"Cairn India Limited Conference Call"

October 20, 2011

Moderator: Ladies and gentlemen good day and welcome to the Cairn India Second Quarter FY 2011-12 Results 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 at the end of today's presentation. If you should 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 and Head of Investor Relations. Thank you. and over to you, sir.

Anurag Mantri: Good afternoon, ladies and gentlemen in India and the UK. I take this opportunity to welcome you all to discuss the Cairn India financial results for the second quarter of financial year 2011-12 ended 30th September 2011. We had a significant second quarter. In India the Mangala continues to produce at 125,000 barrels and in Sri Lanka the discovery of hydrocarbons in the frontier with Mannar Basin was an important event.

To give us more insight into the quarter's performance and to answer your queries, joining us today on the call is our senior management team comprising of our Managing Director and CEO -- Mr. Rahul Dhir, Director Operations – Mr. Mark Blanche, Head Finance – Mr. R. Ranganath, Director Subsurface and New Ventures – Mr. David Ginger, Director Projects – Mr. SV Nair, Director Strategy and Business Services – Mr. P. Elango. We will now start with an overview of our quarterly performance followed by discussions in the Q&A session. I would now request Rahul to take it forward.

Rahul Dhir: Thank you, Anurag and pretty warm welcome to all of you. I am sure you guys have as you always do must have gone through our press announcement and are ready to shoot questions at us. And I am very pleased we got our whole senior executive team here. The entire ExCo is here so they can all answer your questions in some detail.

Before we get to that, we want to take you through our business and the last quarter highlights. So, with the strong support we have now from the Government of India and our partner ONGC, we are poised now to optimize the development of Rajasthan resources. A resource that as all you know is very much in the best interests of our nation as well.

Just in terms of going through some highlights of the quarter. If you look at the overall gross operated production that we have from all our assets, we are operating in around 170,000 barrels of oil per day, that is about 20% of our country's domestic crude production. Then Mark will give you some color around that. The Mangala field itself we have now completed over two years of production and the field continues to produce at the currently approved plateau rate of 125,000 barrels a day. The reservoir performance has been very good. The surface facilities also support higher off take rigs and we are working both with ONGC and the Government of India to achieve that. The Bhagyam development is also very much on track and we are ready to commence production in this quarter. Again, we are working closely with the government and ONGC to achieve a good start-up of Bhagyam. I think Anurag mentioned earlier the discovery as we had of working hydrocarbon system in the Manner Basin which is a frontier basin in Sri Lanka that is being very exciting for us; it opens up some interesting opportunities. Also, I think and I hope you agree it underscores the technical competency abilities of the team which is obviously an essential platform for our future growth. So, David here will give you some more color around what we are doing there.

If I look at the sort of core business that continues to perform well. If you look at our financials we have highlighted the pre-exceptional profit after tax was $460 million and that just highlights the robustness of our business. And Ranga will walk you through a lot more on the financial details.

From a resource development point of view there is a big focus obviously in terms of rebuilding the momentum on the production ramp-up so we are now looking to see how we optimize that. There is a development of the Aishwariya field which is underway, again we are targeting the second half of next year for start-up on that. A lot of work is going on in terms of commissioning of additional facilities, production facilities to achieve processing capacity beyond 175,000 barrels a day, we are hoping to get that done by the end of this fiscal year, so around March of 2012. And so accordingly, we expect to exit this fiscal year March 2012 at a production rate of 175,000 barrels.

Also, having done a lot of work around Mangala, Bhagyam, Aishwariya we are increasingly confident that we can deliver a significant part of what we stated out as our currently envisage basin potential of 240,000 barrels a day, we are confident we can deliver a significant part of that from the MBA fields alone.

And again, just a lot of work going on between SV and Mark's teams and with ONGC and also with support from the government where what we are now looking at is an integrated view on the processing and transportation infrastructure, the pipeline infrastructure and making sure that is synchronized with the development of the MBA fields, so that we can achieve the full potential of the three fields by 2013. So that is all fairly exciting for us we are getting a lot more clarity in terms of rebuilding the momentum in the business, the resource potential continues to excite us, the underlying financials are very strong and David and his team have also demonstrated our ability to open up new opportunities, so all pretty exciting stuff. With that let me turn you over to Mark who will give you an update on the projects and the operational highlights.

Mark Blanche: Thank you, Rahul and good evening, everyone. I now like to update you on the key projects and operation developments during the quarter. It has not only been a good quarter but we have now completed two years of safe and efficient operations at the Mangala processing terminal and the RJ operations have achieved more than 4.6 million safe man hours to-date. So, this has been a great achievement, demonstrates our commitment to safe operations in all the areas of our business. Specifically in Rajasthan the Mangala production as mentioned earlier continues at a very solid pace of 125,000 barrels of oil per day. It is a testament to a great reservoir and a very efficient reservoir management team here at Cairn. Our plant uptime for the upstream was 100% during the last quarter which places us in the top decile amongst our global peers. Overall, our field direct operational expenses including transportation was approximately $2.5 per barrel for the quarter.

And there is a kind of highlight, we were awarded the "Runner-Up" position for the prestigious "Project Of The Year Award" by the (PMI) Project Management Institute for the "Development Of The World's Longest Continuously Heated And Insulated Pipeline." This is how we transport our crude out of the Mangala terminal.

Moving to a project update, on the Mangala development drilling, we have over 148 wells been drilled to-date; 81 of which are producing, the well results confirm excellent reservoir quality, high deliverability potential, the Fatehgarh Formation reservoirs. EOR pilot in the Mangala field is on track after initial completion of a baseline water flood more than 6 months we injected polymer in August. The results are very encouraging and bring us one step closer to monetizing the EOR potential.

