Rahul Dhir – Chief Executive Officer, Cairn India
Cairn India – The Company

Q: Cairn India has been in existence for just a couple of months. What do you see as the immediate priorities?
A: We've got four main areas of focus right now. The first is to sustain production and cashflows from our existing assets. And, to that end, we've got very active infill drilling programmes, both in Ravva and Cambay.
The second area of focus for us is the Rajasthan development. We're investing over $1bn there over the next three years, so the focus is to deliver the upstream project and integrate the midstream into that – on budget, on schedule.
The third focus really is also in Rajasthan. As you know, we've discovered a tremendous resource base. At this time, we've identified over 3.5bn barrels of oil in place. So the focus is to expand the resource base and also to increase the recovery factors from that resource base through the application of technology.
And the last area of focus, also quite critical, is exploration. That's obviously been the DNA of Cairn. We've got 13 blocks now in India which are in the exploration phase. We'll be spending about $150m in those blocks over the next three years. A very active seismic and drilling programme. So, again, we're very excited about that.
So that's going to be our focus. But it's very much around execution and delivery of production cashflow over the next three years.

Q: We'll come back to some of those points in a minute or two. But some analysts, especially here in India, feel that the IPO was overvalued. How can you persuade them differently?
A: What I've learned is that you never really sort of quibble with the market. We managed to raise $1.9bn, which is the largest IPO ever to date in India, in what was probably one of the most volatile weeks in the last year and a half. We've had tremendous support from our core group of investors, both retail and institutional. So I think that was a tremendous validation. The value was also supported by our pre-IPO investors, like Petronas and Blackrock, who are pretty sophisticated investors.
So I've got a high degree of confidence that the valuation of the IPO was fair and appropriate. The valuation benchmarks were also well-supported by a number of analysts. As a management team, we have a high degree of confidence that we can add value for our shareholders, above the price at which they came in at IPO.

Q: So you wouldn't agree that you're priced at a premium to your peers?
A: Absolutely not. No.

Q: You've got $600m of the IPO proceeds. How will this be used? And what additional borrowing requirements will you have to bring everything on stream?
A: We're in a very significant capital investment phase over the next three years. Without the pipeline, which we can discuss later, we are planning to invest about $1.5bn in our assets. The bulk of it, about $1.2bn, will go into development, particularly in Rajasthan, but also in our other assets. The remainder will be spent in exploration. So a very active spend.
Where that money's going to come from? $600m from the proceeds of the IPO. We also put in place a bank facility of about $850m last year. So between the facility and the proceeds of the IPO, we're covered. But I'd also like to remind people that our current business is very cash-generative – it did about $150m of operating cashflow last year. It's a very well-funded business we're starting life with. We know that. So I think we've got a strong balance sheet.

Rajasthan - Midstream

Q: You said in September that you'd examined the options for midstream in Rajasthan. Why have you decided that now is the right time for Cairn India to be involved here?
A: It's quite simple. We've discovered a massive resource base. Today we're saying it's 3.5bn barrels and our estimates continue to increase. We are looking to produce at least 150,000 barrels a day, at plateau, from this resource base.
With a blank sheet of paper, you'd say with this much oil in the ground, and that kind of production, you'd want to control the infrastructure.
So our objectives were very simple when we initiated the dialogue with the government. We wanted to be in a

position where, first and foremost, we would control the infrastructure, particularly the timing, so that the development of the pipeline was consistent with the upstream, which was going well

The second thing we felt was that, given the volumes of crude that we were producing, we wanted to be in a position to access multiple refiners.
So our objectives were very much strategic, in the sense of ensuring the project delivery on time and accessing multiple refiners, so we can then create value through selling the crude.

And, so far, our discussions have progressed quite well.

Q: Timing, though, is crucial. When will you get approval from the Indian government on the pipeline?
A: As things stand right now, our talks are going well with the Indian government. We're very well-aligned with ONGC, which is our partner in the project on this particular issue. We are hoping to get resolution of this by the middle of the year. If we get that, that's consistent with our commitment to deliver first oil by 2009.

