



“Cairn India Limited First Quarter FY2011-12 Conference Call”

**July 26, 2011**



**MODERATORS**

**MR. RAHUL DHIR – MANAGING DIRECTOR & CEO**

**MR. INDRAJIT BANERJEE – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER**

**MR. MARK BLANCHE – DIRECTOR, OPERATIONS**

**MR. DAVID GINGER – DIRECTOR, SUBSURFACE & NEW VENTURES**

**MR. S.V. NAIR – DIRECTOR, PROJECTS**

**MR. P. ELANGO – DIRECTOR, STRATEGY & BUSINESS SERVICES**

**MR. ANURAG MANTRI – GROUP FINANCIAL CONTROLLER**



*Cairn India Limited  
July 26, 2011*

**Moderator:** Ladies and gentlemen, good day welcome to the Cairn India Limited first quarter FY 2011-12 Analyst Conference Call. For the duration of this presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted first for participants in India and then for international participants. Should you need assistance during this conference call, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anurag Mantri, Group Financial Controller. Thank you and over to you, Mr. Mantri.

**Anurag Mantri:** Thank you, Rochelle. Good afternoon ladies and gentlemen in the UK and a very good evening to our guests in India. First of all, apologies for the delayed start. Our Board meeting this time was in Edinburgh and it took a longer time than expected. So I really apologize for the delayed start. I take this opportunity to welcome you all to discuss Cairn India's financial results for the first quarter of the financial year 2011-12, ended 30<sup>th</sup> June, 2011.

While we maintain our Mangala production at 125,000 and we move ahead in terms of exploration drilling in Sri Lanka, which is to commence next month. To give us more update on the current quarter performance and the recent developments, joining us on today's call are our senior management team, comprising of our Managing Director and CEO, Mr. Rahul Dhir, our Executive Director and Chief Financial Officer Mr. Indrajit Banerjee; Director Operations, Mr. Mark Blanche, Director Subsurface and New Ventures, Mr. David Ginger, Director Projects, Mr. S. V. Nair and Director Strategy and Business Services, Mr. P. Elango.

We will now start with an overview of the quarterly performance followed by a discussion in the Q&A session. I would now request Rahul to take it forward.



*Cairn India Limited  
July 26, 2011*

**Rahul Dhir:**

Thank you, Anurag, and good afternoon or good evening to all of you. Hopefully, you all have seen our annual report and my letter to the shareholders. In that I borrowed lines from Dickens and talked about the best of times and the worst of times, so it was a sort of last year, in many ways was a story in two parts. And this quarter is actually a story in three parts. And I am not a big enough student of Dickens whether he wrote something which cover three parts or not, so let me tell you what the three parts are. One is that there was reassuring and the most exciting part that we continue with very consistent and very efficient operations and Mark will take you through that in a lot more detail, but we have another good quarter where the gross operated crude production that was contributed again about 20% of India's domestic crude production. So we are operating about 170,000 barrels of oil equivalent per day. And that translates into again over a billion dollars of foreign exchange savings for the country. In addition to that, obviously we will be generating very healthy cash flows from all the three producing blocks, we are now looking forward to commencing exploration drilling activity in Sri Lanka so that is our first venture as you all know outside of India. The rig is on route and we are expecting just about our first well in August and the three well program will then take about five or six months to complete.

And on the operations side we had gained consistent production in Rajasthan where we maintained about 125,000 barrels a day and the facilities had an uptime in excess of 98%. So good quarter from operating point of view, the projects are also progressing well, and you can see that in the actual numbers.

The second part of course is kind of more challenging part where on the regulatory front, the environment is increasingly challenging and what we are seeing is more of the same we have flagged it in the past, we will continue to face delays in production ramp-up we talked about that in previous quarters where we ended up delaying Aishwariya through the



*Cairn India Limited  
July 26, 2011*

second half of next year. We are also facing delays in undertaking studies and for the exploration work. At the most, stark example of some of the challenges what we are facing in Bhagyam. So Bhagyam you will note in the highlights is that it is progressing well, we are going to be ready to start next quarter, and this is all for the FDP and notwithstanding that we have an approved FDP for 40,000 barrels a day production. We still do not have MC approval for the production budget and for the program quantities for this year from Bhagyam, so that is just a fairly stark example of the kind of regulatory environment we are facing currently.

The third dimension which is somewhat, again coming very stark to reality, now is the Cairn Vedanta deal. All of you know the view of the Cairn India board. That has been very clear that with respect to royalty our understanding of the PSC is very clear that it is not cost recoverable and our understanding of Cess is that it is not a contractor cost. However, there have been recent developments as you probably saw from the CCEA decision, the government has in its role as the sovereign and I guess it is recognition that this is a national asset and has taken a view that they would impose these conditions as part of their approval for the Cairn Vedanta deal. Today, we finally have received the letter from the government which sets out the condition approval. In addition to that we have also received a requisition from Cairn UK and this requisition for those of you know Companies Law, this is under Section 169 of Companies Act where as a major shareholder have requested that we convene an Extraordinary General Meeting of the company to consider the conditions that are imposed by the Government of India. So this is all discussed today. Our Board obviously has noted its obligation and also further to the letter we got from the Government of India, the Board reached a conclusion that the most appropriate thing to do would be to hold postal ballot of all the shareholders to consider the conditions that are imposed by the Government of India. Now, obviously, these conditions would have an impact, and as you all know we have been



*Cairn India Limited  
July 26, 2011*

paying cess under protest from day one in Rajasthan. If royalty were to be cost recoverable, and if you just ran the numbers for this quarter, it would lead to decline in revenues of about \$290 million. Indrajit will probably walk you through more in the Q&A of how that is worked out.

