated exploration position offshore Greenland with material acreage exposure to a number of separate basin-plays
- An expected interest of between approximately 10.6 per cent and approximately 21.6 per cent in Cairn India (on a fully-diluted basis at completion) and its Rajasthan development
- A position in South Asia comprising operated gas production and exploration upside in Bangladesh and a frontier exploration position in Nepal; as well as exploration licences in the Mediterranean region
- A strong balance sheet with the financial flexibility to fast track exploration activity and pursue additional material growth opportunities

The Arctic regions of Greenland are increasingly recognised as a world-class prospective area. Cairn has built the largest portfolio of exploration assets in Greenland, a frontier exploration area where management sees extensive potential. Cairn's acreage spans three separate prospective basins offshore South, South-West and West Greenland.



## Implementation of the Proposed Transaction

The Proposed Transaction is expected to be implemented as follows:

- Cairn UK Holdings Limited, a wholly owned subsidiary of Cairn, has agreed to sell to THL Aluminium Limited, a wholly owned subsidiary undertaking of Vedanta, a maximum of 51 per cent of the fully-diluted share capital of Cairn India at completion
- Vedanta will make an open offer to Cairn India shareholders, at not less than INR 355, for up to 20 per cent of the issued shares in Cairn India, in accordance with the requirements of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (the "Open Offer") (Cairn will not participate in the Open Offer)
- The number of Cairn India shares capable of being sold to Vedanta by Cairn may be scaled back depending on the results of the Open Offer, subject to a minimum of 40 per cent of the fully-diluted share capital of Cairn India at completion being acquired pursuant to the Proposed Transaction
- Put and call arrangements, exercisable after July 2012 and July 2013, will ensure a majority interest in Cairn India can be sold (exercisable at US \$8.66 (INR405)) to the extent the number of shares capable of being sold to Vedanta is scaled back as described above
- Expected initial consideration of between US \$8,480m (51 per cent sold) and US \$6,651m (40 per cent sold)
- Completion of the Proposed Transaction will occur following the closing of the Open Offer

In addition, Cairn has agreed not to dispose of any Cairn India shares prior to closing of the Open Offer, except in certain limited circumstances. In the event of such a disposal, Vedanta may, at its discretion, further scale back the number of Cairn India shares to be acquired from Cairn by the same number of Cairn India shares as was disposed of by Cairn.

Completion of the Proposed Transaction is conditional on:

- Completion of the Open Offer by Vedanta to Cairn India shareholders
- Approval of the Proposed Transaction by Cairn's and Vedanta's shareholders (due to its size the Proposed Transaction constitutes a Class 1 transaction under the Listing Rules for Cairn and a reverse takeover of Vedanta and is therefore subject to both Cairn and Vedanta shareholder approval)
- No material adverse event occurring (or notice being served of such an event) in relation to Cairn India's assets in Rajasthan, Cambay and/or Ravva prior to the satisfaction of the other conditions to completion
- Required or requested regulatory consents having been obtained

Immediately following completion, Cairn is expected to have a residual interest of between approximately 10.6 per cent and 21.6 per cent of the fully-diluted share capital of Cairn India. Cairn and Vedanta have entered into two reciprocal put and call options in respect of the difference in the number of Cairn India shares actually sold to Vedanta and 51 per cent of Cairn India's fully diluted share capital at completion. One put and call option is exercisable after 1 July 2012 and the other after 1 July 2013, in both cases at a price per share of US \$8.66 (INR 405). Each option may be exercised in respect of a maximum of 5 per cent of the issued share capital of Cairn India as at the date of the exercise of the option. The put and call options will ensure a majority interest in Cairn India can be sold to Vedanta.

Cairn has agreed to give Vedanta a matching pre-emption right over any subsequent disposal by Cairn of any shares where such transaction would result in the intended recipient obtaining more than 20 per cent of the issued share capital of Cairn India.

Cairn has given certain non-compete undertakings covering the territories of Bhutan, Sri Lanka, Pakistan and India pursuant to which Cairn has agreed that, for a period of three years, it will not engage in the business of oil or gas extraction, its transport or processing and any other business which competes with



the business of Cairn India and its subsidiaries as at the completion date in any of those territories. In addition, Cairn has agreed a non solicitation agreement for a period of three years with respect to any person who is or has been an officer or senior employee of the Cairn India Group within a year prior to completion.

A break fee equal to 1% of the market capitalisation of Cairn will become payable in the event that either Cairn shareholders do not approve the transaction or Cairn seeks a competing proposal prior to completion.

