"Cairn India Limited Financial Year 2013-14 Earnings Conference Call"

April 23, 2014

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MODERATOR:	**MS. NIDHI AGGARWAL – HEAD, INVESTOR RELATIONS, CAIRN INDIA LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Cairn India's Financial Year 2013-14 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nidhi Aggarwal – Head of Investor Relations at Cairn India. Thank you. And over to you Ms. Aggarwal.

Nidhi Aggarwal: Thank you, Shyma. This is Nidhi, Head of Investor Relations at Cairn India and I thank you all for dialing in. Hope you had a chance to read our 'Earnings Release' for the Financial Year ending 31st March 2014. I have with me today the company's leadership team to discuss the highlights of our performance.

We will begin with Mr. P. Elango our Interim CEO and Whole-time Director who will talk about our key achievements for the year and our 3-year strategic plan for the future growth; Mr. Sudhir Mathur – CFO will then take you through the financial performance for the period, followed by details of our 3-year CAPEX plans. At the end of the presentation there will be a Q&A session where you will have the opportunity to ask questions; Mr. Rich Paces – Director, Operations and Development, and Mr. Ananthakrishnan – Director, Corporate Planning would be joining us for that session.

Some of the statements made in the call today could be forward-looking in nature. A detailed disclaimer in this regard has been included in our presentation that has already been shared on our website cairnindia.com. Kindly refer to the same. The entire call is being archived and transcript would be available on the company's website later. I will now hand over to Mr. Elango for his opening remarks. Thank you.

P. Elango: Thank you, Nidhi, and Good Evening Ladies and Gentlemen, thank you again for joining us this evening. Really to all of us in Cairn last year has been an extremely fulfilling year; we could mobilize the resources to deliver consistent growth and value to all the stakeholders. Our clear focus has been to unlock the full potential of Rajasthan block and activating exploration across our portfolio.

If you take a look at the slide that is up on the screen now Slide #5, this was what we presented at the beginning of this year, so what we promised last year we strived very hard to deliver and will continue to do so in future, and in the subsequent slides you will get the glimpse of the same.

Moving over to Slide #7 what we delivered a result during this financial year has been a very sharp focus. On the operational side, we have delivered a highest ever gross operated production which is up by 6% on a year-on-year basis. Rajasthan production at 181,530 boepd which is again a 7% increase on a year-on-year basis, and most importantly, annual gross CAPEX of around $900 million that we were able to spend during the last year.

On the Financial side, we have delivered highest ever Revenue, PAT, Cash Reserve and Dividend have been declared at a total dividend of Rs.12.5 per share. During the year, our operations helped reduced our nation's dependence on oil imports by $7.5 billion and contributed over Rs.24,000 crores to the government exchequer. There is now a growing recognition of the strategic importance of Rajasthan asset for our nation. The operating environment has become much more conducive with increased support from all our stakeholders and key approval coming in at a faster pace, and therefore to reward shareholders the Cairn India board is pleased to recommend a total dividend of Rs.12.5 per share taking into account Rs.6.5 decided as final dividend including the interim dividend of Rs.6 paid earlier.

Turning to Slide #8 the Robust Operation, while we are delivering the record levels of production, we continue to maintain our track record of operational excellence through efficient and safe operations, as a result we achieved top quartile operating cost, Rajasthan alone is $3.9 per barrel and HSE performance which is comparable with among the top 10 OGP companies in the world.

On the Business Environment, with the announcement of Integrated Development Plan policy by government we hope to reduce discovery to delivery cycle time and accelerate monetization. In this context, I am glad to share that Raag-S1 well, the 26th discovery in Rajasthan that we announced in Q1 of FY'14 is already under test production now. This would not have been possible without the IDP framework.

Turning to Slide #9, with the newer government policy of allowing continued exploration in existing PFC, we are carrying out the largest ever exploration and appraisal program undertaken in the history of Cairn. Rajasthan – we have now mobilized four rigs targeting 10 new plays for exploration campaign. As on date we have drilled 17 exploration wells, of which 14 have encountered hydrocarbons, and we have established 5 new plays. This has resulted in establishing additional 1 billion barrels of hydrocarbons in place. We are now more confident than ever about the resource potential of this block and our ability to convert the resources to reserves and to production applying world-class technology and talent.

I am pleased to announce that we have made 3 more discoveries since last announcement, taking the total discoveries to 6 since the recommencement of exploration in March 2013.

We are making good progress on 3D seismic survey in Rajasthan having completed 14% of the planned 1,900 sq.kms. Through this ongoing seismic survey, we believe to generate additional leads and prospects to unlock the full potential of the Barmer basin.

Moving on to Other Assets in Slide #10, we commenced drilling in Ravva during Q3. While drilling the high pressure, high temperature deep exploration prospect, we faced some challenges owing to weather conditions and operational difficulties. Overcoming these, the drilling is currently in progress.

In Nagayalanka which is our onshore asset in Andhra Pradesh, the 60-day extended flow test on appraisal well was completed with a maximum flow rate of 850 barrels per day, and in the process we monetized roughly 15,000 barrels. Plans are in place to acquire both 3D and 2D seismic surveys in our other Indian assets. In South Africa, we have successfully completed large 3D & 2D seismic surveys. We have embarked in FY'15, exploration CAPEX of $200 million for Rajasthan alone and over $100 million for others.

One of the things that we promised was to provide you a 3-year strategic plan and outlook. What you are looking at now is the Rajasthan block is a world-class resource base, if I can ask you to move to Slide #12, with 31 discoveries in diverse formations and reservoirs. This offers multiple opportunities for development projects and in order to efficiently deploy capital and resources, we have adopted a portfolio management approach with focus on cost effectiveness and fast track delivery. In Rajasthan, we have planned a development program with CAPEX of $2.4 billion in 3 major areas – MBA, Barmer Hill Development and Gas Development – to deliver a production CAGR of 7% to 10% and a reserve replacement ratio of over 150% over a 3-year period.