Before I hand over to Indrajit and the rest of the team, I just want to reiterate the kind of highlights from the last quarter. One is, of course, Mangala production is going well at 125,000 barrels a day, Reservoir performance service facilities all of that supports higher off take rates, but still subject to JV and government approval. We have now produced and sold over 50 million barrels of Mangala crude and about \$4 million in revenues we generated. And heated insulated pipeline continues to perform well. And as I mentioned earlier, we are looking to spud our first exploration well in Sri Lanka next month. So with that I will hand over to Indrajit. He will give you the financial highlights and then Mark will talk about the business.

**Indrajit Banerjee:**

Thank you, Rahul. Let me quickly run through the financial results. I know you may not have got much time to see them because we sent them very late. But I will just try to take you through the major highlights of it.

During the quarter the Mangala field produced at its peak rate of 125,000 barrels of oil per day. The gross production for the company during the quarter was 171,801 barrels of oil equivalent per day. Income from operations was \$830 million versus \$808 million in the previous quarter. The company during the quarter started sharing profit petroleum with the Government of India. As you know in the case of Rajasthan once the costs pertaining to the development areas are covered, then profit petroleum kicks in and accordingly, 20% rate was paid not throughout the quarter but towards the end of the quarter in all about \$42 million of profit petroleum was net payable during the quarter. This is based upon our understanding of the costs recoverable under the production sharing contract framework and includes certain costs for which regulatory approvals are in process.



*Cairn India Limited  
July 26, 2011*

The EBITDA stood at \$706 million, up by 3% compared to the previous quarter. Cash flow from operations was \$576 million in the current quarter. Cash flow from operations as we normally report is before exploration. Other income generated during the quarter was about \$12 million, 38% higher than in the previous quarter. The average price realization was at \$103.6 per barrel of oil equivalents for the quarter. The Rajasthan crude realization during the quarter was \$104.5 which represents about 10.9% discount to the Brent which was at \$117 this quarter. The Rajasthan crude discount was maintained within our guidance of 10-15% that we have given earlier. We continue to maintain a low cost operation with Rajasthan Opex including transportation at \$2.5 a barrel, however, our long-term guidance continues to remain at \$5 a barrel.

We spent cumulatively \$3.115 billion to date on the Rajasthan development. Of which, 120 million was spent during the quarter. Cash and cash equivalents as on 30<sup>th</sup> June was 1.447 billion and debt was at 422 million at the end of the quarter. The overall net cash was 1.025 billion and during the quarter we repaid \$175 million of debt. In fact, right after the quarter end we have also repaid the balance of our foreign currency debt which was another \$120 million. Employee cost during the quarter was lower than in the previous year mainly due to the lower ESOP charges. The net exploration spend during the quarter was about \$8 million, however, the charge in the accounts was \$4 million applying our accounting policy with regards to writing off of exploration spend. The DD&A depreciation and depletion during the quarter was at \$9 a barrel which is in line with our guidance and more normalized than what was in the previous year, because previous quarter we had some onetime extraordinary item.

The tax during the quarter including current tax and deferred tax has netted off for MAT credit was at \$20 million, this was low 3.2% to PBT and the reason for that was essentially that we had lowered exploration and developmental expenses during the quarter for capitalization and therefore



*Cairn India Limited*  
*July 26, 2011*

led to a lower deferred tax liability creation. However our guidance still remains about 6-10% of our earnings, at least for this year, 6-10% of our PBT would be the total cash charge. Profit after tax was \$610 million. Now, as Rahul mentioned earlier, all these numbers that you are seeing the revenue as well as the profit after tax this is considering royalty has not been cost recoverable, as Rahul mentioned that is there in detail in the press release, the decision is forced with regard to forwarding the resolution for the shareholders, so for the sake of transparency and disclosures we have given a note in the account to quantify what the impact would be if royalty were to be considered as obstacle up till now. And the figure there that we have stated is \$289 million in the cumulative effect till now small part of it related to the previous year and that note is given to the accounts. EPS for the quarter without considering the royalty cost is Rs. 14.3 per share. One other point I need to mention here is that our reorganization which was approved by the courts earlier but which needed the approval of the joint venture partner and the government to be made effective, that still remain outstanding. We are pursuing but we have not got the approvals as yet. These are the broad financial highlights, and now I would like to hand over to Mark to take you through the operational highlights. Mark?

**Mark Blanche:**

Thank you, Indrajit and good evening, everyone. I will now move on to the operations and project development as we did in the last quarter. As Rahul mentioned earlier, we completed a one-year of safe and efficient at Mangala processing terminal as well as our pipeline from Barmer to Salaya. This is a great achievement. We are well-committed to continue safe operations in all areas of our business. Specifically in Rajasthan operations and HSE the operations have achieved more than 3 million safe man-hours to date while simultaneously producing the Mangala field at the rate of 125,000 barrels a day, the rates we achieved almost one year before. It is a testament to the fantastic reservoir quality and efficient management team in the Cairn India.



*Cairn India Limited  
July 26, 2011*

Production has commenced in the Saraswati oil field on May 29, 2011. This field is currently producing 250 barrels of oil per day and oil is being trucked to MPT for sale through the pipeline. This is in line with our strategy of using existing infrastructure to monetize the smaller Rajasthan discoveries. Our plant up-time for the upstream is at 100% during the last quarter. And this is benchmarked against best in quality, best-in-class of 95-98%. So we are running 2, 3% above the best-in-class. This is well achieved our track record as an efficient low cost operator, consistently figuring in the top decile especially in our Ravva asset. Overall, our field direct operating expenses have been \$2 per barrel for the quarter.