### **Consideration**

For each Cairn India share subject to the Proposed Transaction, Vedanta will pay Cairn US \$8.66 (INR 405) in cash on completion, comprising:

- US \$7.59 (INR 355) (pursuant to the sale and purchase agreement)
- US \$1.07 (INR 50) (pursuant to the non-compete arrangements)

Assuming no acceptances in respect of Cairn India shares are received under the Open Offer and a fully-diluted share capital of Cairn India on completion of 1,920m shares, the maximum consideration receivable by Cairn would be US \$8,480m.

Assuming a full scaling back by Vedanta of the number of Cairn India shares to be acquired from Cairn (to 40 per cent of the fully-diluted share capital of Cairn India at completion) and a fully-diluted share capital of Cairn India on completion of 1,920m shares, the minimum consideration receivable by Cairn would be US \$6,651m.

The final amount of the consideration payable to Cairn by Vedanta will be determined once the Open Offer has closed and the number of Cairn India shares subject to valid acceptances under the Open Offer is known. The number of Cairn India shares subject to the Proposed Transaction will be 51 per cent of the fully-diluted share capital of Cairn India at completion, less the number of Cairn India shares received by Vedanta under the Open Offer (subject to a maximum reduction of 11 per cent of Cairn India's fully-diluted share capital).

Accordingly, by way of illustration, if under the Open Offer Vedanta received valid acceptances for 153,594,147 Cairn India shares, representing 8 per cent of Cairn India's current fully-diluted share capital (of 1,920m shares), then it is expected that Cairn will dispose of 825,568,541 Cairn India shares to Vedanta, representing 43 per cent of the current fully-diluted share capital of Cairn India, pursuant to the Proposed Transaction and will receive gross cash proceeds of US \$7,150m.

### **Use of Proceeds**

Assuming the completion of the Proposed Transaction occurs, the Cairn Board intends to utilise part of the net cash proceeds to provide the financial flexibility to fund Cairn's ongoing exploration and appraisal programmes, with a substantial amount being returned to Cairn shareholders. The Cairn Board intends to return this cash to Cairn shareholders in a manner which will seek to be both tax efficient and flexible, taking into account the differing tax and accounting requirements of Cairn shareholders.

Further details on the proposed return of cash will be communicated to Cairn shareholders in due course after completion of the Proposed Transaction. Cairn shareholders should note that the proposed return of cash is not guaranteed and that the amount and the timing of any return of cash and the means by which it is to be achieved have not yet been determined.



## Overview of Cairn India

Cairn holds a 62.4 per cent interest in Cairn India (on an un-diluted basis). Cairn India was listed on the Bombay Stock Exchange and the National Stock Exchange of India in January 2007. Cairn India currently has a market capitalisation in excess of US \$14 billion and is the fourth largest oil and gas company in India. Cairn India has interests in 11 blocks in India and Sri Lanka. Cairn India is based in India and has a strong institutional shareholder base both within India and internationally.

### Assets Summary:

- a 70 per cent operated working interest in development areas totalling 3,111 km<sup>2</sup> in the Rajasthan Block. The main Development Area (1,858 km<sup>2</sup>), which includes Mangala, Aishwariya, Raageshwari and Saraswati is shared between Cairn India and ONGC, with Cairn India holding 70 per cent and ONGC having exercised its back in right for 30 per cent. Further Development Areas (430 km<sup>2</sup>), including the Bhagyam and Shakti fields and (822 km<sup>2</sup>) comprising of the Kaameshwari West Development Area, is also shared between Cairn India and ONGC in the same proportion. Current production is approximately 125,000 barrels a day from the Mangala field via a 600km heated export pipeline;
- operated interests in producing fields at Ravva in Block PKGM-1 in the Krishna-Godavari Basin offshore eastern India (a 22.5 per cent working interest) and at Lakshmi and Gauri in Block CB/OS-2 in the Cambay Basin offshore western India (a 40 per cent working interest). Crude oil and natural gas production from Ravva commenced in 1993. Production of natural gas commenced from Lakshmi in 2002 and from Gauri in 2004. Production of commingled crude oil from Gauri commenced in 2005; and
- equity interests in eight blocks where there is currently no production or development but which are in various stages of exploration. The three main basins where the Indian Business is currently actively involved in exploring include the Cambay, Krishna-Godavari and Mannar Basins.

As at 31 December 2009, the gross assets in the balance sheet of Cairn India were US \$3,073.5m. For the 12 months ended 31 December 2009 the result before tax was US \$(29.1)m. Cairn India financial information contained in this paragraph has been extracted without material adjustment from the consolidation schedules that support the Cairn Group accounts.

### Circular

Cairn will send a circular to shareholders in due course setting out further details of the Proposed Transaction and convening a General Meeting, at which shareholder approval will be sought for the Proposed Transaction.

Rothschild is acting as sole financial adviser to Cairn in connection with the Proposed Transaction.