Bhagyam development drilling is progressing well with 47 wells drilled to-date. Reservoir properties are as per expectations and discussions and government continue. Reservoir facilities require sometime for safe ramp-up. So, we will be commissioning Bhagyam here in the next few weeks.

Work continues for commissioning additional production facilities at MPT as well to achieve the processing capacity of 175,000 barrels a day by the end of the financial year and this will deliver a significant part of the MBA potential by the calendar year 2013. Further investments are planned augment the processing in pipeline infrastructure to deliver the currently envisage base of potential. Target pipeline augmentation in the calendar year 2013 is 240,000 barrels a day.

So that completes the Mangala update and I am going to move right now into the mature assets Ravva and Cambay or CB/OS-2. We continue with our interventions to arrest production decline in our mature assets, the in-field drilling, work over campaign, Ravva was completed last month, the purpose was again to arrest production decline and incremental reserves and increase the water injection capacity. All three of these are very tough metrics to meet and they have been accomplished. In the CB/OS-2 efforts, our efforts to optimize the infrastructure usage have resulted in the North Tapti tie-ins, those facilities are our platforms that we operate with ONGC being completed, the tolling and processing of the gas agreements commence following commissioning of the pipeline and necessary approvals. This allows us optimally use facilities and help us process some of the stranded gas in that area to sustain oil production from the block and help drilling campaign is planned for later this year.

Both Ravva and CB continue to be the pillars of strength, highlight our ability to maximize recovery and manage costs and have acted as foundations for some of the talents in our organization. That is it for the projects and operations update. I will now transfer over to David Ginger, our Director of Exploration, Subsurface.

David Ginger: Thank you, Mark. These are exciting times for us. Our first international operations in Sri Lanka has resulted in hydrocarbon discovery as many of you already be aware. It is a significant outcome. This is the first well that was drilled in Sri Lanka in 30 years and of course, our first well has been successful and established a working petroleum system in the Basin. This has validated the geological models that we developed before we started drilling and it is definitely a Cairn India effort work that was done, comes from the surface and wholly operations and support. It is the first step by the company outside India and so it has been very important on many fronts.

The well which is called as CLPL-Dorado-91H/1z drilled into a 25 meter gross hydrocarbon column in the sandstone but we need to do some more work, and more drilling to ascertain the final sizing commerciality of the discovery. Second well in the three well program drilling Barracuda prospect was spud on the 4th of October with the third well obviously to follow and we will provide update on the well results at the end of the program which we expect to be around end of the year or early next year. It is a three well program, it is designed to look at different prospects and different risks and uncertainties in the block and probably most appropriate to do it at that point once we know, have all information.

Of course, in addition to this, we are also planning to spud an exploration well very shortly in November. Drilling in the KG-ONN-2003/1 block, it is an onshore block in Southeast India. That will appraise and explore around discovery that we made last year. With that I complete the update I hand over to Ranganath who will take you through the financials for the quarter.

R. Ranganath: Thank you, David. Let me run you through the salient aspects of the Q2 FY2011 full financials which were released a few hours ago. During the quarter Mangala field has produced at its current peak rate of 125,000 barrels per day. The gross production during the quarter was 169,944 barrels per day. The average price realization for the quarter was $100.3 per barrel and Rajasthan crude price for the quarter was $101.6 per barrel, 10.4% discount to Brent. We maintain our Rajasthan crude price guidance of 10-15% discount to Brent.

Income from operations stands at INR 2,652 crores which is $578 million vs. the previous quarter of INR 3,713 crores which is $830 million This includes the impact of Rajasthan royalty for the quarter calculated as per the PSC provisions and revenue with the partner being shared on the basis of entitlement interest. The Rajasthan royalty run rate is in the range of approximately 15% of the revenue. The total net royalty impact on a cumulative basis till Q2 FY2011-12 is $ 545 million. The profit petroleum benefit on account of royalty being cost recoverable is $ 109 million, hence the net impact of Rajasthan royalty on the company cumulatively is $436 million. The one-time impact of the past Rajasthan royalty of INR 1,355 crores, which is $ 294 million is taken as an exceptional items in the books. The company paid profit petroleum to the Government of India in the Rajasthan block at the rate of 20% under the PSC framework. The profit petroleum provided for the quarter was INR 158 crores which is $33 million and on half yearly basis it is INR 346 crores and $75 million. This is based upon our understanding of the costs recoverable under the PSC framework that includes certain costs which are awaiting regulatory approvals.

The EBITDA stands at INR 2,065 crores which is $ 450 million. The profit after tax excluding the one-time exceptional item of Rajasthan royalty stands at INR 2,118 crores that is $ 461 million. The reported number is INR 763 crores which is $ 167 million..

The EPS for the quarter excluding the one-time exceptional item of Rajasthan royalty is 11.13 per share Vs. 14.3 per share for Q1 FY2011-12. The EPS on the reported numbers is 4.1 per share.

The Rupee during the quarter depreciated by INR 4.15, that led to a net Forex gain of INR 531 crores, that is $116 million.

We continue to maintain low cost of operations with RJ Opex including transportation at $2.5 per barrel. We continue to maintain our Rajasthan Opex guidance including transportation at $5 per barrel.