Moving on to project update – the Mangala Development Drilling progresses as planned with 148 wells drilled to-date, of which 96 are complete, and 64 producing. The well results confirmed excellent quality of the high deliverability potential of formation of that reservoir.

Now I would like to move on to the EOR pilot. EOR pilot in Mangala field is on track. Water injection phase continues to perform as per expectations. The trial polymer injection has also been successful in the first well which has commenced in July of this year. The Bhagyam development is progressing well with 33 wells drilled to-date. Reservoir properties as per our expectations and we expect to commence production in the fourth quarter this financial year. Although project delivery is as per the schedule for the fourth quarter, we are currently waiting for the government approval for the reasons Rahul previous discussed. We are actually looking toward active support from the GoI to help us start up this field. The development work for Aishwariya has also commenced post the assessments of higher production potential and design optimization. We plan to commence production for Aishwariya in the second half of next year 2012.

Construction work on train 4 is as per schedule and process is on track. We expect the commission of 75,000 barrels a day trains sometime in the fourth



*Cairn India Limited*  
*July 26, 2011*

quarter this year. This will take the Mangala Processing nameplate capacity is to 205,000 barrels a day.

Now, I would like to move to our matured assets Ravva and CB/OS-2. We continue our interventions to slow production decline in Ravva our mature asset. We completed an infill program of five well including one horizontal well. I think that has been well discussed in the previous conference call. Workover activities at Ravva to augment oil production and water injection are also in progress. The purpose of infill program has helped to slow production decline and add incremental reserves and also increase water injection capacity in the field. In the CB/OS-2, the North Tapti tie-in is under progress and all mechanical works in our platforms are complete. This will allow optimal use of facilities and help process stranded gas in the area. In summary, both Ravva and CB continue to be of pillars of strength and highlight our ability to maximize recovery as well as manage our cost and have acted the foundations for developing talent in our organization. So these are the broad operational project highlights and we will move on to the Q&A.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. To ask a question at this time please enter '\*' followed by '1' on your touchtone telephone. If your questions are answered you may withdraw your question from the queue by pressing '\*' followed by '2.' Participants are pleased to requested to use only handsets while asking a question. The first question is from the line of Rahul Bhangadia of Lucky Securities. Please go ahead.

**Rahul Bhangdia:** Thank you for taking my question sir. Actually, I just needed a clarification on the royalty recoverability that you have mentioned in the notes to accounts, about Rs.1,290 crores is what you have said is amount of the hit how much of it is accountable for the previous period and how much is for this quarter?



*Cairn India Limited  
July 26, 2011*

**Indrajit Banerjee:** I will just explain that very briefly and it is a very complex formula but I will try to explain it very briefly which is that the way the production sharing contract mechanism works is that all the unrecovered cost for one year are put into a pool and that pool, the relative ratio between our share and the others share form the basis of sharing revenues in the subsequent years. This is in a fiscal year basis. Therefore, if you were to rework the whole thing on the basis of royalty being cost recoverable what you do is you will take all the costs which has been paid as royalty by ONGC till 31<sup>st</sup> March 2011 and then redetermine what the cost of the ratio is going to be for the year following, which is '11-12, then it would impact the revenues for '11-12 and that is the reason why you are seeing the previous periods impact is relatively small compared to the current year impact because in 09-10 since the production was not much the impact on EI change will not be very high for FY 2010-11. However the production in FY 2010-11 was high and hence the EI% change will be substantial.

**Rahul Bhangadia:** So in a nutshell, is there going to be a quarterly run rate kind of stuff if we remove 129 crores from the 1290. So roughly, is 1150 crores going to be the quarterly run rate, is that the way to go by it, I am just trying to understand?

**Indrajit Banerjee:** No, it is not. For you if you want to work it out and the best way to do is to consider about 15-16% somewhere in that range. The royalty being payable on the net revenues. We will consider in that way and then do your own modeling if you want to. But what you see here is 289 million is effectively an impact of all the royalty that has been paid since the time that we started off and in fact, it more or less covers most of the part but not fully, I must say it does not cover fully because the current year's cost, I explain to you that previous year's cost to form the basis of cost for the current year, therefore the amount of cost in the current year which would impact the royalty payable through the adjustment in cost oil in the months to come. However, large part of the cost which have been incurred on royalty till now is covered.



*Cairn India Limited  
July 26, 2011*

**Rahul Bhangadia:** Because roughly as you suggested 15-16% of the net revenue is what is going to be the royalty part of it?

**Indrajit Banerjee:** Yes, because it is payable at 20% of the post well head value of oil which means that you have to delete the post well head cost from net realization to determine the rate.

**Rahul Bhangadia:** Okay. That makes a real sense, sir. Thank you so much.

**Moderator:** Thank you Mr. Bhangadia. Our next question is from the line of Shola Labinjo of TTH. Please go ahead.

**Shola Labinjo:** Hello, good afternoon. I just got a couple of questions on some of the projects you got in Rajasthan. First off, Rajasthan, you indicated that you have drilled horizontal and vertical wells, so could you give some sort of idea about what the production rate on those wells are, there is sort of decline which you anticipate going forward EUR you expect to see from those wells. Another question is on the Barmer Hill project, what is the best sort of technology you use for that project and what is the fracking capacity like in India?

**Mark Blanche:** We do not give individual rates on wells. But the horizontal wells, we drilled 11 to-date in Mangala. All the wells are performing as expected and contributed significant portion of that 125,000 barrel a day plateau rate. Your second question was for Barmer Hills, correct?

**Shola Labinjo:** Yes.

**Mark Blanche:** The technology that we plan to implement Barmer Hills is similar to what we have implemented in Raageshwari and is probably is current up-to-date with what is going on in other parts of the world in tight sands. We used hydraulic fracc technology in Raageshwari and we plan to use that in Barmer



*Cairn India Limited  
July 26, 2011*

Hill as well. So Barmer Hill, we plan to develop it with horizontal well with fracs as well as some vertical well.