Let us take a look at each of the three projects in more detail. Mangala polymer flood EOR full field is under implementation with an estimated CAPEX of $550 million fully approved by the management committee. We are targeting first injection by Q4 FY'15. The three important elements of this implementation are: 1) Contracting and Sourcing Chemicals; 2) Building Central Polymer Plant; and finally, 3) Mangala processing terminal modification. All contracts for the above have been ordered, work has commenced and a dedicated team is working to fast track delivery. The EOR wells are planned to be executed through an integrated well delivery model. The development plan to implement polymer flood in Bhagyam is also in place, and we are currently in discussion with JV. As per our EOR strategy, the polymer flood will be extended to Aishwariya too in future. ASP pilot is already underway in the Mangala field.

Our aspiration is really to emerge as a leading player in application of EOR technology. During the past year, we secured four drilling rigs, which resulted in a ramp up in our drilling activity, and delivered around 130 wells. We have secured three additional rigs and expect to continue drilling wells in MBA including infill wells in Mangala and Aishwariya We are upgrading fluid handling and water injection facilities.

On 14th November 2013, pipeline infrastructure has actually delivered over 227,000 barrels to refineries and a future upgrade to 300,000 barrels of oil per day transportation capacity is possible. Overall, we are targeting a recovery factor of 50% from the MBA fields.

Turning to the next slide, Barmer Hill formation has emerged as a major development opportunity and the recent exploration results confirm this potential. The Barmer Hill which is spread across the block can be considered as two major opportunities – Barmer Hill North consisting of oil prone porcellanite rocks; Barmer Hill South consisting of muddy porcellanites. The plans are to develop Barmer Hill in the North in Mangala, Aishwarya, and then scale up development across the block. The BH is a tight formation and thus we see that application of hydro-frac technology replicating the North American model will be the best choice for monetizing this large resource. We are also working towards a series of partnerships with global players and are fully committed to deliver in coming years.

Turning to Slide #15 the southern part of our Rajasthan block is offering exciting gas opportunity which is being confirmed by our recent exploration results. As a phase wise development we are upgrading our gas processing and handling capacity and planning for a new pipeline keeping in mind the long-term potential. This development will help boost the regional gas markets, production of natural gas liquids and enable us for PSC extension too.

Turning to Slide #16, we are targeting a 3-year reserve replacement ratio of 150% based on our confidence in the exploration potential in Rajasthan, and in monetizing discovered resources to production rapidly. The facility upgrades, infill wells, polymer flood implementation will help in sustaining the production in MBA fields over the 3-year period. Execution of development activities in the three major areas that I outlined is expected to deliver 7% to 10% 3-year production CAGR from the known discoveries with the first year production expected to be flat.

Let me now invite Sudhir to take us through our robust financial performance for the quarter and year and our CAPEX plan for the next 3-years.

Sudhir Mathur: Thank you, Elango. I will now take you through the key Financial Results. Please refer to Slide #18 of the presentation: Company wise gross average production has grown at a compounded annual growth rate of 12% over the last 2-years, increasing from 173,000 boepd in fiscal 2012 to 219,000 boepd in fiscal 2014. This was driven by strong operational performance in Rajasthan block which has delivered a cumulative production of 216 million barrels of oil equivalent as of fiscal 2014. Robust financials have led to enhanced shareholder value as record revenue was reported for fiscal 2014 at Rs.188 billion rupees, up 7% year-on-year. The growth was due to enhanced production volumes, rupee depreciation of more than 10% despite the higher profit tranche to the government and 3% lower realization. During the year oil constituted 96% of the volume mix with an average crude realization of $95.8 per barrel. Rajasthan crude realized $95.2 per barrel. EBITDA for the fiscal was Rs.139 billion growing in line with revenue at 7% over the last fiscal. We continue to be one of the lowest cost producers in the world with a per barrel OPEX of $3.9 from Rajasthan operations, resulting in strong cash flow from operations of Rs.111 billion in fiscal 2014. Our cash EPS stands at Rs.64.11 per share, up 9% year-on-year. Revenue for the 4th Quarter of fiscal 2014 was at Rs.51 billion, up 16% over the same period last year. We generated EBITDA of Rs.37 billion with 25% year-on-year growth and PAT of Rs.30 billion with 18% growth year-on-year.

Moving to Slide #19; strong operating performance has been driving our profitability. We generated annual profit after tax of Rs.124 billion at a 2-year CAGR of 25%. PAT for fiscal 2014 was driven largely by efficiencies across operations, positive contribution from rupee movement and profit booking on matured investments.

Coming to Slide #21, we continue to retain our financial flexibility with a top quartile performance on returns. In this fiscal, our return on capital employed was at high of 35% excluding treasury and ROE stood at 23%. Cash and cash equivalent balance of 137 billion in rupee funds and 1.5 billion in dollar funds was up 37% since FY-'13, primarily driven by high operating cash flows. As on March 31st 2014 our MAT credit of Rs.71 billion will help offset future tax outflows post the expiry of the tax holiday.

Moving to Slide #22, the company wise gross CAPEX in FY-'14 was at a record of $900 million led by all-time high exploration CAPEX of 41%. Gross CAPEX spent on RJ exploration and development activity constituted almost 3/4th of the total, building a base for future growth.

Going forward, we plan to spend $3 billion in net CAPEX over next 3-years, of which 81% will be incurred in the first 2-years, primarily on three key development projects in Rajasthan. These investments would help achieve our commitment of 7% to 10% compounded annual growth rate in production till FY-'17 from known discoveries.