We have spent $3,222 million to-date on RJ development of which $107 million was spent during the quarter. The cash and cash equivalent as on 30th September 2011 was $1,734 million and the debt was $276 million. Overall, the net cash stands at $1,458 million. During the quarter we completely prepaid the USD loan facility. The one-time charge of $18 million that is INR 83 crores on account of unamortized USD loan facility fee was taken in the books. The net exploration cost incurred during the quarter was $69 million. However, charge of $ 8.5 million was taken in the P&L as per our successful effort accounting policy. DD&A cost on a per barrel basis for Rajasthan stands at $8 per barrel. The total tax for the quarter including current MAT credit and deferred tax stands at INR 103 crores that is $23 million, 12% to PBT. This is higher than our guidance of 6-10% due to the lower PBT on account of Rajasthan royalty adjustment. We expect the tax to remain in the range of 6-10% for FY2011-12 based on oil price of $75-100 per barrel. The deferred tax asset is raised due to lower exploration and development costs capitalized in this quarter. The cash flow from operations excluding the one-time exceptional item of Rajasthan royalty stands at INR 1,969 crores, which is $429 million in the current quarter. So, these are the broad financial highlights and now I would like to open the floor for question and answer session.

Moderator: Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from David Mirzai from Societe Generale. Please go ahead.

David Mirzai: A couple of quick questions. Just first on your cumulative royalty charge which you said was $545 million. Firstly, has that been fully recovered in this quarter, no liability remains going forward? And secondly, just in terms of Barmer Hill, what type of the fraccing equipment is available in India to perform operations? And lastly just to clarify I believe you should do 175,000 barrels per day exit at the end of this financial year, that is 31st March 2012. I want to understand that your third field was not coming on until the second half of 2012. Could you clarify please?

Rahul Dhir: David, let me take your last question first and then Ranga will address the issue on royalty and Mark will take the question on the Fracc equipment in Barmer Hill. We are expecting Aishwariya to come on stream in the second half of next year calendar. As I said earlier, as we and his team are working to ensure that we have got enough processing capacity at all times to be able to handle the basin potential as the next step really is to ensure we have got 175,000 barrels a day in place by March of 2012 and so, we are anticipating that we will be able to deliver 175 from Mangala and Bhagyam alone at this stage.

R. Ranganath: This is to confirm that the entire cumulative royalty impact of $545 million has been accounted for in the books as of 30th September, 2011.

Mark Blanche: On the Fracc equipment for Barmer Hill there is adequate equipment in country. It is split amongst several service providers. So we also see a competitive edge when we go for Fracc tender. And that has been evident in a successful Raageshwari Fracc program. So, we see no problems there in equipment limitations of Barmer Hill.

Moderator: Thank you. The next question is from Amit Rustagi from Antique. Please go ahead.

Amit Rustagi: My question relates to the exploration program in KG onland block. So can you give details on that, how many wells you are going to drill, how many years and when we can have any resource update on this block?

David Ginger: We plan to spud a well in mid-November. The well will drill for a few months and one of the key activities we will undertake is a long-term testing program after that while it is successful to establish whether it is possible to have a commercial flow rate. The discovery well last year swelled to 75 barrels oil per day and some gas and obviously we would like to take that higher.

It is a one well program with us quite focused. Obviously any update at an appropriate time afterwards.

Amit Rustagi: When you are going to have appraisal well for the discovery? Because this is just an exploration well which you are going to drill in November.

David Ginger: You are talking about onshore India?

Amit Rustagi: Yes.

David Ginger: That well will be by mid late November.

Amit Rustagi: Any appraisals well especially next year for the discoveries made last year?

David Ginger: Any further activity will impact the results of this well.

Moderator: Thank you. The next question is from Vedant Agarwal from Kim Eng. Please go ahead.

Vedant Agarwal: My question again relates to the royalty. What I wanted to know was what was the exact royalty charge for Q2 FY12? And then what is the split of this $545 million between Q1 and the balance?

R. Ranganath: Overall royalty which is 779 million, 70% of it comes to 545 million. And since it is cost recoverable we do get a 20% benefit profit petroleum so 436 million is a cumulative impact till 30th September 2011. The current quarter net impact is 142 million and 294 million is the exceptional item which is shown separately in the result.

Vedant Agarwal: But then this 294 million would be inclusive of what you pay from 2009 onwards?

R. Ranganath: Yes, till 30 June 2011.

Vedant Agarwal: In Q1 what would have been the royalty charges you were paying royalty?

R. Ranganath: Q1 is $ 336 million and net to profit petroleum of $ 42 million paid in Q1, the net impact is $ 294 million.

Vedant Agarwal: So there is no cash of that?

R. Ranganath: Yes.

Moderator: Thank you. The next question is from Probal Sen from IDFC Securities. Please go ahead.

Probal Sen: I just had a couple of queries again, sorry on royalty. If I were to look at the run rate that in terms of the revenue run rate that you achieved in this year from 1Q to 2Q there has been a drop of 29% or just about INR 10 billion or slightly more. Now, the numbers that you gave for just the royalty component that reflects in the revenue line would be about INR 6.5 million. The other slippages is purely due to the slight drop in net realizations or am I reading this wrong?

R. Ranganath: Royalty is basically a cost recoverable item and this financial year partly we were in profit cost recovery mode and then partly in the profit petroleum regime. We actually moved to profit petroleum regime sometime in August 2011. Once you take the entire royalty of cost recoverable. So the net adjustment till 30th June therefore is $294million and for the current quarter is $142 million, but the run rate would be around 15% of the Rajasthan revenues.

Probal Sen: So essentially this quarter's revenue also includes higher profit petroleum element that was not there in the first quarter?

R. Ranganath: The profit petroleum payable till the current quarter, till 30th September, after adjusting the royalty of 545 million is the 75 million till 30th September.

Probal Sen: That is what I am asking. So that 75 million has it reflected entirely in this quarter's numbers or --?

R. Ranganath: Yes.

Probal Sen: So going forward, as you said we should expect if production sort of remains at this level for Q3, we should be building in this sort of run rate?

R. Ranganath: Around 15% of the revenue, that would be the run rate for royalty.

Moderator: Thank you. The next question is from Amit Shah from BNP Paribas. Please go ahead.