**Shola Labinjo:** Right and what is the fracking capacity like in country?

**Mark Blanche:** Basically, what we are seeing in Raageshwari is we can do just about anything that we have done in other parts of the world concerning fraccs. If we put quite a tight sand and oil and Raageshwari we are doing the same every where else in the world.

**Shola Labinjo:** And just another thing. On your licenses expire on 2024, how do you see the production profile going forward to the expiration date, are you going to have a rapid ramp-ups and then rapid decline?

**Rahul Dhir:** So what the guidance we have given the market is that today we have got field development plans approved for 175,000 barrels a day and overall the discovered resource base is very substantial. So we brought in addition to the discovered reserve in Mangala, Bhagyam and Aishwariya, there is very significant enhance all the recovery potential, so we are very confident that we can sustain the plateau levels very comfortably through the rest of the decade. So that is based on the 175,000, which is on development plans that are approved. In addition to that we have given guidance to the market that there is potential to achieve 240,000 barrels a day based on production largely from the three main fields plus other discovered resource. So, somewhat interesting unusually in a resource line, we got enough resources that we are comfortable that we will be able to sustain whatever ultimate plateau we have comfortable through the rest of the decade.

**Shola Labinjo:** Right, and license expiry, how do you see renewal?

**Rahul Dhir:** I think that sort of thing that is closer to the time you would have to consider it. There is not a lot of precedent around that in India but obviously



*Cairn India Limited*  
*July 26, 2011*

there are provisions within the PSC which allow you to extend the license. But that is not something that we sort of being concerned about for now.

**Shola Labinjo:** All right, thank you.

**Moderator:** Thank you. Our next question is from the line of Sriram Ramesh of BNP Paribas. Please go ahead.

**Sriram Ramesh:** The royalty impact has been given, the revenue impact, so if at all whenever the royalty impact comes it will be accounted in revenue?

**Rahul Dhir:** Yes, Ramesh, it will be accounted as revenue and it will have direct impact on the bottom-line as well.

**Sriram Ramesh:** Okay. On the Saraswati pricing for the crude there, does it follow the same pricing mechanism or it follows a different benchmark?

**P. Elango:** It will follow the same pricing mechanism, because we are taking the specific crude the Mangala general and that will be being mixed with the Mangala crude, being a small volume it will not change the overall quantity

**Sriram Ramesh:** Okay. And my last question is that basically in the postal ballot, how does this thing work, can you please explain like in terms of majority stake, is already held by both Cairn and Vedanta, or is it by number of shareholders like....

**Rahul Dhir:** Basically, like I said earlier that Cairn Energy is the major shareholder, has the right under Section 169 to ask the Cairn India Board to convene an EGM and we have legal obligation to consider that. The Board's view was that it is more appropriate to go to postal ballot so that we can reach out to all the shareholders. The voting will be based on the economic interest. How individual shareholders vote is really not a question for us, it is management to address and we cannot really speculate with that. So we are focused



*Cairn India Limited  
July 26, 2011*

mainly on consideration on the legal obligations of the Cairn India Board at this stage.

**Sriram Ramesh:** Okay, thank you sir.

**Moderator:** Thank you. The next question is from the line of Vedant Agarwal of Kim Eng Securities. Please go ahead.

**Vedant Agarwal:** What would be the ramp-up in production at Saraswati?

**Mark Blanche:** The production rate what has been approved in the management committee to-date is what we have given as guidance of 250 barrels a day. We will be able to ramp it up in the future based on our discussion with the management committee.

**Vedant Agarwal:** Okay. All right, thank you.

**Moderator:** Thank you. The next question is from the line of Avadhoot Sabnis of RBS. Please go ahead.

**Avadhoot Sabnis:** The Bhagyam production you said should be starting in the fourth quarter but you did mention that things were not moving smoothly on the regulatory front on that, did not getting all the clearances. Could you little more specific in terms of what exact further clearances are pending for you to start production from Bhagyam?

**Rahul Dhir:** I think what happens is that once we have an FDP approval, we go ahead and as we did in Mangala, you get the work done and you start production. On Bhagyam, as Mark had explained we are very much on track, we were going through the testing and commissioning of well that we needed to start production. So we are very much from a physical point of view we are on track to start production next quarter. What we would have expected as a matter of ordinary sort of course would be that the operating budget for the



*Cairn India Limited*  
*July 26, 2011*

production of Bhagyam is a distinct from the capital budget. The operating budget would have been approved by the MC and also production would have been included in the program quantities for this year. That is so far has not been done. And we have also received letter from the government saying that the start notwithstanding the FDP approval, the start-up of Bhagyam would have to be approved by the government and that is a strange sort of thing and they have also linked that to the whole issue of cost recovery and all that. That is why I said it is a very stark sort of example. We have had challenges as you know, you have been following us for a while, we have had challenges for a very long time on different things, but this is the most sort of stark example I have seen of the kind of challenges that we are facing more recently.

**Avadhoot Sabnis:** So basically it's my way or the highway

**Avadhoot Sabnis:** Okay. Now, could you just give me some idea on the regulatory side is that you are going to have an EGM and sort of ballot and everything, how long does that process will take for the outcome to be finally known and communicated to the government?