Let me now invite Elango for presenting his concluding remarks before the session is open for Q&A.

P. Elango: Thank you, Sudhir. In conclusion, I would like to say that last year our performance has been very fulfilling. In Financial Year '15 daily gross average production has been about 219,000 barrels, 83% of which has come from Rajasthan, and at 182,000 boepd, next year we expect similar contribution from this block. The Mangala field which has produced over 14% of its initial oil in place to-date is expected to come off plateau for a while, but we have started working on several programs to sustain base production and improve recovery from the field. The execution success we achieved in terms of our drilling activity, drilling efficiency, fracture stimulation, and project management provides us the momentum to sustain the planned level of activity required to deliver the production growth and reserve acquisition. MBA fields position Barmer basin as the largest onshore producing field of India. We will now embark on its next phase of growth by unlocking its world-class resource base through 1) focused exploration to discover more, 2) application of North American model to target world-class recovery efficiently from the large tight formation and 3) by maintaining the financial flexibility for fast track development. I would now like to request the moderator to open the session for Q&A.

Moderator: Thank you very much, sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Bhavin Gandhi from Batliwala and Karani Securities. Please go ahead.

Bhavin Gandhi: Sir just wanted to understand that in the press release you have mentioned that we have added about a billion barrels from the new discoveries. Could you also share a recoverable number which is attributable to this STOIIP number?

P. Elango: The discovery that number that you have mentioned now is about the increasing oil in place in Rajasthan alone in terms of both oil and gas together. I will ask my colleague Ananth to explain the process of this conversion.

B. Ananthakrishnan: So based on the discoveries that we have made since the resumption of the exploration program from the 17 wells that we have drilled, and based on the discoveries that we have made, our current estimate of the in-place, I would like to reiterate the initial estimates of in-place number what we have quoted as 1 billion barrels. The test results and the drilling results need to be evaluated before we can actually estimate what the recoverable numbers are going to be from these discoveries. That will depend on the evaluation as well as the appraisal, and once we complete the evaluation we will revert with the recoverable volumes from these discoveries.

Bhavin Gandhi: And sir, the other question that we had is that you mentioned that you have drilled out 50% of the prospective resource base. So does it mean that the 50% of the reserve base is the corresponding number is about a billion, I presume that the guidance was about 3 billion barrels of prospective resource base, so how do you tie up these two numbers?

B. Ananthakrishnan: I think it is difficult to tie these two numbers; one if you are referring to that 530 million barrels that we have quoted as a risk number, please note that it is a risked number over an entire portfolio of a drilling campaign. When you say 50% is drilled out we are talking about the 50% of the portfolio being drilled out. So it cannot be correlated to the recoverable volumes directly. And as I said earlier the actual recoverable volumes that are going to come out from the discoveries will be estimated and will be conveyed later during the year.

Moderator: Thank you. We have the next question from the line of Harshad Borawake from Motilal Oswal Securities. Please go ahead.

Harshad Borawake: Sir, your production guidance for the next 3-years, so first you are talking the flat production in FY-'15, so just wanted to confirm it is on the average of FY-'14 or the exit rate?

P. Elango: It will be on the average of the FY-'14.

Harshad Borawake: Secondly sir you are saying that the production guidance also and the reserve replacement ratio is a subject to PSC extension to 2030. So can you just give the status on the PSC extension?

P. Elango: On the PSC extension, our PSC contract provisions are very clear which if we have a commercial gas development, then PSC extension will be for a period of 10-years as such which is 2020 to 2030. Now, we are very confident about the commercial gas development from Rajasthan; in fact, already discovered resources itself will allow gas sales to continue right up to 2030 and then beyond that. Therefore, we are very confident on the basis of the PSC provisions and the initial discussions that we have had with the government, of securing this PSC extension. Obviously, this will be one of the items that will be discussed with the new government.

Harshad Borawake: So any of the current CAPEX which you announced, is it contingent on the PSC extension?

P. Elango: In terms of testing the investment viability we always tested based on the 2020, but obviously a PSC extension improves returns much more significantly.

Harshad Borawake: Lastly, is there any increase in the total in-place number of 7.3 billion barrels?

P. Elango: Ananth will explain that again the whole process.

B. Ananthakrishnan: So just let me first clarify the 7.3 billion barrels. What we have so far discovered and developed in the MBA fields, we are talking about 2 billion barrels in place which is currently under development; Then you have 2 billion barrels which has been discovered and which is yet to be developed, and the rest of the 3 billion barrels is what we consider to be in the exploration portfolio. So, as I said earlier, out of the 17 wells that we have drilled, our preliminary evaluation of the in-place is 1 billion barrels.. The recoverable numbers out of that 1 billion is being currently evaluated.

Harshad Borawake: So this 1 billion is it addition to 3.1 or it is a part of 3.1?

P. Elango: It is part of 3.1 which has been now established

B. Ananthakrishnan: .. The current exploration results clearly indicate that there is a growing exploration potential within the block. We will come back with the revised numbers as well as the exploration portfolio.

Moderator: Thank you. We have the next question from the line of Sanjay Mookim from Credit Suisse. Please go ahead.

Sanjay Mookim: Just to clarify on your 3-year guidance when you say 7% to 10%, so in FY-’17 we are looking for an average production of 220 to 240, or is that an exit rate guidance there?

P. Elango: We are now looking at average production.

Sanjay Mookim: So we can assume that FY-’17 guidance averages 220 to 240 then?

P. Elango: 7% to 10%.

Sanjay Mookim: The second question, if there is a probability associated with guidance, would I say it is like a best case estimate or a high case estimate in terms of the production guidance?