Amit Shah: Just one question from my side. In the press release you mentioned the revised FDP for MBA, so I do not know if I miss something but is it the same approvals that we have been talking about or is this something different now that you are trying to, now you are saying that significantly a large part of incremental production will be just made up by Mangala, Bhagyam, and Aishwariya to reach to 240 kbopd.

Rahul Dhir: It is to do with the latter which is that certainly in the case of Bhagyam and Aishwariya we will look at revised FDPs. If you look at Mangala of course reservoir is better-than-expected. Bhagyam we drilled a number of development wells. On that basis, we are looking at the implications of that on the production potential of Bhagyam and Aishwariya we flagged earlier that our increase resource estimates on Aishwariya had increased so that would also had a fall on effect on the production potential on Aishwariya. So all of that needs to be reflected through FDP revisions. We are working with ONGC right now and in due course it should not take too longer towards revision for all of this and then for any infrastructure augmentation that needs to be done as well. So, these are not to do with Bhagyam start-up. Bhagyam start-up we do not see an issue as such.

Amit Shah: So now incremental production from Mangala going from 125 to 150 or it is dependent on the government approving the revised FDP, right? I am just trying to get a sense of how long would that day from a timeliness basis because its going back to the government?

Rahul Dhir For Mangala going from 125 to 150 we maybe able to do that without a revised FDP. I think we will know more pretty soon in that. On Bhagyam and Aishwariya certainly for the production increases we would need revised FDPs.

Amit Shah: I know it is probably not even fair to ask but how long would it take once you submit or is it like a stipulated time the government has to get back to you?

Rahul Dhir: It is difficult at this stage to give you a timeline around it. But I think certainly we are seeing a lot more support from the government and so the guidance that we have given you guys was 175 by March next year that obviously includes production only from Mangala and Bhagyam. So that is taking into account our sense of timelines around these things and also what we are saying is that there is the three fields, the MBA fields, they should be able to reach their optimal level sometime in calendar 2013, that is again implicit that we will get the FDP approval and that SV and his team will be able to do whatever augmentation that we need to do to take the facilities in pipeline beyond 175.

Amit Shah: Just one last question, so we are seeing incremental production coming out from the same reserve base, so the obvious question to me is are we looking at a slightly longer tale or will there be some changes in the field life?

Rahul Dhir: Like in the case of Aishwariya for example, we said explicitly that the production is driven by a higher resource base. In the case of Bhagyam and Aishwariya at least in the first instance is driven by reservoir productivity, we are looking at the reserve implications of all other stuff and what we have learned from the production and the implications on that. Let us come back to you. I think once we have done the FDP work with ONGC I think we will come back to you with the reserve implications.

Moderator: Thank you. The next question is from Niraj Mansingka from Edelweiss Capital. Please go ahead.

Niraj Mansingka: I have a few questions, I will go one by one. On the processing capacity of the fourth train when would it be ready?

Rahul Dhir: Could I get SV to address that?

SV Nair: Niraj, as you are aware this MPT is the central hub for processing all the fluids, this way it was MPT process terminal, at this stage we are doing a fluid from Mangala and producing 125 and Bhagyam is getting ready now and the current plan is by the end of this year that we will be reaching the capacity of 175 and above that. And also as Rahul mentioned earlier since MBA has the potential to produce more and in the year 2013 we are planning to bring additional facility in cost to meet that requirement. So that is an indicator facility now and which includes both the processing as well as the evacuation capacity.

Niraj Mansingka: So when you say end of the year it means calendar 2012 end or March '12

SV Nair: March '12 we are planning to bring in 175.

Niraj Mansingka: So I was talking about the fourth train.

SV Nair: That is right. The train is the part of the overall terminal, it is a component of the total processing terminals. So we are now looking into the processing facility as a whole and that is why we are giving that.

Niraj Mansingka: So without the train starting, do we see the government approval coming of increasing the production of Mangala? Because officially your capacity is 130,000 barrels per day and just wanted to get a color on how the government looks on these angles?

Rahul Dhir: Like I said earlier, Niraj, that we are working closely with ONGC and the government and the timelines that we are setting out now what SV just described to you, that is reflecting the sort of support we are getting from both our partner and from the government.

Niraj Mansingka: As you mentioned something about augmentation of capacity, so how much if say you need to increase the capacity of the pipeline, how much time would you take, I know it is slightly early but just guess better than what we are thinking.

Rahul Dhir: It is again I think as SV said to you that the timeframe and again you have known us for a while, we would give you kind of broad range right now, we are saying calendar 2013 we should have the capacity in line with whatever the enhanced production is from the MBA fields. Once we are closer to kind of contract award and stuff will come back with a better resolution on what their timeframe is.

Niraj Mansingka: In terms of shutdown you had mentioned any specifics, how many days you are planning to shut down for hooking up capacity?

Rahul Dhir: Just in terms of kind of the maintenance shutdown and stuff I think thats what Mark had mentioned I think was about 3.5-5%. Again remember that you have a life launch so you will be hooking up fields and stuff, so he has also made some provisions for that. Mark, maybe you can explain that better?

Mark Blanche: We got several bulk equipment items in the coming calendar year that will be running at a little higher efficiency rates than what we had earlier planned. So, we have increased our guidance on downtime to 3.5%.

Niraj Mansingka: And in terms of some few numbers, what are the crude sales for the quarter?

R. Ranganath: For the quarter it is 99,306 barrels. These are working interest numbers.

Niraj Mansingka: And what is the expectation of the CapEx that you will do on the EOR pilot and the Barmer pilot?

Rahul Dhir: We have not given specific CapEx in that. The plan, Niraj is that we will be finishing up the polymer phase sometime next year after which we will have an FDP which will set out the CapEx guidance for that.