**Rahul Dhir:** So there are three sort of parallel tracks. Three things that need to happen. We got the letter from the government today and we have the requisition from Cairn PLC so we obviously have to follow that. So our view was that in the Cairn India board that this had to go through postal ballot so there will be a draft of circular and the circular will be sent out to all the shareholders and then the shareholders would have got about another 30 days, so that process is probably about 40, 50-day process. And then ONGC consent has to be sought and that is something we need to just think through and I do not know how long that process is going to take. And then the Ministry of Home Affairs has to give a security clearance to Vedanta. And I do not know how long that is going to take. So those are the three things that need to



*Cairn India Limited  
July 26, 2011*

happen. So the only bid that is probably defined is the postal ballot process. The other two there is not any timeframe around that.

**Avadhoot Sabnis:** What I am trying to understand is, as I said basically the Bhagyam start-up is held up till you basically sort of do what government wants you to do. At the same time, as Board of Cairn India, can you really agree to cost recovery right now without knowing the outcome of the postal ballot? I would think no.

**Rahul Dhir:** Yes, because of the requisition now, in a way the matters gone out of the Cairn India Board stands and once the shareholders take a call, and the Board's view will largely turn up not relevant.

**Avadhoot Sabnis:** What I am trying to understand is broadly let us assume it takes two months or three months for the whole process to be over in terms of postal ballot, finally say, you can agree with the government conditions or that is communicated to Government of India, it is only then that the Government of India basically gives you the green signal to start production. That is what I want to get right. Until that happens this is how the chronology is going to be that postal ballot is overall you get positive results favoring Government of India, then you tell the Government of India, then the Government of India says, okay, now you can start production. Till then, you cannot start.

**Rahul Dhir:** Honestly, I do not know the answer. I wish it was neat and linked up like that but I think we have been around for a while now, I do not know how neat that oil linkages going to be, so I really do not know is the answer.

**Avadhoot Sabnis:** A specific question which is that can you respond positively to the government's condition for start up of Bhagyam without getting shareholder approval?

**Rahul Dhir:** We are saying, as Cairn India, we are ensuring that the vicinity is around that, the wells in Bhagyam are already and we have been currently taken



*Cairn India Limited*  
*July 26, 2011*

out of the equation as far as the deal is concerned. At this point our strategy is going to be that we will continue to do what we believe is the right thing as far as the project is concerned in terms of developing it, producing it, maintaining the resources and all that. The shareholders between themselves have got to sort out this issue but it is a difficult situation for us but we are not in the business of going out and doing a deal with the government, that is just not something that the Cairn India is. Our views are being clear all along, that is you guys know that, I have said that to you before. So our strategy is going to be as we said we will continue to develop this resource if the government wants us to not do something, that is fine, like Mangala, we have been ready for a year now to produce 150,000 barrels a day. Now, it is the resource at the end of the day. If they do not want us to produce then there is not a whole lot we can do about it.

**Avadhoot Sabnis:** Okay, thank you.

**Moderator:** Thank you. Our next question is from the line of Nipun Sharma of Mirae Asset. Please go ahead.

**Nipun Sharma:** Good evening, good afternoon and good morning to those in Hong Kong. I have a question with regards to the exploration. Given the delays in the ramp-up in Rajasthan, is there a renewed focus on accelerating non-Rajasthan exploration and if possible, would it be possible to give some sort of guidance for the non-Rajasthan Capex for this year and next year?

**Rahul Dhir:** I will get David Ginger on exploration to just walk you through what we are planning to do outside of Rajasthan and that will perhaps give you a flavor around your question.

**David Ginger:** Rahul already mentioned that next month we will start up well, probably the well program in Sri Lanka which will go on to the rest of this calendar year. Of course, we have other blocks in India which we are actually pursuing



*Cairn India Limited  
July 26, 2011*

exploration activity, so we will drill another exploration well in the KG towards the end of the calendar year. So this mentioned in the press release and also of course the deep well blocks on both sides of India will be, we plan to commence seismic programs 2D-seismic in the deep wells in Mumbai block West Coast and substantial 3D program in the shallow water in the KG basin. Going forward, beyond that, of course, we will continue to pursue other activities of the drilling commitments, for sales from the same blocks going forward.

**Nipun Sharma:** Right and any sort of early indications of what this Sri Lanka drilling program is looking like in terms of investments?

**Rahul Dhir:** In terms of just the capital spend, I am just looking at Anurag on the guidance in past on the Sri Lanka spend.

**Anurag Mantri:** Overall exploration guidance is around \$200 to 300 million in next 12 months depending on how Sri Lanka initial wells results plays out. So our guidance is basically \$200 to 300 million in next 12 months' time.

**Nipun Sharma:** Right and any chance to give me guidance on the other worlds, appraisal program in the KG onshore block and possibly also the SL blocks?

**Anurag Mantri:** See the guidance which I said \$200 to 300 million for next 12 months, it includes the appraisal program as David mentioned which we plan to start at the end of this year and broadly well once the Sri Lanka costs around \$30 to 50 million, that is what we have been saying. So depending on the initial results and when we start the KG, this is our 12 months forward looking guidance and then we will update you once we get some more results.

**Nipun Sharma:** Right. Also just one more question on the Saraswati ramp up, I actually missed that, what is the guidance there?



*Cairn India Limited  
July 26, 2011*

**Mark Blanche:** Right now we are working with the government on the ramping up of Saraswati. We probably get a couple more months and we will be able to update you giving more guidance on the next quarter, but again that is the subject to government approval of ramp up.

**Nipun Sharma:** Okay thank you.

**Moderator:** Thank you. Our next question is from the line of Sanjay Mookim of Credit Suisse. Please go ahead.

**Sanjay Mookim:** Good evening everybody. Thank you for taking my questions. I have a few residual queries on the process of the postal ballot. It seems to me that the government approval and preconditions is open in terms of time and that they have not put out any time limits by which you have to get back, is that a fair understanding sir?