P. Elango: No, it is an estimate, I do not want to put an adjective to that really at this stage, but as we move forward, we continue to guide on that with more firm numbers.

Sanjay Mookim: My second question was on the reserves accretion for FY-’14. You said that there is 100% 2P reserves accretion which would be about 70-75 million barrels, is about 50 million barrel added at Aishwariya. Can you talk about where the other 20 million reserves have been added?

B. Ananthakrishnan: On a net basis we have produced 50 million barrels, and when we are saying reserve replacement of ratio of 1 what we are saying is, we have moved and booked in under 2P 50 million barrels of reserves net. So that 50 million barrels comes from multiple areas, so the reservoir performance of Aishwariya, the Bhagyam polymer flood and the Raageshwari deep gas are some of the key additions to the 2P reserves.

P. Elango: I would add that the reserves estimates have been reviewed by third party as we normally do at the end of the year. We are very comfortable with the number.

Moderator: Thank you. Next question is from the line of Vikas Jain from CLSA. Please go ahead.

Vikas Jain: Two questions; firstly, is on the Slide 13 on MBA production which you have said that there is an estimated potential of 180,000 to 200,000 barrels per day. So what exactly do you mean by that? That is the estimated production average for the next 3-years from these three fields including EOR or how should I read that because I understand that Mangala will be declining, but the current approved peak production is 150 plus 40 plus 20, right, so that is 210,000. So what really is that 180,000 to 200,000?

P. Elango: Vikas, the way you stated it is absolutely correct. That is the way we are looking at over a 3-year period of time; it should be in this range definitely.

Vikas Jain: So the average for the 3 years will be in this range? The other thing was although Mangala coming off is of course one of the bigger reasons why possibly production cannot be increased this year, but still Bhagyam is at around the average for the quarter for DA2 is around 28,000 or so. So, is not that something that can move up other than the fact that there is of course polymer injection which could add to production in Q4, so is not that really a negating factor if any, and in addition to that of course outside of MBA fields kind of come in, is all of that already in the assumption when you talk of flat production?

P. Elango: We have taken all of that in the assumption, #1, and Vikas as you know that we kind of stopped giving guidance field wise and maintaining it at a block level. The way we kind of approach particularly Bhagyam is we are very confident about EOR in Bhagyam helping us to do better in terms of improving recovery from Barmer, and that technical studies have been done. Currently, we are in discussion with our partner. And what we intend to do is, if you recollect, Vikas, that when it came to Mangala EOR, we advanced drilling certain Mangala EOR wells as infill wells first, then that can be easily converted into EOR well. That is the same strategy we wish to follow for Bhagyam as well. By that process, we hope to maintain Bhagyam performance, but overall, our strategy is to produce from Mangala, Bhagyam, Aishwariya, and including some of the small fields together in this range.

Vikas Jain: Broadly, the direction that we are possibly getting into is that even with the infill wells, getting to 40,000 or so just without the EOR at Bhagyam is getting more and more difficult, is that broadly correct?

P. Elango: That is broadly correct, Vikas.

Vikas Jain: The other thing was on this three-year reserve replacement of 150% that we are talking about subject to PSC extension of 2030. Is this 2P reserve replacement or is it 2P plus 2C? Why I ask that is because if you get that extension to 2030, then even your current developed fields would also see an increase in 2P reserves, which is MBA, because from my understanding currently 2P only assumes production till 2020. This 150% replacement a large part of that may not even require fresh discoveries, it could possibly even come from just the extension, is that correct?

P. Elango: The way we looked at that when presenting the number is not solely depending on PSC extension, we want to clarify that. The confidence for us about reserve replacement really comes from the exploration success that we are seeing as such. Certainly, the PSC extension is going to aid us significantly, but I want to clarify that we are kind of looking at both operational, from a resource perspective as well as PSC extension. But having said that your point is right that the PSC extension is a large value addition, there is no doubt on that.

Vikas Jain: Just one more thing in terms of when flat production is being mentioned, so the first uptick in gross production, let us not get into field-by-field, because you have been uncomfortable about it for a while now, so increase in production on an average would possibly come only after polymer flooding is implemented in Q4, is that broadly correct? And secondly, has Mangala started declining, or you are forecasting that or fearing that it should happen sometime in this year?

P. Elango: Two things; one is the EOR injection which we hope to achieve during this year, the results of which will start showing in the subsequent financial year; there is a time gap between injection and that is turning on into production increases, that is #1.

#2 overall today we are kind of looking at the way we exceeded last month, we kind of maintaining production around those levels, but we do see the field come off plateau, then the small fields coming into production, all that happens during this year. I want to reiterate this kind of situation is going to be there for this year only. From next year onwards we are really looking at stepping up the production, as we unlock the resources that are being discovered.

Vikas Jain: In terms of firstly, to achieve your current guidance of flat production for FY15, what are the incremental approvals that you need, #1? And #2, since you mentioned that in three years, the production CAGR that has been mentioned is from known discoveries, what are the approvals that you would need over the next couple of years to get to even that 7% to 10%? So what are the incremental approvals required, first one the more quickly because of this year's guidance? And second one, relatively over the next two years?

P. Elango: I think, Vikas, it was a very good question, because really one of the important achievements of last year from a policy perspective is to have this Integrated Development Policy framework in place. What it really does is allows us to bring a discovery into production without going through a full-fledged field development plan approval, therefore any new discoveries I make I do not have to wait for a Field Development Plan approval, but I do have to engage **our** joint venture partner, and more in discussion, but we can bring them; we can rapidly move our production bringing new wells in production. So that gives us the confidence about bringing new discoveries into production rapidly, that is one.

#2, as far as the existing production, we do not foresee any approval required other than the normal work program and budget approval which is already happening. No new approvals required to maintain the production from the MBA fields.