Niraj Mansingka: I am talking of the EOR pilot which is ongoing right now.

Mark Blanche: The EOR pilot CapEx is $36 million. It plans up, it is operational, well-drilled and we have established the base line would occur and the gun polymer injection and the reservoirs are spanning very well.

Moderator: Thank you. The next question is from Sanjay Mookim from Credit Suisse. Please go ahead.

Sanjay Mookim: I was wondering if it is possible for you to give us the CapEx guidance for the near-term and this is especially in the context of the comment in the media release which said “Further investments are planned to augment capacity and pipeline infrastructure.”

Rahul Dhir: Sanjay, we want to do that right now. I think in the next few months what we plan to do is to come out as we have done in the past ,we will set out a longer-term probably a two-year plus kind of CapEx guidance programs. So you have to just bear with us on that.

Sanjay Mookim: When you say further investments on processing capacity and pipeline infrastructure is this to talk about the 175 or 210 or is it to look at beyond that?

Rahul Dhir: It is to realize the potential if you think about it, we have been focused around FDP levels of 175, which is what would get deliver by March of next year. The next phase as we talked about very stating the existing equipment and augmenting that. So the scale of those investments obviously will be a lot less than what we put in place to build the infrastructure. So, this is more augmentation type of investments. I go back to what SV said, which is we are taking an integrated view of pipeline and processing facilities and making sure that you have enough infrastructure in place to realize the potentials of MBA given the first instance and eventually whatever the basic potential is. So, for the next phase beyond the 175 is augmentation which is really enhancing the existing infrastructure, we are not adding a lot more new stuff.

Moderator: Thank you. The next question is from Saurabh Handa from Citigroup. Please go ahead.

Saurabh Handa: One of my questions has been answered which was on CapEx size. I assume we can't expect any guidance in the near-term. I had a question on your Barmer Hill pilot, can you give us an update on when you expect to start this and just in terms of timeline how long it is going to be, we can get some results from that?

Rahul Dhir: Saurabh, I will talk a little bit about when we can start it, I think Mark can tell you what it is that we plan to do. So when we start it is essentially we are planning to put it in next year's budget. The issue as you know is that it requires the MOPNG clearance for all sort of exploration & work in the development area. So once we have that clearance we should be able to get on with this very quickly. The scale of the pilot itself and what we are planning to do I think Mark will tell you about that.

Mark Blanche: So the Barmer Hill pilot the main goal there is to establish cost-effective Fracc in both vertical wells and as we monitor we will also then move that into horizontal wells and it will take over 2-3 quarters to evaluate this process.

Saurabh Handa: So it is just a three-month kind of a project essentially?

Mark Blanche: 6-9 months.

Saurabh Handa: I just had another financial related question, it was on the Forex gain in the quarter, could you just throw some light on that?

R. Ranganath: This is fundamentally arising because the Rupee has depreciated during the quarter by Rs. 4.15 paise and that has resulted in a gain because we have predominantly the USD deposit that had to be restated as of 30th September, that is a fundamental reason why the ForEx gains is coming from.

Saurabh Handa: And the impact of the Rupee depreciation on accrued sales gets captured in your income itself, right? So I am still not able to reconcile why there was such a sharp dip in the income from operations in the net sales line basically on a QoQ basis? I know there has been royalty impact but is there any other reason out there which we are missing.

R. Ranganath: There is no other reason. The only reason why the revenue has come down is because of the royalty impact.

Moderator: Thank you. The next question is from Prayesh Jain from IIFL. Please go ahead.

Prayesh Jain: Just one question in the opening remarks you mentioned that while computing the profit petroleum there are some costs which are pending from the government side in terms of calculating the profit petroleum. So what are these costs which are pending for approval from the government? Can I get some clarity on that?

R. Ranganath: It is approximately around 300 million of costs which we have incurred, which we have assumed that it may not be recoverable. So that has not been factored into our profit petroleum booking.

Priyesh Jain: And going ahead in terms of this royalty, you will be reporting your revenues with after deducting the royalty, right?

R. Ranganath: Yes.

Moderator: Thank you. The next question is from Sanjay Dam from Motilal Oswal Securities Limited. Please go ahead.

Susmit: Hi, this is actually Susmit . I have a couple of questions; one, I am sorry what you have to repeat again for us if you do not mind, the Q1 and Q2 royalty numbers and secondly, now that you have agreed with ONGC how was the working with ONGC, now is there any improvement over the last month or so?

Rahul Dhir: Let me take the second one, Susmit. Again, if you look back we have been partner of ONGC for 15 years across all our globes and probably the company that enjoys one of the widest relationships with them and that has always been a very good relationship and I think we are back to that. So I am very pleased with that, we are working well and as I said earlier, we have rebuilt the momentum, their senior management very focused on this, so we are very pleased.

R. Ranganath: On the royalty bit, as we have stated before the overall royalty impact is what ONGC has paid is $ 779 million, 70% of it is the Cairn's impact which is $545 million that is up to 30th

September, for the quarter impact is 209 million and till 30th June, 2011, the impact is 336 million. This is before taking the profit petroleum into account.

Harshad: Harshad here. Just one question on royalty again. In the notes to accounts you mentioned about Rs. 25 million of royalty till date and up till June it is like Rs. 13.5 million, so for the quarter it works out to be around some Rs. 11 million. If I were to just take it as a percentage of gross it works at around 30%. So am I missing here something? Profit petroleum is around Rs. 1.5 billion.

R. Ranganath: We need to understand the PSC mechanism here. This particular first six months where partly we were in fully recovering cost mode and then partly in the profit petroleum regime. We actually shifted to profit petroleum regime sometime in August 2011, so therefore the impact whatever you see there is not the impact which you can project it for the year, now QoQ for the future. So this particular impact, it is a cumulative impact which we have taken, the 545 million which I was talking about and part of it which is an exceptional item has been shown under 'Exceptional Item' in the one pager and the impact for the quarter which is 209 million that has been adjusted against the revenue in the top-line.