**Rahul Dhir:** No, that is not the case. It is they have put in a condition for us to comply within a month, but obviously that is challenging. So we will need to have a discussion with them because we do not know how long ONGC consent is going to take, we do not know how long the MHI process is going to take and we know how long the postal ballot is going to take and that will take longer than months. So that is we have only to be clarified. I used the word somewhat might be assuring that there seems to be some attempt on the part of the government to put a timeframe to this, but extremely enough to impose timeframe on us on the MHI process or ONGC we need to go back and clarify that.

**Sanjay Mookim:** And this is one month from today?

**Rahul Dhir:** I guess

**Sanjay Mookim:** Alright and the second question just on this is assuming that the shareholders accept the preconditions, is it a matter of simply writing a letter to the



*Cairn India Limited  
July 26, 2011*

government saying that we accept or do any agreements need to be modified?

**Rahul Dhir:** I would not expect any agreements to be modified. The issues have been on Cess perhaps an easier example because in both actually we have a fair understanding of the PSC, but at the end of the day, they have a different understanding and that is what they are imposing on us and I do not think it leads a modification of any agreement.

**Sanjay Mookim:** Alright, so just a letter from Cairn India would suffice, I guess.

**Rahul Dhir:** I think so, but I do not want to guide that

**Sanjay Mookim:** Thank you, those were my questions.

**Moderator:** Thank you. Our next question is from the line of Kumar Manish of HSBC. Please go ahead.

**Kumar Manish:** Good evening, I have two questions. One on production ramp up. Do you have a specific letter or anything is written from government that the production for example from Mangala cannot be ramped up even if there is no PSC requirement if you can actually ramp up on the basis of existing CAPEX and the second question is on the ballot, is this a simple majority the good enough and do you also intend to make the letter that you have received from the government public as part of that ballot process?

**Mark Blanche:** I will answer the first question and will refer the postal ballot to Rahul. On the production ramp up in mangla yes we do have a letter and it is basically qualified every time we have committee meeting that we are being held to 125,000 barrels per day ....

**Indrajit Banerjee:** On the postal ballot, it is a simple majority, but in terms of whether the letter is going to be attached or not, simple majority and the resolution will carry



*Cairn India Limited  
July 26, 2011*

the essence of the conditions being imposed and what approval is required of the shareholders with regards to those, it has to be there, but I doubt that the letter itself will be introduced. The letter is substantially if you have seen the press release from the CCA, it is more or less the same.

**Kumar Manish:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Ballabh Modani of Religare Capital Markets. Please go ahead.

**Ballabh Modani:** Good evening everybody. Just one question related to the Bhagyam as Rahul you just mentioned that you have completed the physical aspect of that, so let us assuming the case that within 3 months' time period, you get all these 2-3 approvals. So in that case, how much time it will take for you to ramp up the production to actually start the production in Bhagyam?

**Rahul Dhir:** So then may Mark may just talk about volume ramp up assuming we get all the....

**Mark Blanche:** Assuming we have all the approvals in place the ramp up will be probably over 2 months period of time and as the guidance were given. If you look at what we did in Mangala, we ramped up much quicker than that, but Bhagyam, we first we are going to focus on our safe operations and then we will start ramping up, but our guidance has been the 40,000 barrel per day FDP rates over 2 months period.

**Ballabh Modani:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Rakesh Sethia of Morgan Stanley. Please go ahead.

**Rakesh Sethia:** Just wanted to reconfirm something on the postal ballot. Does postal ballot mean that every shareholders including Cairn Energy and Vedanta vote on the



*Cairn India Limited  
July 26, 2011*

acceptance of these preconditions or is it just minority shareholders who kind of measure the postal ballot, how does it work?

**Indrajit Banerjee:** As we mentioned earlier, simple majority of all the shareholders. So all the shareholders has to vote, that is the way it works. This is a resolution which the major shareholder is asking board to forward to the shareholders under section 169 of the companies act and under regulation when a petition goes for postal ballot, everybody gets to know.

**Rakesh Sethia:** Other question, I probably have missed. What was the realized oil price for Rajasthan production this quarter?

**Indrajit Banerjee:** I mentioned the figure \$104.5 a barrel.

**Rakesh Sethia:** Thanks.

**Moderator:** Thank you. Our next question is from the line of Bhavin Gandhi of B&K securities. Please go ahead.

**Bhavin Gandhi:** I just wanted to check whether the change in the duty structure of crude will have any impact on the realizations going forward?

**P. Elango:** Yes, our price is based on zero percent custom duty, so by which the local central sales tax of 2% is the gain. With that custom duty going away, our net realization will be reduced by 2%.

**Anurag Mantri** However, we continue to maintain our guidance of 10 to 15% discount to the brent so our guidance always considers this part. So we are not changing the guidance always considers this part. So we will continue to maintain our 10-15% discount to the brent.

**Bhavin Gandhi:** Thank you.



*Cairn India Limited  
July 26, 2011*

**Moderator** Thank you Mr. Gandhi. Our next question is from the line of Sudeep Anand of IDBI Capital. Please go ahead.

**Sudeep Anand:** Good evening sir, just couple of questions. What was the Opex per barrel for Rajasthan in this quarter and secondly if paid almost \$175 million of debt in this quarter, so is it fair to assume that by year end we will be debt free.

**Indrajit Banerjee:** Your first question the total Opex was \$2.5 a barrel. This includes the pipeline operating cost as well and your second question was on debt repayment. We mentioned that we got \$1.4 billion of cash and we got \$422 m of debt. If you look at it on a net basis, we are already debt free, but the reason why we are carrying some amount of debt is for corporate structuring reasons. As I mentioned, we have got a corporate restructuring which is pending the approval of joint venture and other. So one, the restructuring happens with a much better flexibility which there are to bringing the resources together under one corporate entity. So till then, we have some restrictions and that is the reason we are carrying some amount of debt, but net we are already debt free, as you know, \$1.025 billion of net cash today.