Moderator: Thank you. We will take the next question from the line of Kumar Manish from HSBC, please go ahead.

Kumar Manish: I have two questions; more kind of a clarification, first is, when you say that reserve replacement is 150% at the 2P level, correct me if I am wrong, when you produce it is actually the 1P number that gets produced, it is as proven as it gets, so are you saying that the 1P number will be replaced 1.5 times by the 2P number?

P. Elango: Ananth will answer this question

B. Ananthakrishnan: Production does not differentiate 1P or 2P, first. And when we are saying 2P, we are just saying that if it is 150%, if I say produce 50 million, I am going to replace it with 75 million moving into 2P.

Kumar Manish: The second question that I have is, related to the production guidance, and again it is for the understanding. You have talked about 7% to 10% CAGR over 3 years, which will mean about roughly 20% to 30% at the gross production level, which is about 220,000 barrels a day. So am I wrong if I assume that you are talking about an increase of about 45,000 to about 65,000-70,000 barrels a day production, so what it then means is the production at the gross level in FY18 will be in the range of 245,000 barrels to 265,000 barrels a day?

P. Elango: We kind of avoided specific numbers at this stage, because Manish, if you look at, the company has never given more than current year as such in the past. What we thought was very important in the context of our flat production this year, we should be very honest in disclosing how do we see the next three years as such, that is how we have given, as I said, we move on a year-to-year basis, we would be giving sharper numbers as such.

Kumar Manish: Just to understand this a little more, this CAGR is for two years and not three years, whatever is the range, it is actually meant for 2 years?

P. Elango: Up to that, Yes.

Kumar Manish: On FY15 number?

Nidhi Aggarwal: No, Manish, let me just intervene; it is based on the FY14 number for three years. So yes, you can assume because considering the first year is flattish, so it will be back-ended growth for the next two years.

Kumar Manish: Sorry, I am slightly confused. So what you are saying is the range will be from about 245,000-250,000 to about 260,000- 270,000 barrels a day plus/minus whatever?

Nidhi Aggarwal: No, we are not giving any specific range. We are just talking about 3-year CAGR of 7% to 10% from known discoveries.

Kumar Manish: No, I am simply actually multiplying that CAGR with the base production number. I am not actually using any other calculation here; it is a simple calculation. I am just trying to understand if our understanding and your understanding is the same when we talk of a 3 year

CAGR; is it 20% to 30% over FY14 number, or is it a different percentage that we are talking about?

Nidhi Aggarwal: Manish, the base will be FY14.

Kumar Manish: And the percentage will be 20% to 30%.

Nidhi Aggarwal: 7% to 10% three-year CAGR.

Kumar Manish: Yes, which is about 22% to 33% to be specific, or 34%?

P. Elango: Two things; one is the production for FY14 and FY15 are going to be same average. The next two years is what we have stated.

Nidhi Aggarwal: And Manish, and just to point out, this is only Rajasthan numbers, we have also the other assets.

P. Elango: Absolutely, this is only the Rajasthan number. We have not kind of maintained some matured seen levels, we are not adding that. We are keeping very sharply focused on Rajasthan.

Kumar Manish: So this is basically 15% to 20% level over FY14 number and FY17?

P. Elango: I thought you are all very good in mathematics.

Moderator: We will proceed with the next question from the line of Amit Shah from BNP Paribas, please go ahead.

Amit Shah: Actually a couple of questions; one is probably following upon what Manish was asking was, if FY14 and FY15 is flat, if you had to give the growth range on basis of FY15, what would it be, if I can ask it differently, because if it is going to be flat, then it is pretty much the same, right?

Sudhir Mathur: I think as Elango mentioned that next year is going to be flattish.

Amit Shah: Correct, so if you just had to give a growth number on FY15 to FY17, what would that be?

Sudhir Mathur: Look, if you go back to our CAPEX slide in the presentation, it would tell you the distribution of CAPEX year-on-year and project-by-project, and it is only at the end of the project that you would see the growth in production volumes, barring the infill drilling where production happens as we want really. So, you would be able to estimate something of that.

Amit Shah: But would you care to kind of ensure a guess on what FY15 and FY16 would like?

P. Elango: We do not want to give specific numbers really.

Amit Shah: One more thing, the flat production guidance was a bit of a surprise, but is there any reason; is that because EOR is delayed by at least six odd months because I thought it was supposed to come in by Q1 FY15?

P. Elango: Let me answer that question this way. If we had implemented the EOR one year back, perhaps we would not have been talking about a flattish production. But, it is very important that it was a $550 million project, we wanted to ensure that every stakeholder is comfortable with this project. We went through a very, very rigorous review. It is the world's largest EOR program. It has the board approval, not only our board as well as ONGC board, then the management committee. So, we were very keen on this project, do it right, get through all the processes and that is what we did. To answer your question, yes, if we had done the EOR one year back, we would not be staring at a flattish production rate. I want to reiterate the point. Our confidence and comfort about giving you 7% to 10% CAGR really comes from the confidence that we are having on the resource base as well as our ability to convert the resources to reserves and subsequently to production. And this confidence also comes because of this Integrated Development Policy which allows us to do so. So today, the conversations are about JV approvals or not, out of this place, because that is very much enabling us.

Amit Shah: Two very short questions; first one is that, the CAPEX is a billion dollars odd till FY17, and that is your share only, correct?

P. Elango: Correct.

Amit Shah: And secondly, can you give us the 2P number for Rajasthan as a whole at the end of FY14?

P. Elango: As you know, we would publish the reserves as part of the annual report publication, it will have all the detailed breakup. Please bear with us till that.

Moderator: Thank you. The next question is from the line of Avadhoot Sabnis from CIMB, please go ahead.