Harshad: So this as a percentage of gross revenue how much it would be?

Anurag Mantri: Harshad, just to specify on your specific question of royalty, how this quarter run rate has been reflected at 30%, if you recall last quarter we said that there is around $290 million hit which we would have got in till last quarter, when we said that there was a still some of the royalty which could not be recovered because after we moved to profit petroleum only at the end of last quarter. So there was a spillover from the previous quarter ,therefore the current quarter run rate is affected around 30% but going forward the run rate would be 15%. So as on 30th September, we settled the entire past royalty as well as the current royalty.

Harshad: And my second question was on the production guidance. Now, you are talking of 175,000 by March 2012. So as I understand Mangala can produce 150,000 and Bhagyam can produce 40,000, so in case if we were to get the government permission, let us say in another month's time, so can we go to 190,000 by March instead of 175,000?

Rahul Dhir: Harshad, in the near-term I think again as we said, we have got a pipeline which can do 175,000 barrels a day and then we will need to make investments in augmentation of that. So the way we are looking at it is now that we want to do all of that in one go, so that the potential of MBA fields can be realized and that will happen sometime in calendar 2013. So for March 2012, we will be at 175,000.

Moderator: Thank you. The next question is from Aviral Gupta from Indiabulls Mutual Fund. Please go ahead.

Aviral Gupta: I just want you to repeat the cost of production per barrel, how has it fared in the past quarters compared to the global peers if we need them, views on that?

R. Ranganath: The cost of production per barrel is, the field direct OpEx it is $2 a barrel.

Anurag Mantri: This is including all the fees, so the break-up wise Rajasthan lifting cost was $1.9 a barrel and the pipeline operating cost was 60 cents a barrel.

Aviral Gupta: How has it fared compared to the past quarters?

Anurag Mantri: Rajasthan cost was almost on similar, so last quarter lifting cost of Rajasthan was same, $1.9 and 60 cents, so it has been flat more or less since last quarter.

Aviral Gupta: And what is your guidance on this sir?

Anurag Mantri: The guidance continues to be $5 a barrel including pipeline cost.

Aviral Gupta: And what was the domestic peers versus the global peers?

Rahul Dhir: We do internal benchmarking but generally we do not give that. I think if you do the analysis you will see this compares very well to the global peers.

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

Vidyadhar Ginde: I had a question on Barmer Hill. What I understand is that you have two development areas right now and I guess Mangala and Aishwariya are in DA1 and Bhagyam is in DA2. So as and when you were to start producing from Barmer Hill would it be in DA2 or it would be a third development area and what I understand is each of them have their own profit petroleum economics.

Rahul Dhir: Vidyadhar, as you know, Barmer Hill is fairly extensive, so it extends to Mangala, Bhagyam, and Aishwariya. We do not really know the answer to that question. On the face of it if we are developing a new formation and existing DA then it should be part of that DA. So I think that has been kind of our premise but look I think there is something that government will need to work through. So I do not want to give you any specific guidance on that. Our working premises then that it is typically the Barmer Hill in Mangala should be part of that DA and the other one should be the other DA.

Vidyadhar Shinde: And the two DA, development areas have their own profit petroleum economics? That is correct?

Rahul Dhir: Yes. That is correct.

Moderator: Thank you. The next question is from Sujit Lotha from Asian Market Securities. Please go ahead.

Arindham: This is Arindham, on the risk of being repetitive, just wanted to understand you have shifted from your regime with the profit petroleum regime. What exactly are the line items for calculation of field P&L for Rajasthan? My understanding is starting with gross revenues if that can be explained a bit or what are the items that come towards the bottom-line?

R. Ranganath: The profit petroleum adjustment is done in the revenue. The total revenue without RJ royalty is $862 million and as we were saying RJ royalty provision for the quarter is $209 million, cumulative profit petroleum till Q2 is $75 million, so the revenue therefore is $578 million that gets translated to 26,521 million, that is what you see on the results.

Moderator: Thank you. The next question is from Vinod Bansal from RBS Equities. Please go ahead.

Vinod Bansal: Just one question. What could be your entitlement from the Rajasthan block, the overall entitlement as in cost entitlement plus your share in profit petroleum?

Anurag Mantri: Going forward for next few quarters our entitlement interest in Rajasthan would be around 55-60%, I am talking about next quarter onwards because now we have settled the entire past royalty.

Vinod Bansal: What was it in 2Q excluding the royalty adjustments that you have made and then including as well?

Anurag Mantri: 45 percentage?

Vinod Bansal: Yes.

R. Ranganath: Including royalty it was 45%, excluding royalty it is 70%.

Moderator: Thank you. The next question is from Probal Sen from IDFC Securities. Please go ahead.

Probal Sen: I just have a follow-up question. Is there a reserve review plan anytime soon for your entire portfolio ,whether next year or whether internally or via third-party, is there some news around that we can expect anytime in the future?

Rahul Dhir: Probal, we obviously do our year-end process, that is we do that and then D&M does that independently. We will have to see in conjunction with the FDP whether we do something or not but I think certainly you should expect us to do something for our year-end.

Moderator: Thank you. The next question is from Abhijeet Vora from IFCI Financial Services. Please go ahead.

Abhijeet Vora: One clarification in terms of royalty. You said that the royalty impact for Q2 was $209 million. But earlier I noted that it was 142, I just got confused between these two numbers, can you just clarify if I am wrong on any part?