Q: And if you get agreement in the summer, what's the new timetable? And who's going to take responsibility for what?
A: What we've been discussing with the government, and what we've proposed to them, is that the best industrial solution, in our view, is to have us and ONGC build the pipeline, essentially as part of our field development. By doing so, we would ensure that the pipeline is built in a way that's consistent and systematic with the upstream development. We would also ensure that we will be able to access the refiners who are in the position to refine this crude. And therefore we're creating value, not just for ourselves but for the government.
If that scenario pans out, and we've got a degree of confidence that it would, then, as the operator of the Rajasthan block, we would take responsibility for constructing the pipeline. And we would split the costs 70-30 between ourselves and ONGC.
And, obviously, all of that needs to be validated and approved by the government.

Q: So just to confirm, today you are confident that you will get approval from the Indian government for the pipeline by the summer?
A: Yes, we're increasingly confident that we'll get the issue resolved by the middle of the summer. We've got very good alignment with our partner, ONGC, on this. And discussions that we've had with the government so far have been very constructive.

Q: What, though, about the issues with the quality of the crude?
A: The quality of the crude is interesting. It's a low-sulphur crude, which is obviously a good thing. The API, which is the weight of the crude, is about 27 API, which is not very heavy. We've done a lot of work mapping out the refining capacity in India and we believe that a lot of the refineries, particularly the ones going through upgrades right now, are in a very good position to process this.
In fact, if you look at the corridor from the western coast of India up to northern India, around Delhi, there are about six refineries in that region with a total processing capacity of about 2 million barrels a day. So we're pretty confident that we can place 150,000 barrels a day in the system.
It's a waxy crude, which means that you need to have an insulated pipeline to transport it. But we've done a lot of work in terms of conceptual engineering and design. So we're confident we have the technology solution to actually transport the crude, if we had to, to the appropriate refiners.

Rajasthan -Production

Q: Can you just confirm for me where we are with the timetable for producing oil from the Rajasthan fields?
A: We're working towards delivering first oil in 2009. A lot of the detailed engineering design work is progressing well. All the approvals necessary for the construction are in place. In fact, we're looking to start construction civil works imminently in Rajasthan.

Q: Can you say when in 2009?
A: I think at this stage, it's not appropriate to focus on a specific date, given the level of the maturity of the project. But our commitment is that, as we define these specific dates, we'll come back to market and update

people on the schedule. But we're pretty confident that we'll get it done in 2009.

Q: And can you give an update on the three main fields, and how you see production coming on stream, at Mangala, Bhagyam, and Aishwarya?

A: Yes. As you probably know, we've discovered 20 fields so far in Rajasthan. We've had field development plans approved for four of those, including Mangala and Aishwarya. We are finalising the field development plan for Bhagyam. We're expecting that approval sometime later in the year.

So Mangala has the biggest field in Rajasthan. Bhagyam is the second-biggest, and Aishwarya is the third.

Our target is to get first oil from Mangala sometime in 2009. We will achieve a plateau of about 100,000 barrels a day. Within six months from that, we would hope to put Bhagyam on stream, achieving a plateau we believe now of about 40,000 barrels a day. Followed, perhaps within another six months, by Aishwarya, targeting a plateau of about 15,000 barrels a day.

So, all in, we would expect to achieve a plateau of about 150,000 barrels by sometime in 2010.

Q: And how long do you think this level of production will last? 10 years?

A: Based on the field development plan that we've submitted to the government, our initial estimates of plateau were about four to five years from each of these fields. But, in fact, what we are working on now is some enhanced recovery techniques, which, increasingly, give us confidence that we could probably sustain the plateau for about a period of 10 years.

Of course, the economic life of these fields is quite extensive. At this point, we think it could be well into 2040 that these fields would still be producing.

And what we've seen, of course, from adjacent basins, like in Cambay, is that with a lot of the onshore basins, once you have the infrastructure in place, your ability to sustain production is increased, because the marginal cost of adding new production is quite low.