**Sudeep Anand:** Thank you sir.

**Moderator:** Thank you Mr. Anand. Our next question is a follow up from the line of Ballabh Modani of Religare Capital Markets. Please go ahead.

**Ballabh Modani:** Just one question on the calculation of royalty, you have mentioned that it is on the well head price just wanted to understand how you derive that well head price from the realizable crude oil price?

**Indrajit Banerjee:** I mentioned earlier that it works out to about 15 to 16% of realization whereas the way that the duty was structured out well head value which means that from this you can get an indication of what are the post well head cost mainly the above structured cost of producing oil that and the operating cost of transporting it to the refiners. So if you take that all into account, we



*Cairn India Limited  
July 26, 2011*

cannot give you guidance on what the value of the post well heads cost it gives indication from these numbers.

**Ballabh Modani:** Okay fine, thanks a lot.

**Moderator:** Thank you. Our next question is from the line of Probal Sen of IDFC Securities. Please go ahead.

**Probal Sen** Just hypothetically, if the clearances of Bhagyam let us say do not come through in the time that you require, can we then assume that the exit rate for MBA field would be flat as 125,000 barrels for the whole of FY12?

**Rahul Dhir:** Rather than speculate I guess what you are seeing right now for last couple of quarters so we can kind of have flat at 125,000 unless without active support from the government, that is why I said this quarter particularly kind of brought into the regulatory challenges. I think without an active support from the government and from JVs which is ONGC, it is difficult to ramp up production. I think that is what we have seen.

**Probal Sen:** The other question was about the Opex guidance on you obviously consistently maintained at close to about \$5 over a long-term basis, but we have seen over the last 3 quarters that has coming broadly between \$2.5 to 3. Is it safe to assume that this kind of \$5 level would be hit once the **plateau** production has been hit or am I reading this wrong?

**Mark Blanche:** No what you are saying is the effect of the new field, we have several elements of operating expenses not have been experienced yet. Non routine heavy work hours as well as some of the chemical cost for the high production rates and as well as water injection and water production. So I think overtime you are going to see that those cost creeping up but again all of our guidance will remain \$5 and that is the long-term plan or long-term forecast.

**Probal Sen:** Alright, that is all from my side. Thank you very much.



*Cairn India Limited  
July 26, 2011*

**Moderator:** Thank you. Our next question is from the line of Niraj Mansinka of Edelweiss Capital. Please go ahead.

**Niraj Mansinka:** Wanted to know what exactly has been the communication between yourself and the regulators for the scale up of the production of 125,000 barrels to 150,000 barrels per day?

**Mark Blanche:** We actively pursue that with our joint venture partners as well as the government of India. We do that on a routine basis. We will continue to do so. As we all have suggested earlier, it is nobody's guess right now what the outcome is going to be certainly over next month or two, it is all we can tell you is that we actively pursue ramping our production and everyone of those fields we have time of start we had forecast earlier.

**Niraj Mansinka:** My thing is more on the surface facility, is there a difference in opinion between yourself and the regulator on the production capacity to service 150,000 barrels per day or 125,000 barrels per day?

**Mark Blanche:** Not at this time. We have not seen that type of communication from our JV partners.

**Niraj Mansinka:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Sabri Hazarika of PUG Securities. Please go ahead.

**Sabri Hazarika:** Good evening sir. Just one question. Have profit petroleum sharing with government started this quarter?

**Indrajit Banerjee:** We mentioned at the beginning that we paid about \$42 million worth of profit petroleum during the quarter which is Cairn share.

**Sabri Hazarika:** Thank you so much.



*Cairn India Limited  
July 26, 2011*

**Moderator:** Thank you. Our next question is from the line of Sushil Choksey of Rosy Blue Securities. Please go ahead.

**Sushil Choksey:** Most of my questions are answered, but one off from balance sheet question, not from current quarter. You highlighted for Rajasthan potential of 6.4 billion barrels of oil. Can you elaborate little bit on that in the line and second what is the proven reserves as of today?

**Mark Blanche:** That is correct. The in place potential that we currently advised for the block is 6.5 billion barrels in place that includes the existing fields being brought into production, there were discoveries that we talked about in the past and expect components of about 2.5 billion barrels of estimated risks in place of the exploration of size.

**Sushil Choksey:** You said 2.5 billion barrels?

**Mark Blanche:** That is the in place equivalence of the exploration potential given by us **earlier**. The couple of reserves that we currently carry are about a billion barrels that hasn't changed.

**Sushil Choksey:** Thanks a lot.

**Moderator:** Thank you. Our next question is from the line of Harshad Borawake of Motilal Oswal Securities Ltd. Please go ahead.

**Harshad Borawake:** Good evening. My question is about the postal ballot. You said that simple majority will be required, so given that the Cairn Energy and Vedanta since they hold the majority of the stake, so is postal ballot just a formality and obviously they would be agreeing to whatever government conditions are there?

**Rahul Dhir:** from our side like I said earlier, we have received this requisition .So the Cairn India board has a legal obligation to act on it. It is frankly not our place to



*Cairn India Limited*  
*July 26, 2011*

comment on how any shareholder big or small would actually vote on that. So I think probably the best is just to wait for results of the postal ballot.

**Harshad Borawake:** Thank you.

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

**Vidyadhar Ginde:** What I wanted to ask is about this is about this profit petroleum sharing from Rajasthan, I presume it is calculated assuming royalty is not cost recoverable.