R. Ranganath: The PSC regime allows this royalty that is paid as a cost recoverable, we do not pay anything to ONGC, from our total revenue it is adjusted. So when we take a head on account of royalty proportionately the profit petroleum also gets adjusted. So the number of $142 million which we told you was the net of the profit petroleum saved due to royalty being cost recoverable.

Abhijeet Bora: $142 millionis net of profit petroleum?

Rahul Dhir: Right.

Abhijeet Bora: Your production target of 240,000 barrels per day would be achieved by what timeframe?

Rahul Dhir: The guidance that we have given is not for 240,000, it is for about realizing what we call the full potential of the MBA. We said that the MBA fields will help us get substantially towards the 240 numbers. Just I want to be clear it is not a guidance for 240. We believe we can achieve that in calendar 2013. That is probably the best guidance we would give you right now. As we get closer to the timing of the FDP approvals and the augmentation and all we can give you better guidance.

Moderator: Thank you. The next question is from Nitin Tiwari from Religare Capital Markets. Please go ahead.

Nitin Tiwari: Rahul I just got a couple of questions. If I am not wrong like earlier you used to guide that the Mangala field ramp up from 125 to 150 will lead some sort of government approval. So I just want to understand what has changed and is it possible like even in the future, let us say we go in 2013 and you see that there is more potential for the production to go up from let us say 210 or 240 to something close to 260. So do we again need to submit the revised field development plan so you can take it directly? That is one. The second thing is just want to understand because what I see is that your Aishwariya will be ready by second half of calendar next year, but there would be a pipeline constraint till 2013, so is it fair to assume that you need to wait for 2013 to actually take all these fields to the full production levels?

Rahul Dhir: Let me take your first question first is depending on the nature of what is driving the production growth, we may or may not need FDP revisions. So for example in Mangala, it is simply reservoir performance, there is no CapEx changes involved. So you can presumably we believe that working with ONGC we may not need to take a full FDP revision. In the case of Aishwariya, where it is a storage change and there are different facilities and all, you certainly would need an FDP revision, so it depends on the nature of the change. The fundamental point is which I said to you earlier that there is good alignment with ONGC, there is strong support from the government, the value that we create very much is in the interests of the nation. So I think that we are operating in a slightly different environmentally we feel that way. So that is important. Now, your other question was that, as part of the FDP you have certain commitments, so we got to bring Aishwariya on stream in line with the FDP commitment. So what we will probably end up is that you will have Mangla, Bhagyam, and Aishwarya on stream and we will optimize around those three and as and when the capacity gets increased then the production can be increased in line with that.

Nitin Tiwari: So I think the ONGC now on the good side of your business. Thanks a lot.

Moderator: Thank you. The next question is from Avadhoot Sabnis from RBS Equities. Please go ahead.

Avadhoot Sabnis: Just a couple of questions. Firstly I think you mentioned that in this current quarter the development CapEx is $107 million. Could you give a split between DA-1 and DA-2?

Rahul Dhir: Avadhoot, I do not think we are able to do that.

Avadhoot Sabnis: Secondly, , I think the explanation was given by Ranga, I did not quite get it. The reason for the increase in interest costs in the quarter?

R. Ranganath: See, as we were saying we have repaid the entire USD loan, so there was an unamortized facility fees which was there. So the entire unamortized facility fees was written-off in the current quarter. So that is why the interest and finance cost has gone up quarter by quarter.

Avadhoot Sabnis: How much was that?

R. Ranganath: That is INR 83 crores.

Avadhoot Sabnis: The last question was on infrastructure. And frankly maybe I have got this wrong but I think the impression I had earlier was that along with Bhagyam being ready to start in the current quarter, the fourth train would also be ready which would take the processing capacity to 205,000 bopd and frankly my understanding was that the pipeline wasn't capable of processing up to that level. So effectively if there were no constraints on any government approval then there would be no infrastructure constraints effectively. Now I presume I have got it wrong. What I want to understand is that Mangla, you are in a position to ramp up from 125 to 150 within 24 hours. Bhagyam, I presume you can go to 40 provided you get an approval tomorrow, you are ready to go to 40,000 probably by say a month or two and Aishwariya , as you mentioned you will be able to start by second half of next year. Now, hypothetically if there are no issues on government approval and government says you go ahead and produce as much as you want then based on the infrastructure constraints what are the limits and when other limits going to change?

Rahul Dhir: Avadhoot, I think that a very fair question and I am glad you asked it, so I just want to make sure that everybody is clear on this. So part of it is that you have had a 24 inch line, which we have said before has, we are not constrained by that, it will require augmentation. So originally the line was designed for 150,000 barrels a day and then we upgraded the capacity to 175,000 bopd. Now ultimately we do not see a constraint in terms of pipeline capacity but it will require augmentation in terms of pumps and things like that. So that is as far as the pipeline is concerned. I think as far as the processing facilities is concerned and again one of the things we want to do is to use the vocabulary 'away from the trend', because while we are building stuff we talked a little bit about trends. I think as we explained it better which was that we are looking at it as an integrated processing facility. Now, with that again we do not see a constraint as such, what we called trains one through four in terms of realizing the currently envisaged basin potential. But it will require some incremental investments in augmenting and debottlenecking these facilities. And all of that is going to be ready by 2013. In the near-term we are saying the next step is that we want to make sure that we have all the facilities in place and the pipeline capacity is there already for 175,000 bopd that will happen by March of next year, March of 2012. I think one of your colleagues asked earlier, "What happens once you have all three fields on stream"? Once you have all three fields on stream, you will probably have more reservoir deliverability than you may have pipeline capacity for a time period, so you will end up optimizing from the three reservoirs. In order to produce more from Bhagyam and Aishwariya, we do need FDP revisions. That process typically takes time. So the way we are looking at it is that the FDP revisions of Bhagyam, Aishwariya and the augmentation of the pipeline and processing facilities should all coincide with the startup of a higher production level from these three fields and sometime in calendar 2013.

