



Energy for India

# Securing Energy Fuelling Growth

## 2009-10

ANNUAL REPORT & FINANCIAL STATEMENTS





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The operational activity was largely focused on the development of the Mangala Processing Terminal (MPT) at Barmer, Rajasthan and the crude oil pipeline. The MPT is designed to process crude from the Mangala, Bhagyam and Aishwariya (MBA) fields and will have a capacity to handle 205,000 barrels of oil per day (bopd) of crude with scope for further expansion.

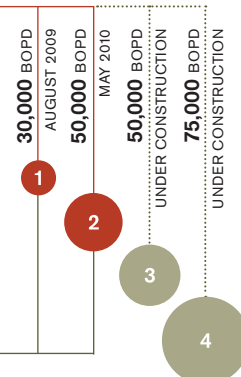
#### The MPT consists of four processing trains

**Train One**, with a capacity of 30,000 bopd, was commissioned on 29 August, 2009, with crude oil being trucked to the Kandla port for shipping to both Public Sector Undertaking (PSU) and private refiners.

**Train Two**, with a capacity of 50,000 bopd, commenced production in May 2010.

**Train Three**, with a capacity of 50,000 bopd, will be completed by June 2010.

**Train Four**, with a capacity of 75,000 bopd, is expected to come on stream in CY 2011.



The ~590 km heated and insulated crude oil pipeline from Barmer in Rajasthan to Salaya in Gujarat is complete. Crude oil was introduced into the pipeline in May 2010. By June 2010, it will supply crude to private refiners and to Indian Oil Corporation Limited in early July, 2010.

**Sales arrangements** are in place for 143,000 bopd of Rajasthan crude.

**81 wells including six horizontals have been drilled.** Horizontal wells tested at an average rate of more than 11,500 bopd, the highest ever production rate for an onshore well in India.



**4 billion BOE DISCOVERED**

The potential resource base for the Rajasthan block is now estimated to be 6.5 billion barrels of oil equivalent (boe) in place. The discovered resource base has increased from 3.7 billion boe to 4 billion boe in place. As a result of the exploration potential, the prospective resource base is now estimated at 2.5 billion boe in place.



**2.5 billion BOE PROSPECTIVE**

The Rajasthan resources provide a basis for a vision to produce 240,000 bopd, subject to Government of India (GoI) approval and additional investment.

The Rajasthan project is now well funded, with Cairn India having completed the financing arrangements for USD 1.6 billion at competitive pricing — comprising international borrowing of USD 750 million and domestic borrowing of INR 4,000 crore (USD 850 million).

**USD 850 million DOMESTIC BORROWING**

**USD 750 million INTERNATIONAL BORROWING**



Gross operated production was 69,059 barrels of oil equivalent per day (boepd) and net working interest was 24,957 boepd. This takes into account the Rajasthan production from 29 August, 2009.



# Board of Directors

## SIR BILL GAMMELL

### Chairman and Non-Executive Director

Sir Bill Gammell, 57, holds a BA in Economics and Accountancy from Stirling University and was awarded a knighthood in 2006 for services to the industry in Scotland. He has over 25 years of experience in the international oil and gas industry. He founded Cairn Energy PLC and was appointed Chief Executive on its initial listing in 1988. He is the Chairman and Non-Executive Director of Cairn India Limited and is a member of the Asia Task Force and the UK India Business Council. Sir Gammell, who is an ex-Scotland rugby internationalist, is also Chairman of Winning Scotland Foundation and a Director of Sport Scotland and Glasgow 2014 Limited and a member of the British Olympic Advisory Board.

## MR RICK BOTT

### Executive Director and COO

Mr Rick Bott, 50, was appointed as Additional Director on 29 April, 2008 and assumed office of Executive Director and Chief Operating Officer with effect from 15 June, 2008. Mr Bott holds a B.S in Marine Sciences and Masters in Geology from Texas A&M. Mr Bott has global exploration and production experience of more than 21 years and has served in several senior positions in Ocean Egypt Companies, Ocean Yemen Corporation, British Gas, and Tenneco. Before joining Cairn India, he was Vice President of Devon Energy's International Division, responsible for developing and implementing business growth and exploration strategy for assets in 12 countries outside of North America.

## MR RAHUL DHIR

### Managing Director and CEO

Mr Rahul Dhir, 44, joined Cairn India in May 2006 as the Chief Executive Officer and was appointed the Managing Director on 22 August, 2006. He completed his degree in Bachelor of Technology from the Indian Institute of Technology, Delhi. He went on to complete his M.Sc from the University of Texas at Austin and MBA from the Wharton Business School in Pennsylvania. Mr Dhir started his career as an oil and gas reservoir engineer before moving into investment banking. He has worked at SBC Warburg, Morgan Stanley and Merrill Lynch. Before joining Cairn India, he was the Managing Director and Co-Head of Energy and Power Investment Banking at Merrill Lynch.

