

**Cairn India Limited**

Annual Report and Financial Statements 2006

# Creating Energy for India, together

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**CAIRN**

CAIRN

In India, Cairn has been developing its interests for more than a decade, and the Company is now one of the largest private sector exploration and production companies.

The growth to date, combined with the major discoveries in Rajasthan, has changed the nature of the organisation. To reflect this, Cairn India was listed on the National Stock Exchange and Bombay Stock Exchange in 2007, providing the right platform to sustain the pace and momentum for the next phase of development by:

- Providing the foundation for an Indian oil and gas company
- Ensuring we are well positioned to take advantage of growth opportunities in India
- Capitalising on the strong development and operational expertise
- Increasing the base of executive and management decision-makers in India

As the Indian oil and gas market deregulated in the early 1990s, Cairn's focus turned to South Asia, acquiring Command Petroleum Ltd in 1996, an Australian-quoted company with interests in India. Ravva in Eastern India was the first offshore oil and gas field to be developed, followed by the Lakshmi gas field in Western India, which was discovered in 2000 and commenced production in 2002.

In January 2004, following the largest oil discovery by any company in India since 1985, we added the Mangala oilfield in Rajasthan to our assets and this, along with the other discoveries in Rajasthan, will form the core of our future developments in India.





## Annual Report 2006

Discover more about how we are Creating Energy for India...

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# Chief Executive's Review

Overview



Welcome to the first Cairn India annual report and accounts. It gives me great pleasure to be reporting to you the achievements of your Company which was listed earlier this year on January 9th on the National Stock Exchange and Bombay Stock Exchange.

Welcome to the first Cairn India annual report and accounts. It gives me great pleasure to be reporting to you the achievements of your Company which was listed earlier this year on January 9th on the National Stock Exchange and Bombay Stock Exchange. We are an Indian company, committed to investing in India, with a strong and continuing ownership from both overseas and here in India. The IPO attracted a number of high quality investors (including PETRONAS, which holds 10%) thereby signifying investor confidence in the Indian equity story, the regulatory environment and the capital markets. We thank all our shareholders for showing confidence in the Company. Cairn India is committed to continuing to invest in India and is focused on creating shareholder value by developing its world class resource base in Rajasthan and seeking to continue Cairn's exploration track record. Cairn India is a unique entity now and we are conscious of the faith you as shareholders have put in us to deliver. We will aim to meet those aspirations by adhering to the following strategy:

"We have maintained our low-cost operating base by focusing on life-cycle planning, continuous monitoring and control of operational costs and the innovative application of operating technologies."

## Maintain low operating costs and sustain production in existing fields

Sustaining our current production volumes at the Ravva, Lakshmi and Gauri fields is one of our key objectives. Cairn India's oil and gas fields at Ravva and CB/OS-2 continue to be the cornerstone of its existing production. During 2006 both of these assets benefited from revised gas prices and improved oil production. An ongoing drilling programme at Ravva and new developments planned on CB/OS-2 will ensure that these assets continue to underpin Cairn India's near term production and cash flow.

Maintaining Cairn India's low operating cost-base through efficient operations is critical. Our strategy is to focus on life-cycle planning and continuous monitoring and control of operational costs as well as applying innovative operating concepts and technologies.

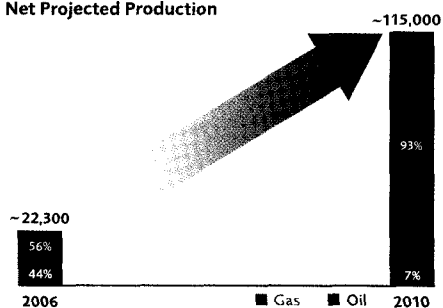
## Execute Rajasthan Northern Fields development

A step change in production is expected from 2009, when the first of the Rajasthan developments is planned to come onstream. The Mangala field will be brought on production first, followed by the Bhagyam and Aishwariya fields and the targeted gross production from these three fields is 150,000 bopd (gross). Once onstream, these fields will create value for the Government of India (GoI), the Rajasthan State Government and for investors and other stakeholders.

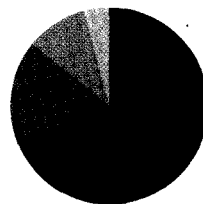
Execution of the Rajasthan block development will benefit from our development and production experience and detailed subsurface knowledge of the development area.

## Strong Production Growth

### Net Projected Production



## Shareholding



- Promoter – 69%
- Institutions – 17%
- Petronas – 10%
- Individuals – 4%

Holding as at June 30, 2007

### Maximise potential in Rajasthan

There are significant reserves in Rajasthan. Cairn India is in the process of assessing how advanced technologies can be used to help increase recovery from this resource base. Laboratory studies have indicated that the early application of enhanced oil recovery (EOR) techniques on the Mangala and Bhagyam fields is expected to extend the production plateau and ultimate reserves for these fields. Further work is also planned to determine the best method of extracting the oil from the potentially productive Barmer Hill formation.

Appraisal of the extensive potential in the Rajasthan Block lies in numerous prospects and leads in a number of reservoirs in the vicinity of our existing discoveries. We have identified approximately 30 prospects in the licence area and we are building a comprehensive and growing inventory, based upon analysis of the 2D and 3D seismic data and various wells.

### Identify new opportunities for growth in reserves and production

We are actively exploring for hydrocarbons in basins throughout India. In addition to the exploration potential in Rajasthan, we have identified a number of leads and prospects in other blocks. Our exploration portfolio has a balanced mix of risk and reward. This diversification allows Cairn India to drill potential prospects with high geologic risk, as well as explore for and drill smaller potential accumulations that carry less risk.