**Indrajit Banerjee:** Yes that is right.

**Vidyadhar Ginde:** So if royalty becomes cost recoverable going forward, would you still end up paying profit petroleum this year?

**Indrajit Banerjee:** The way it works is as you mentioned that 289 figure is given that 289 figure effectively and if you want to get into details once if royalty becomes payable, then you sort of make an adjustment for the profit petroleum that has been already paid and then you make an adjustment for royalty and then you start paying profit petroleum. So effectively the 289 figure that you see there, 289 figure is net of the 42 million of profit petroleum impact. So in other words, the royalty is to be made cost recoverable, then what we speaking we will have to pay about 330 million towards royalty and get back the 42, therefore the net effect is 289.

**Rahul Dhir:** But your point is correct that if you increase the cost pool, then it will reduce government share of profit petroleum.

**Vidyadhar Ginde:** Thanks.

**Moderator:** Thank you. Our next question is from the line of Sriram Ramesh of BNP Paribas. Please go ahead.



*Cairn India Limited  
July 26, 2011*

**Sriram Ramesh:** I think you mentioned that the profit petroleum was calculated on a currently 10% sharing, right?

**Rahul Dhir:** 20%, that is the first start.

**Sriram Ramesh:** The first start is 20, so I thought 10%. I heard you wrong. Thanks.

**Moderator:** Our next question is from the line of Prayesh Jain of IIFL. Please go ahead.

**Prayesh Jain:** Just wanted to check as to is there any some clarity given on the discussed issue we were in arbitration with that, so any clarity on that front?

**Indrajit Banerjee:** The arbitration is still pending and the process is on and the hearing will happen in future, but the process is on, nothing more to report on that.

**Prayesh Jain;** Thanks.

**Moderator:** Thank you. Our next question is from the line of Bhavin Gandhi of B&K Securities. Please go ahead.

**Bhavin Gandhi:** Just one more clarification I was seeking is that the impact that we calculated, we have not included Cess in the calculation? The profit after tax for the current quarter would be lower by about 129,165 lakhs, is the Cess also included here the Cess that we have?

**Indrajit Banerjee:** The Cess is already accounted for the year. We have been accounting for Cess since inception of Rajasthan and treating it as if we have to pay at Rs. 2500 plus education cess and as it is cost recoverable and we have been paying that as well. So there is no adverse impact arising as a result of withdrawal of Cess arbitration. I mean, if we were to win the arbitration and get it back then that would have come as a **credit** to us but as if now under this scenario there is no adverse effect.

**Bhavin Gandhi:** And what in the tax rate that will be working with for this calculation.



*Cairn India Limited  
July 26, 2011*

- Indrajit Banerjee:** Which calculation you are talking about?
- Bhavin Gandhi:** This profit after tax number that we have mentioned, what is the tax rate on that one.
- Indrajit Banerjee:** This is our normal tax which is there. Right now for Rajasthan, we are in tax exempt situation till the 7<sup>th</sup> year, but we have to provide for MAT, but we also take MAT credit, in respect of that part of MAT which we think we can in future years adjusted as normal tax to do that accounting. That is the normal tax rate.
- BhavinGandhi;** Thank you.
- Moderator:** Thank you. Our next question is from the line of Kumar Manish of HSBC. Please go ahead.
- Kumar Manish:** Just last questions from my side. What are the specific features on which you are seeking this ballot, is it just the cost recovery of royalty or are there more incident there?
- Rahul Dhir:** It is going to be really the all the conditions that the government has imposed, the relevant ones would be the cost recovery of royalty and withdrawal of arbitration on Cess. So those are the two conditions that have been imposed which are outside of the PSC. The other conditions are fairly standard. So there is no issue around that.
- Kumar Manish:** And don't you think the shareholders actually for lack of better fed deserve to look at the letter which is leading you seeking the ballot in first place?
- Rahul Dhir:** I think we have not formulated what information is going to go to the shareholders, but certainly I think it will be your most sincere attempt to make sure that all the information is provided. So as the Indrajit said earlier, the substantial sort of consent will be provided but I do not know if there are



*Cairn India Limited*  
*July 26, 2011*

any confidentiality restrictions on the government point of view limiting us to make this public. I did give guidance earlier to say that the letter is quite similar to what was on their website when the CCEA release came out, but certainly I want to assure you that the substantive content of that will be available. We will need to check with the government whether we can release that or not.

**Kumar Manish:** Sure thanks.

**Moderator:** Thank you. This appears that has been the last question and I now hand the conference over to Mr. Mantri to add closing comments.

**Anurag Mantri:** I just request Rahul to add closing remarks and we will formally close the session.

**Rahul Dhir:** Thank you very much for joining us. It is the challenging time, but appreciate on your attention and patience and trying to understand the issues. The good news is that the resource base that we have, the organizational capabilities that we have, the balance sheet that we have are fantastic. I think we are very well placed even when a benchmark as against the best companies in the world. So we have got a fantastic platform. I think what we are keen to do is to get through this period of uncertainty I think I talked about, I used the term kind of a thunder of uncertainty last time, so what we need to do is get through this. So we can get the business and we build the momentum that I am very confident at work as an organization capable of building. So again want to close by thanking you all for your attention, support and hopefully we can put all these behind us as much as possible.

**Anurag Mantri:** Thank you everybody. You will find the transcript of today's con-call at our website in the due course and for any further queries, please refer to our Investor Relations team. Thank you, good evening and good night.



*Cairn India Limited  
July 26, 2011*

**Moderator:** Thank you very much Mr. Mantri, Mr. Dhir and members of the management team. Ladies and gentlemen with that we conclude this conference call. Thank you for joining us and you may now disconnect your lines.