Avadhoot Sabnis: I just wanted to stress on the line, when talking of 7% to 10% production from known discoveries, you are basically implying discoveries whatever the 17 wells drilled to-date kind of stuff, right?

P. Elango: Including that. Whatever discoveries we have made up till now, correct.

Avadhoot Sabnis: Basically, the implied number, if something more turns up in the current year, obviously, there could be revisions?

P. Elango: If we are able to bring it on to production as well and bringing into production really depends on geographical location, sub-surface etc. Therefore, when we already emphasize whatever guidance we are giving is only for known discoveries and we do hope to make a few discoveries and we will come back as we do those discoveries. On a quarterly basis we will keep updating you.

Avadhoot Sabnis: Just another point, I hope we give the reserve updates along with the results, I think last year you put out a separate reserve update I think on 13th of May, if the reserve update is already done, it would really help us if you know it is published along with the results itself.

P. Elango: Two things we will be doing; one is, definitely updating as part of the annual results as well as we are doing this year SEC review as well, which we would also be sharing with the market. So our reserves estimation and bookings will be based on SPE guideline. We will also be sharing with you all the other SEC details as well. Some of the analysts have been asking us about 1P, that part also would be declared this time.

Moderator: We have the next question from the line of Arya Sen from Jefferies, please go ahead.

Arya Sen: Firstly, I just wanted the Rajasthan exploration CAPEX for this year.

Sudhir Mathur: It was $160.7 million.

Arya Sen: There were some comments about lower cess. Was there a write back for some earlier periods as well, how much was the impact, and is that going to continue going forward?

Sudhir Mathur: Yes, this was a matter under litigation, which we won, so we have written back for the year as a whole, and going forward it will be continuous in nature.

Arya Sen: And this pertains to the 3% cess over and above the INR 4500 per tonnes?

Sudhir Mathur: That is right.

Arya Sen: Lastly, the staff cost seems to be bit higher this quarter. Was there ESOP impact again, how do I read that? And what would be a sustainable level of employee cost?

Sudhir Mathur: No, the ESOP change of accounting policy took place in Q3 last year, and the last quarter was positive on the total management in the G&A cost from the previous quarter on that account.

Arya Sen: Yes, but if I compare with some of the previous quarters, the employee cost still seems to be a bit higher than what you have been doing in some of the earlier quarters. So, is that going to be the new sustainable level?

Sudhir Mathur: Yes, it will be, because we are adding employees. I think Elango talked about talent acquisition, and we are getting experts to replicate the North American model as well as increasing our staff strength to be able to execute the projects that you just heard about.

Arya Sen: But this is not included in your CAPEX, right, this is outside of CAPEX?

Sudhir Mathur: Yes.

Arya Sen: And there is no one-off element in this quarter?

Sudhir Mathur: There is no one-off element.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from Macquarie Capital, please go ahead.

Abhishek Agarwal: Two questions for you; the first one, I understand that you do not give out guidance on field-by-field basis anymore, but as I can see in the graph, the MBA fields' total production, (the red part of the graph) seems to suggest that there is a mild increase going towards FY17. I am just trying to understand as to what you would be doing to Mangala, Bhagyam and Aishwariya to support and increase given that Mangala is in any case going to decline and Bhagyam also does not seem to be ramping up soon enough, right?

P. Elango: One of them we will continue, and broadly it is going to be flattish, but from these overall production as such, but one of things that we continue to look at is how to improve efficiency from individual well production as such, because that is something that we are continuing to look at improving our well interventions, and de-bottlenecking on a continuing basis. So those that can bring in some incremental, but broadly there is no big difference as such.

Abhishek Agarwal: And the second is a little more strategic; the way that I can see the production profile panning out now, I just wanted to ask if there has been bit of a strategic decision taken maybe at your level or at the MC level to have a longer but lower plateau?

P. Elango: Not really, there is no such strategy, but obviously every time when we decide about the production rate, it is about prudent recovery rate with the ultimate aim being how do you continue to improve the end ultimate recovery from individual field. That is the objective of the management committee, the technical teams objective is not about increasing or decreasing production but about making sure maximizing the recovery from this field, and if you see our track record, whether it is in Ravva as well as what we are targeting in Mangala, Aishwariya is around that piece. And to answer your question in a simple manner, there is no change in strategic direction.

Moderator: We have the next question from the line of Mr. Mayur Patel from DSP BlackRock, please go ahead.

Mayur Patel: Again, can you just help me with the approval like you have mentioned, the Integrated Development Plan is helping you, and so this Barmer Hill development is also covered in IDP?

P. Elango: The execution of Barmer Hill is also covered under IDP, correct.

Mayur Patel: So the development has already started in Barmer Hill?

P. Elango: Yes, we have started, we have assigned rigs and we have started the development in Barmer Hill.

Mayur Patel: So EOR you are expecting to start in FY15 sometime?

P. Elango: The injection of polymer will happen in Q4 FY15, and the recovery should occur after a few months lapse, which should happen in the next financial year.

Mayur Patel: This reserve replacement ratio of 150%, this we are talking about 2P reserves, right?

P. Elango: Correct.

Mayur Patel: How many number of wells we are planning for next year in terms of exploration in Rajasthan?

P. Elango: In terms of development wells, about 125 to 150 wells we are planning in terms of infill cum development wells, exploration is more about targeting the resources and decide the number of wells, we are setting aside about $200 million for exploration but the number of wells will be clearly decided based on how the results are coming out as such.

Mayur Patel: Any other development on the cash utilization policy, sir?

P. Elango: We keep maintaining the flexibility to do all this difficult, tight reservoir developments. Good to be in a position to have the flexibility. Today, we have the policy flexibility and the funding flexibility. What we need to get into higher shape is execution.