## MR INDRAJIT BANERJEE

### Executive Director and CFO

Mr Indrajit Banerjee, 54, was appointed as an Additional Director on 26 February, 2007 and as the Executive Director and Chief Financial Officer on 1 March, 2007. He graduated from the University of Calcutta with a Bachelor's Degree in Commerce. An associate member of the Institute of Chartered Accountants of India, Mr Banerjee started his career at PriceWaterhouse Coopers in Calcutta in 1979. He has held several senior positions throughout his career, including 17 years at the Indian Aluminium Company, formerly part of the Alcan Group and at Lucent Technologies (India). Before joining Cairn India, he was President-Finance and Planning at Lupin Limited.





#### MR AMAN MEHTA

##### Non-Executive and Independent Director

Mr Aman Mehta, 63, is an economics graduate from Delhi University. He was earlier the Chief Executive Officer of HSBC Asia Pacific until 2003. Mr Mehta is currently an independent non-executive director of several public companies in India as well as overseas. Besides this he is also a member of the Advisory Council of INSEAD, France and International Advisory Boards of Prudential Inc., USA and CapitaLand Ltd. of Singapore.

#### MR NARESH CHANDRA

##### Non-Executive and Independent Director

Mr Naresh Chandra, 75, holds an MSc. in Mathematics from Allahabad University and is a retired IAS officer. Previously, Mr Chandra was the Chairman of the Committee on Corporate Governance, India's Ambassador to the USA, Advisor to the Prime Minister, Governor of Rajasthan, Cabinet Secretary to the Government of India, and Chief Secretary to the Government of Rajasthan. A reputed administrator and diplomat, Mr Chandra serves as an independent director on the boards of a number of companies.

#### DR OMKAR GOSWAMI

##### Non-Executive and Independent Director

Dr Omkar Goswami, 53, holds a Master of Economics Degree from the Delhi School of Economics. He is a D.Phil. in Economics from Oxford University. He has authored various books and research papers on economic history, industrial economics, public sector, bankruptcy laws and procedures, economic policy, corporate finance, corporate governance, public finance, tax enforcement and legal reforms.

#### MR EDWARD T STORY

##### Non-Executive and Independent Director

Mr Edward T Story, 66, is a science graduate from Trinity University, San Antonio, Texas and holds a Masters degree in Business Administration from the University of Texas and has been conferred an honorary Doctorate degree by the Institute of Finance and Economics of Mongolia. He is the Chairman of the North America Mongolia Business Council. Mr Story has more than 40 years of experience in the international oil and gas industry and is the founder, President and Chief Executive Officer of the LSE listed SOCO International PLC.

#### MS JANN BROWN

##### Non-Executive Director

Ms Jann Brown, 55, was appointed Finance Director of Cairn Energy PLC in 2006 and is also a Non-Executive Director of Cairn India Limited. She holds an MA degree from Edinburgh University and joined Cairn Energy PLC in 1998 after a career in the accountancy profession, mainly with KPMG. Prior to her appointment as Finance Director, she served on the Group Management Board for seven years. She is a member of the Institute of Chartered Accountants of Scotland and the Chartered Institute of Taxation. She is the Senior Independent Director of Hansen Transmissions International NV, a Belgian engineering company, which is listed on the London Stock exchange.

#### MR MALCOLM SHAW THOMS

##### Non-Executive Director

Mr Malcolm Shaw Thoms, 54, holds a BSc Hons degree in Physics from Edinburgh University. He is an MBA from Heriot-Watt University and is currently trustee of the University of Edinburgh Development Trust. He started his career in the oil industry with Schlumberger and became the manager of their businesses in Qatar and Brunei. He joined Cairn Energy PLC in 1989 and held a number of senior management positions prior to his appointment as Executive Director in 2000. Currently, the Chief Operating Officer of Cairn Energy PLC, Mr Thoms is a Non-Executive Director of Cairn India Limited and has recently been appointed as a Non-Executive Director of Agora Oil & Gas AS.





NIGHT VIEW OF TRAIN ONE FACILITIES AT  
THE MANGALA PROCESSING TERMINAL



# Chairman's Letter

Dear Shareholder,

Your company is helping to play a part in meeting the energy security needs of India with oil and gas production from its operations across the country. While consumption of oil across the globe in the last year has dipped, it continues to rise in India. The International Energy Agency, a policy and research group based in Paris, has forecast in November 2009 that India's energy demand would more than double by 2030. With GDP in India predicted to continue at its current rate the country will need energy to help meet its economic growth. Your company ultimately has the potential to produce more than 20 percent of India's crude output that will go towards meeting the country's energy needs. The development in Rajasthan has a key role to play in the energy security plans of the country.

First oil from Rajasthan in August 2009 and the subsequent flow of crude through the world's longest continuously heated and insulated oil pipeline has been the culmination of a journey of partnership and co-operation between your Company and the Government of India, the Government of Rajasthan, the Government of Gujarat, the Oil and Natural Gas Corporation (ONGC) and other stakeholders.

It was a great honour to have the Honourable Prime Minister of India, Dr Manmohan Singh, inaugurate the Mangala Processing Terminal on 29 August, 2009. It was a proud day for everybody involved in the growth of Cairn India.