So the more work we do, given the resource base, we're pretty excited about our potential and the ability to not just deliver the 150,000 but to sustain it for at least the foreseeable future. So that's really what makes this whole asset, and our company, we believe, pretty unique.

Q: What's the latest estimate for development costs in Rajasthan?

A: The good news is that our cost estimates are still very much within the tolerances and the ranges that we've been working with for the past year or so. So gross field capital expenditures in Rajasthan, life of field, are, we believe, still around the $2.0bn to $2.3bn level mark.

For Mangala, which is the first field that we're focused on, our capex to first oil is still running around the $850m mark.

Just a word of caution, of course. These are all what we would call, in project-speak, Class 3 estimates. So there is an error band of about 15 to 20 per cent, plus or minus, in all of these things.

But, so far, all the work that we've done says that we're very much consistent with the levels that we have been working with the last year or so.

Q: And any news on any new finds in Rajasthan, particularly the Barmer Hill zone?

A: We did announce our 20th discovery in Rajasthan late last year, which is the Shakti, and it confirmed to us the continuing exploration potential in Rajasthan. We've got a very active exploration programme. In fact, this year, we're doing 3D seismic in Rajasthan, and we're also planning to drill five further wells. So we're very excited. There are we believe, significant amounts of oil still to be discovered there.

Q: And what about marketing the crude? Are there any contracts signed yet with downstream consumers?

A: Not yet. It's early days. According to our production-sharing contract, we don't need to have contracts in place until about six months before we start production. The key focus for us, really, is to get the infrastructure in place.

And, as I said to you earlier, it's of paramount importance for us to be a position where we can actually get the crude to multiple refiners. I think once we're in the position to do that, we will then be in a very strong position vis-à-vis our potential customers.

Tax

Q: Can you give an update on the latest about the cess tax, and where we are with this?

A: I think on cess our position has been very consistent, which is that at the time when this particular licence was signed, which was in the mid-'90s, it's clear that the government policy was that the contractors were not liable for cess. It's unfortunate that ours was one of the few PSCs (in fact, one of two of 20 that were signed at that time) where there was no specific mention of cess. And we have since done a lot of work, and established that in all government policy documents, that it was clear it was not our liability.

Obviously, it's difficult for the government at this stage to address what we believe is essentially a contractual anomaly. So our sense, and the advice that we've had from them so far, is that the best way this would be resolved is potentially through arbitration.

Q: When do you expect to have it resolved?

A: I think, again, it's a little bit a question of when we start production. We're hoping to start production in the southern part of Rajasthan sometime later this year. Small quantities, about 1,000 barrels a day. But that process would then precipitate – or crystallise if you will – this issue and give us the opportunity to take it to arbitration. So we feel we're in a very strong position, because the government policy is very clear. It's unfortunate that it's very difficult for them to proactively resolve this in our favour without arbitration.

Q: Some estimates, though, have put the tax as high as $940m. Is that accurate?

A: No, it's not. Again, it's an issue which is not that well-understood by a lot of the analyst community. First, like I said, our degree of confidence is very high that this is not a liability for us, because that's not the policy. If you take a worst-case scenario, where we do go to arbitration and lose, in which case we're established to be liable for cess, then a lot of people have forgotten that we have a fiscal stability clause in our production-sharing contract.

What that means in simple English is that any taxes that we would pay on this licence would be based on the levels that were prevailing at the time when the licence was signed, i.e. the mid-'90s. And if you look at that, then the actual liability is a mere fraction of the amount that you quoted.

Outlook

Q: So, to sum up, how do you see the next 12 months for Cairn India?

A: In a word, exciting. We've got a very active infill drilling programme in our existing assets. We will be drilling a number of exploration wells in Rajasthan, and also in Ravva. We will be doing seismic surveys in a lot of our exploration blocks. We hope to have de-risked a lot of the issues around the Rajasthan development, particularly the midstream. And we hope to have made a lot of progress in identifying the enhanced oil recovery potential from Rajasthan.

So this time next year, I believe we'll be in a position where we will be generating similar amounts of cash flow, and looking to first oil very comfortably in 2009.