## **Enquiries**

### **Cairn**

Sir Bill Gammell, Chief Executive  
Dr Mike Watts, Deputy Chief Executive  
Jann Brown, Finance Director  
David Nisbet, Corporate Affairs

Tel: +44 (0) 131 475 3000

### **Rothschild**

Robert Leitão  
James Smith

Tel: +44 (0) 207 280 5000

### **Brunswick Group LLP**

Patrick Handley  
David Litterick

Tel: +44 (0) 207 404 5959

## **Cairn Energy Analyst Call**

A call for analysts and investors will be held at 0930 Monday 16 August 2010.

**Dial-in: +44 (0) 1452 541 077**  
**Conference Call ID: 94756380**

An archived version of the audio call will be available later on the Cairn Energy PLC website:  
[www.cairnenergy.com](http://www.cairnenergy.com)

NM Rothschild & Sons Limited ("Rothschild"), which is regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Cairn and no one else in connection with the Proposed Transaction and will not be responsible to anyone other than Cairn for providing the protections afforded to clients of Rothschild nor for providing advice in connection with the Proposed Transaction or any other matters referred to in this announcement.

## **Cautionary Note Regarding forward-looking Statements**

This announcement includes certain forward-looking statements with respect to the financial condition, results of operations and business of the Cairn Group and of the Cairn India Group and certain plans and objectives of the Cairn Board. These forward-looking statements can be identified by the fact that they do not relate to any historical or current facts. Forward-looking statements often use words such as "proposed", "anticipate", "expect", "estimate", "intend", "plan", "believe", "will", "may", "should", "would", "could" or other words with a similar meaning. These statements are based on assumptions and assessments made by the Cairn Board in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes appropriate. By their nature, forward-looking statements involve risk and uncertainty and there are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements.

These forward-looking statements speak only as at the date of this announcement. Save as required by the requirements of the Listing Rules of the UK Listing Authority or the Disclosure and Transparency Rules or otherwise arising as a matter of law or regulation, Cairn expressly disclaims any obligation or undertaking to disseminate after publication of this announcement any updates or revisions to any forward-looking statements contained herein to reflect any change in the Cairn Group's or the Cairn India Group's



expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Unless otherwise indicated, all references in this announcement to all references to "US dollars", "US\$" and "\$" are to the lawful currency of the United States and all references to "INR" are to the lawful currency of India. For the purpose of this announcement and unless otherwise stated, an agreed US Dollar to Rupee exchange rate of 1:46.7650 has been applied. Such translations should not be considered as a representation that such currencies could have been or could be converted into US dollars or Rupees (as the case may be) at any particular rate, the rates stated above or at all.



## NOTES TO EDITORS

- Cairn Energy PLC (“Cairn”) is an Edinburgh-based oil and gas exploration and production company listed on the London Stock Exchange. Following the IPO of Cairn India in January 2007, there are two separate arms to the business:
  - Cairn India limited (“Cairn India”) is now listed on the Bombay Stock Exchange and the National Stock Exchange of India and has interests in a total of 11 acreage blocks in India and Sri Lanka. Cairn currently retains a 62.4% interest in Cairn India; and
  - Capricorn Oil Limited (“Capricorn”), a 100% subsidiary of Cairn, is focused on exploration. Capricorn now has assets in Bangladesh, Nepal, Northern India, Greenland, Tunisia, Albania, and pending licence awards in Spain.
- “Cairn” where referred to in this release means Cairn Energy PLC and/or its subsidiaries (including Cairn India and Capricorn), as appropriate.
- “Cairn India” where referred to in the release means Cairn India Limited and/or its subsidiaries, as appropriate.
- “Capricorn” where referred to in this release means Capricorn Oil Limited and/or its subsidiaries, as appropriate.
- Cairn has focused its activities on the geographic region of South Asia, which has already resulted in a significant number of oil and gas discoveries. In particular, Cairn made a major oil discovery (Mangala) in Rajasthan in the north west of India at the beginning of 2004. Cairn has now made more than 20 discoveries in Rajasthan block RJ-ON-90/1.
- Cairn India is headquartered in Gurgaon on the outskirts of Delhi, with operational offices in Chennai, Gujarat, Andhra Pradesh and Rajasthan.
- Cairn Energy PLC (including Capricorn) is run from Edinburgh with operational offices in Dhaka, Chittagong, Kathmandu and Tunis.
- “Vedanta” where referred to in this release means Vedanta Resources Plc and/or its subsidiaries, as appropriate.
- \*Includes US \$1.07 payable under the non-compete arrangements.

For further information on Cairn please go to: [www.cairnenergy.com](http://www.cairnenergy.com)