Moderator: Thank you. The next question is from the line of Rohit Ahuja from ICICI Securities, please go ahead.

Rohit Ahuja: Can you tell me where we are in terms of profit petroleum in FY15; has it gone up to 40% or is at 30%? I guess in FY14 we were at 30%.

Sudhir Mathur: It goes into a calculation which is discussed with the relevant authorities in a matter of detail, but for purpose of calculating returns on incremental investments we are using a stepped up IM for this year onwards.

Rohit Ahuja: I believe it is revised every year from 1st April?

P. Elango: From 30 to 40 in DA1.

Rohit Ahuja: And DA2?

P. Elango: 20 to 30.

Rohit Ahuja: Secondly, on the production guidance, there were a lot of discussion on that, incrementally, you said we are looking at this year 180,000 to 200,000. As of now what is our production trending and do we see this during the course of the year coming down as you mentioned Mangala is coming off and then until Q4, and until you implement the EOR, so you have got to have a continuous trajectory of declining production till Q4?

P. Elango: No, it is very-very difficult to predict, but we will be giving you update at the end of every quarter for our production as such, so you have the Q4 results are already there.

Rohit Ahuja: You mentioned exit at 200K. So is it safe to assume that you are currently at 200K?

P. Elango: It is difficult to answer that question because we are really looking at an average production during this year, which will be as what we achieved last year, it was 182,000 boepd that is the same that we will achieve at the end of this financial year as well.

Rohit Ahuja: Coming to the guidelines of Barmer Hill, as you mentioned, you have started the development, so when do we see some addition of production from Barmer Hill – will it be this year? So if you are talking about overall combination of production with Barmer Hill and MBA being sustained in the range of 180 to 200, I guess that is what you meant when you mentioned that.

P. Elango: Correct, in Barmer Hill, what will happen is, Barmer Hill reservoir really extends almost all over the block area as such. So in Barmer Hill you will find us doing exploration, find us doing appraisals, you will also find us doing production. All three set of activities will continue to happen in Barmer Hill as such. But, it is not going to make a significant change to our current year production numbers, it will be incremental one, and based on our initial work that we have done, we have given that estimated potential at the range, which is 10,000 to 30,000 barrels a day.

Rohit Ahuja: So is it then safe to assume that operating cost this year could be higher than last year at the same production, it could move up as Barmer Hill comes in?

P. Elango: We do not expect much change other than what we have stated.

Rohit Ahuja: You maintain at $4 or $4.5 range of guidance?

P. Elango: Our guidance has been 5 dollars.

Moderator: Thank you. The next question we will take it from the line of Raj Gandhi from Principal Mutual Fund, please go ahead.

Raj Gandhi: One thing, this production and reserve accretion, now let us say something like ASP flooding and all later on which you have spoken about, which theoretically gets the production even above the polymer flooding there well, so all that is built in this three-year production CAGR?

P. Elango: We have taken overall estimate about what are the things we can execute as such; driven by what execution plan we have, the projects we have already identified, they are in different stages of construction and execution.

Raj Gandhi: For the profit sharing, now let us say you do the CAPEX later on, for now let us say profit multiple has moved up, you do the CAPEX, so later on can it come down again if the investment multiple comes down?

P. Elango: Technically, yes, because Rajasthan PSC does allow for the investment multiple to come down, and therefore the profit petroleum tends to come down as well. Realistically, we do not look at that part of it, we see what is to be executed and we focus on that.

Raj Gandhi: Is there any hindrance to that multiple sharing again coming down? You were just saying that it is just silent on this coming down, so…

P. Elango: There will be a larger scrutiny of cost and details, because there are multiple stakeholders involved as such. So, we would do what is the correct thinking.

Raj Gandhi: The target of 300,000, where does it stand now?

P. Elango: We continue to believe that the resource potential is definitely there in Rajasthan for us to achieve that production rate of 300,000 boepd. Our first step is to really unlock tight formation, and have few more discoveries in our belt so that we can execute and give the next step of guidance on that.

Moderator: Thank you. The next question is from the line of Saurabh Handa from Citi Group. Please go ahead.

Saurabh Handa: Just had a couple of questions; firstly, the guidance that you have given for a production growth, just in terms of the split between oil and gas, can you give us some details… can we assume it would be the similar kind of ratio or it would be more skewed towards gas incrementally going forward?

P. Elango: One of the things whether you noticed or not, the gas production that we are targeting has got quite a bit of liquid component in it, and the liquids get the same kind of revenue that oil gets as such. So, from that point of view, we do not see a significant shift in the next three years, but subsequently, if we have a go for further gas development, that may change, but that will be over and above this.

Saurabh Handa: So, we can just assume it is predominantly liquids and oil?

P. Elango: Correct.

Saurabh Handa: Could you just tell us what was the Rajasthan discount in the quarter?

P. Elango: ~12% discount.

Saurabh Handa: And that is around $95?

P. Elango: Yeah.

Saurabh Handa: How much was the Rajasthan operating cost for the quarter?

P. Elango: For the year as a whole it was $3.9 per barrel, that always happen, last quarter we had some bookings to do, some ramp-up to occur.

Saurabh Handa: Because the first three quarters I think was roughly 3-3.5, so there was a big jump in 4Q but that is lumpy and one-off?

P. Elango: Correct.

Sudhir Mathur: As the number of wells cumulatively increase quarter-on-quarter and the ramp-up productivity is much higher.

Saurabh Handa: And you are maintaining your guidance for the operating cost?

P. Elango: Yes.

Moderator: Thank you. The next question is from the line of Vidyadhar Ginde from Merrill Lynch. Please go ahead.