Avadhoot Sabnis: If I have got this right, could you tell me, assuming as of today your ability to evacuate crude and sell to customers is 175?

Rahul Dhir: Correct.

Avadhoot Sabnis: And that limit of 175 is going to be unchanged whole of calendar year 2012?

Rahul Dhir: For the time being I think I would keep it at that. We are also looking at how we can augment that.

Avadhoot Sabnis: When in 2013 will that capacity be an enhanced then, could you give me guidance on Quarter?

Rahul Dhir: So right now we are not giving quarter guidance on that because as I said earlier we are in this fresh mode of working cooperatively and re-building the momentum. So we are trying to get alignment on the timing of the FDP revisions of long lead items for the pipeline and so on and so forth. So at this point we are saying calendar 2013. Give us a bit of time we will come back to you guys with a bit more specific detail but we need some time to give you that.

Avadhoot Sabnis: Basically, you are telling me that, let us say end of 2013, even if there are no constraints on approvals and effectively if you have a ability to produce 190, you will not be able to reach 190 till this additional capacity comes through?

Rahul Dhir: What we have said in our release Avadhoot, is that what we are looking to do is to take the capacity of the processing facilities to beyond 175 by March of 2012. We are going to be careful right now in terms of our choice of words. We are focused on 175 because that is what we have FDP approvals for.

Avadhoot Sabnis: No, that is what I am saying. I want to completely de-link it with this whole approval process. That is what I mentioned, assuming there is no issue of approvals and the government says that you can produce as much as you want, what is the infrastructure issue. As you rightly mentioned as of now infrastructure constraint is that you cannot produce above 175.

Rahul Dhir: It is not a hard constraint. There is some flex around that and we are working through that. But I do not want to give you a guidance on that right now because that will end up being beyond what I have for FDP approvals yet.

Avadhoot Sabnis: As of now you are looking at that 175 broad limit getting hiked in….

Rahul Dhir: Broad limit.

Avadhoot Sabnis: Getting hiked in 2013. Could you at least say first half or second half in 2013?

Rahul Dhir: I do not want to be forced to do that because I do not know right now. Rest assured I must say that this is an important question for you guys. So give us some time so we can come back to you with a sensible answer.

Avadhoot Sabnis: So in that sense basically even if you are ready to start production from Aishwariya in the second half of 2012, it is a theoretical sort of rise in any case because you cannot produce it effectively?

Rahul Dhir: There are three different things. One is that we have a commitment for the FDP that we have to do it in a certain timeframe, so that is something that we have to do. And if you have been following all the stuff by DGH taking other operators to task, so we can’t do that. Second is that we would end up optimizing production between the three fields and third perhaps most importantly from your point of view, as you know, I am giving you a static picture of where we are right now because we cannot talk beyond 175. So we would look at how we can enhance or create some flexibility around the off take infrastructure. But again that is not something we want to do right now.

Avadhoot Sabnis: I presume this constraint on infrastructure was there right from the start?

Rahul Dhir: Yeah, it is the physics driven sort of thing. But again what I want to be very clear of this is that it's the 24 inch line, we do not necessarily have a constraint on the infrastructure. It is a question of how quickly can you augment the facilities? And if you look back we have been in a kind of freeze mode till like say, a few weeks ago. So things that you would have done in the normal course of business to augment the capacity all this time, we are starting to do that now. And some of those things will take time.

Avadhoot Sabnis: But Rahul, to be fair I think I would be surprised as this was not communicated earlier because you would have also mentioned that Mangala has a capacity to produce 150, Bhagyam has the capacity to produce 40 and Aishwariya 20. So 210 was basically field capacity which was possible.

Rahul Dhir: Yes, this is correct. And the 210 is the field capacity, we have said we are not constrained from a facilities and infrastructure point of view and a pipeline point of view but the only point which is important I think for you guys to understand is that there is some augmentation investments there we would have to make and given that we are now just out of the box, it will take a bit of time to get that done.

Avadhoot Sabnis: Thanks.

Moderator: Thank you. Ladies and gentlemen due to time constraints we will take one last question from Nipun Sharma from Mirae Assets Securities. Please go ahead.

Nipun Sharma: Good evening ladies and gentlemen. Just one quick question on the Bhagyam fields. During the last call you mentioned that you were having some delays with the operation of budget and now it seems that you are ready to start Bhagyam in the next couple of weeks. So should I understand that the operational budget has been approved, could you just give me some clarity around that?

Rahul Dhir: We are comfortable that we will be able start Bhagyam relatively soon without getting into the specifics of that.

Nipun Sharma: Thanks.

Moderator: Thank you. Ladies and gentlemen that was the last question. I will now like to hand over the conference back to the company's management for their final remarks.

Rahul Dhir: Thank you very much for your questions and your interest. As I said earlier, I think it is now poised to take the business forward. There is a lot of work that we are doing now in terms of synchronizing the development of infrastructure and fast tracking that along with the resource potential. What is exciting for us is the fact that the three main fields now we believe helped us realize a major part of the stated vision and, of course, there is further potential in the discovered fields and in restoration that we need to work on. We are also excited about what is happening in Sri Lanka. So again at this point I feel very confident with where we are as a business and where we are going. So again thank you all for taking time to be a part of this call.

Anurag Mantri: Thank you ladies and gentlemen for the patient hearing. You will find a copy of today's transcript on our website in due course. For any queries please contact our investor relations team. Thank you and good evening.

Moderator: Thank you very much, sir. On behalf of Cairn India, that concludes this conference call. Thank you for joining us and you may now disconnect.