Our portfolio is being fostered in both mature and frontier areas, as well as in regions and basins where the current data-set can be optimised or reinterpreted. This exploration strategy has delivered early entry into several possible hydrocarbon-bearing regions in India. Early entry can be a critical factor in long-term exploration success, and Cairn India is very active in relatively unexplored areas.

In addition, we believe that India has significant under-explored potential, with 26 basins covering a sedimentary area of 3.14 million km<sup>2</sup>. In addition to our existing exploration portfolio, we are seeking out new exploration opportunities through organic growth, inorganic opportunities and by participating in future New Exploration Licensing Policy (NELP) rounds.

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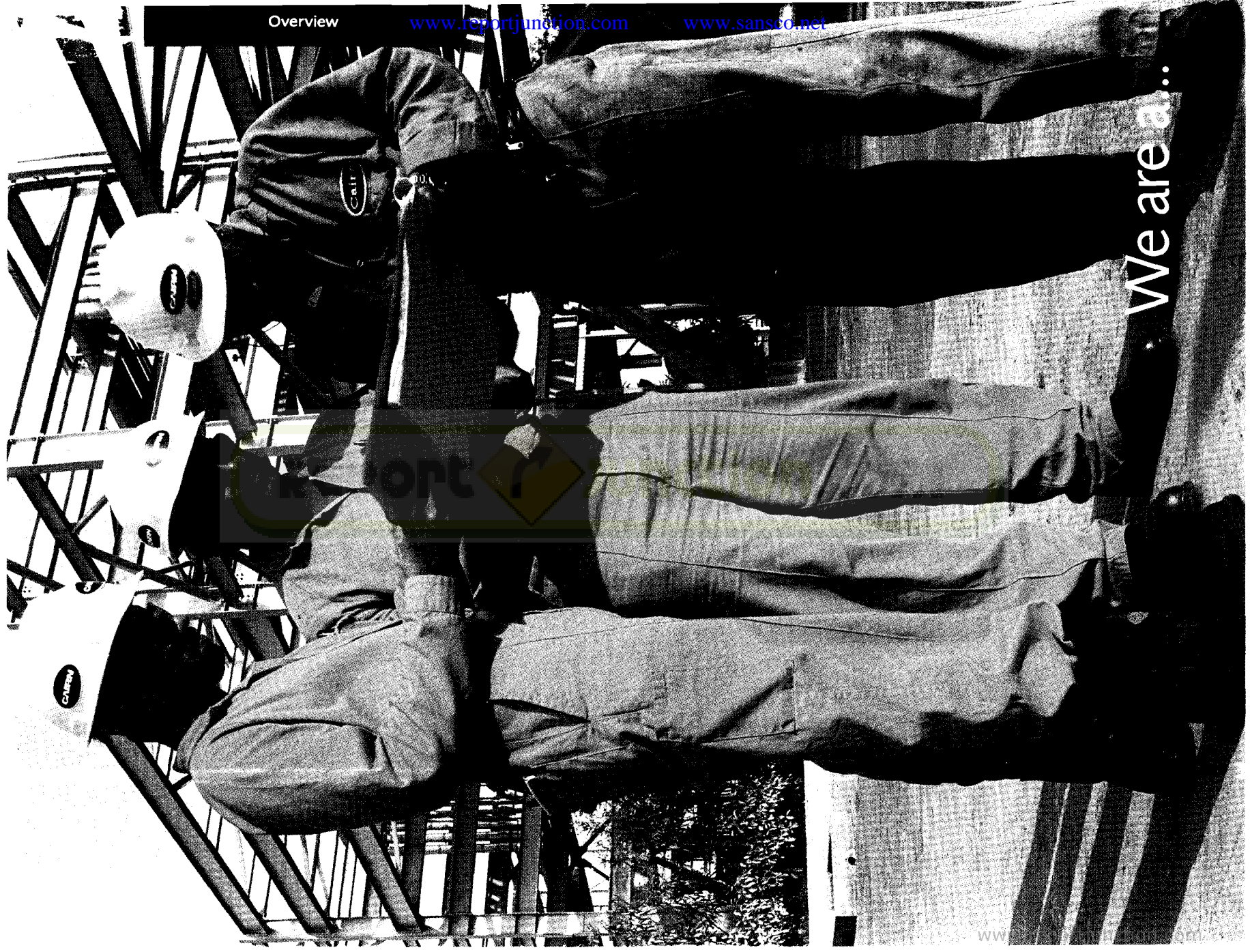
# We have a clearly defined strategy

## Clearly defined strategy

- > Well placed for future growth
- > First oil from Mangala in Rajasthan on schedule for 2009
- > Five-fold production increase by 2010
- > Ongoing cashflow from current operations in Ravva and Cambay basin
- > Established resource base
- > Enhanced oil recovery potential to extend and increase plateau production
- > Further exploration opportunities



We are a...





# leading low-cost oil and gas developer

## A leading low cost operator and developer

- > Maintaining Cairn India's low-cost base through efficient operations is critical
- > Cairn India focuses on life-cycle planning and continuous monitoring, controlling operational costs as well as applying innovative operating concepts and technologies
- > The combined field direct opex of the Ravva and Cambay operations is approximately USD 1 per boe



We will continue this by...

# maximising the potential of our existing assets

## Maximising the potential

- > Ongoing drilling operations are helping to sustain production from both the Ravva and Cambay operations which are the cornerstones of Cairn India's development
- > Ravva, where production was 3,500 bopd a decade ago, has been on plateau production of 50,000 bopd since 1999 and is currently producing approximately 7% of India's domestic crude production
- > Studies are ongoing to maximise recovery from the resource base in Rajasthan with enhanced oil recovery techniques on the Mangala and Bhagyam fields to extend the production plateau