Vidyadhar Ginde: You guys have said that the 2P reserves have gone up. So, is it reclassification from 2C? And so, has the 2P resources plus 2C resources number actually come down, it was around 1087 mmboe last year?

P. Elango: From one box we moved to the other box, it will take a company from that box, but I am going to ask Ananth to explain it for the benefit of everybody.

Vidyadhar Ginde: I am just asking, 2C has not gone up; so 2C has got reclassified largely the rise in 2P because of 2C being reclassified as 2P and 2C has not changed, so actually the 2P plus 2C has not really changed at all, so it has really fallen or what is it?

B. Ananthakrishnan: Based on the existing discoveries, you are right; 2P plus 2C has not changed, it is just moving from 2C to 2P; however, the discoveries that we are making in terms of the exploration results, once we evaluate that recoverable resources 2C will be updated.

Vidyadhar Ginde: To clarify, 2P plus 2C at the end of FY14 is lower than 2P plus 2C at the end of FY13, roughly to the extent of the production?

B. Ananthakrishnan: That will continue in this year also.

Vidyadhar Ginde: So basically FY14 2P plus 2C, your net around 50 million barrels and gross by about 66?

B. Ananthakrishnan: Based on the current discoveries.

Vidyadhar Ginde: Yeah, so, basically, the reserve rise is just a clarification. So overall, 2P plus 2C is down on a YoY basis?

P. Elango: We are confident to add to 2C.

B. Ananthakrishnan 2C with the discoveries.

Vidyadhar Ginde: I think in the last earnings call you had indicated that Barmer Hill and another small field was likely to start producing I think maybe two quarters back or one quarter back start producing by end of FY14. So that now you are saying that in the process of developing. So what is the new date for start of production in Barmer Hill?

P. Elango: Actually, the well in Barmer Hill has already been put on production. What we are saying is this is put on test production to gather more data and it is producing. So the way we are looking at it, as I said, while unlike in let us say in case of Mangala where we commenced the production that is really a big production number coming through, instead of that we would be producing at the same time in Barmer Hill exploring further Barmer Hill as well as apprising any discovery, that is important.

Vidyadhar Ginde: So when do we expect Barmer Hill to substantially contribute to production?

P. Elango: Over this 3-year period.

Vidyadhar Ginde: So unlikely in FY15?

P. Elango: Yes, it will be very limited.

Vidyadhar Ginde: It will be probably one of the reasonable contributors to volume growth in '16-17?

P. Elango: We will get after everything that can produce, definitely, yeah.

Moderator: Thank you. We just got one additional question here from the line of Mr. Rahul Singh from Standard Chartered Securities. Please go ahead.

Rahul Singh: On the plateau versus life of the production and this is more of a macro question, compared to two years back when you actually had a choice of having a higher plateau and a shorter production life versus the other way round. Right now, there is no choice. You have to basically go and produce whatever you can produce and the rest of the resources will come up over a period of time. Is that a fair statement to make that now that choice is no longer there?

P. Elango: Absolutely fair statement you made, but one thing I want to reiterate is the exploration results kind of indicate a very extended economic life of the field, technically.

Moderator: Thank you. Participants that was the last question. I now hand the floor over to Mr. Elango for closing comments. Thank you. And over to you, sir.

P. Elango: Thank you, ladies and gentlemen. I just want to first of all… those of you who have not had opportunity to ask questions please connect back with Nidhi and the team, I would be really happy to answer any further questions as well if some of you who has got questions, number one. And number two, really, one of the things we did during this year was to invite more and more of you to visit the Barmer facility and to see for yourself, understand it, scale of activities that are moving up in the basin, and I would once again warmly welcome all of you to plan those and certainly do that on a regular basis. What really in conclusion I would like to say is we have talked about 300,000 barrels of production number a couple of years back as well, but at that time we were looking at an estimate based on studies by geologists. I think today when we talk about 300,000 barrels, we are really talking about it in the context of the exploration success we are seeing, while we are still unable to break it down into numbers that can help you all understand the piece together, I want to reiterate the different ways when you are looking at, very-very exciting. Therefore, you would see this year as well, very-very sharply focusing on Rajasthan asset while we continue to activate, complete the exploration activity we initiated in other assets, and we have very sharp focus on Rajasthan asset. I think the two technologies that you will hear us speaking continuously not only with all of you, but in the various government forums as well is about EOR, we are really embarking on something very-very exciting, as well as we will do everything possible to implement the North American model into the tight formations of Barmer basin. Our continuous focus on operating excellence with safety and cost efficiency will always remain very-very focused, and you will see us really strengthening our resource base in Barmer, so we are able to deal with the large expansion that is happening. Ultimately, last year has been an extremely interesting year in terms of acquiring a very diverse set of talent – we have a lot of young people joining us, we have a lot of global technically known people have joined us and we are a lowest attrition versus last year. So, we are looking at a very solid resource base and our aspiration remains to emerge as the best-in-class E&P company, sharply focused on onshore asset we have, and we would continue to work very importantly with all our stakeholders, particularly with the local community, we have been very successful in acquiring land, responsible about use of water, we will be needing a lot of water, a lot of management of water and land as well as overall environment we will be working very closely with the local community.

The final point I want to make is one of the important decisions we took as we began with Mangala development was to focus on promoting local content and we have really moved from that, and that is really helping us. Today, our success is very-very well intending with the success of the local community, the state government, as well as our partner ONGC, as well as Government of India. So, we would stay very focused on that. And my final word is "Look, this company is built on delivering promises and all I can say is we will deliver our every promise that we make and we will continue to remain very-very thankful." Thank you for this opportunity.

Moderator: Thank you sir. Ladies and gentlemen, on behalf of Cairn India that concludes this conference call. Thank you for joining us. You may now disconnect your lines.