Six years on from the major discovery of Mangala in January 2004, the development in Rajasthan is starting to deliver for the government and the people of India. It has been a huge achievement to develop this project in the middle of a desert, and to construct the pipeline from Rajasthan to the coast of Gujarat, which will eventually allow access to 75 per cent of India's refining capacity.

At the peak of construction, more than 16,000 people were involved in building the Mangala Processing Terminal, the pipeline and related infrastructure — making it one of the biggest oil and gas production developments in India in recent years.

When the Rajasthan fields are on production at the current approved peak production plateau rate of 175,000 bopd, Cairn India, along with its joint venture partner ONGC, will account

for more than 20 per cent of India's overall oil output. Your Company has a belief and vision that, subject to further investment and approval from the Government of India, the Barmer Basin can produce 240,000 bopd.

The Mangala field is one of the 25 discoveries that have been made in the Barmer Basin, and I look forward to many long years of production as additional fields are appraised, developed and tied in to this world-class infrastructure.

Working effectively with government agencies and partners is fundamental wherever we operate. But the Rajasthan development has meant even more intense and continuous co-operation. The support of the Government of India, the state governments, ONGC, local communities and key contractors has been vital in helping complete this national asset. I would personally like to thank all who have played their part in developing this key project for the country.

With a strong and sustainable cash flow, Cairn India is well positioned for future growth. It is focused on maximising value from the phased development of the Rajasthan resource base in the coming years.

**May your Company thrive—and with it, India.**



**Sir Bill Gammell**  
Chairman





# Managing Director and CEO's Letter

Dear Shareholder,

I write this letter with a sense of fulfilment. The management of Cairn India Limited, with the support of our joint venture partner, ONGC, has delivered its promise of supplying crude oil to our nation.

On 29 August, 2009, Dr Manmohan Singh, the Honourable Prime Minister of India, inaugurated the Company's first oil from the Mangala Processing Terminal at Barmer, and dedicated the field to the nation. Initially, the oil from Train One of up to 30,000 bopd was being trucked to different refineries. In May 2010, Train Two with a capacity of 50,000 bopd was commissioned. In June 2010, the ~590 km heated pipeline from Barmer to Salaya in Gujarat was made operational. As I write, oil is flowing through this pipeline to Indian Oil Corporation and private refiners. And Train Three, with a capacity of another 50,000 bopd, has become operational.

By the time you read this, your Company will be in a position to produce 130,000 bopd from Barmer. By next year, Cairn India's production from Rajasthan will be at 175,000 bopd — or over a fifth of India's crude oil output.

It has been an incredible journey. As I look back over the last two years, it has been the story of a team of committed and dedicated people overcoming one challenge after another.

Think about it: More than 16,000 people working in deserts of Rajasthan and northern Gujarat where the day temperature soars to between 46°C and 51°C. Ensuring each of the many thousand processes and parts were up and ready in time, despite huge infrastructure constraints, was a huge achievement. Consider some of the big elements of the project:

- **Setting up various wells at Mangala**, using the latest technology to get not only the maximum throughput but also the maximum life out of each well
- **Securing the gas supply which is 90 km** away from the Mangala Processing Terminal to fire the boilers to drive the steam turbines at the processing terminal and to heat the pipeline
- **Piping saline water from a sub-surface reservoir** to be used to pump out the crude and to be desalinated, creating steam and drinking water
- **Constructing a state-of-the-art processing terminal at Mangala** with thousands of different

elements and equipment — a terminal that can process up to 205,000 bopd, with flexibility for further expansion

- **Creating a massive closed loop system** to conserve and re-use environmental resources in the most energy efficient manner
- **Building a ~590 km continuously heated and insulated 24" pipeline** from Barmer in Rajasthan to Salaya in Gujarat with a terminal at Viramgam and 36 heating stations approximately 18 km apart along the route. The next segment to the coast at Bhogat will follow soon.

That's not all. Consider the kind of cutting edge technologies that your Company has put to use: the drilling of horizontal wells, pad-based drilling, rapid rigs and world-class well designs, enhanced oil recovery, skin effect heat management system using electric heat induction technology to heat the length of the pipeline at a constant temperature above 65°C, hydro-fracturing of less permeable reservoirs, and many others. All these have been tested, modified, optimised and implemented in your Company's Rajasthan project.

These activities — both in the upstream and midstream — cost a great deal of money. The challenge, therefore, was to secure funds at globally competitive rates. At a time when the world was reeling under the financial crisis, your







Company's management succeeded in raising USD 1.6 billion at internationally competitive rates — International borrowing facility of USD 750 million and domestic borrowing facility of INR 4,000 crore (USD 850 million). This has been used to repay the existing debt of USD 850 million and fund the ongoing projects in Rajasthan. It was a great honour that this financing arrangement was awarded the Oil & Gas Deal of the Year (in Asia).

It is one thing to pump and flow the oil, and to finance it; it is yet another to find the buyers. Here too, your Company has performed very well. It has secured approval of multiple delivery points, got the green light for selling to private sector refineries, locked in multiple buyers, achieved a pricing benchmarked to low sulphur international crude at a 10% to 15% discount to Dated Brent, and has already got commitments for 143,000 bopd as of 31 March, 2010.

Thanks to an outstanding job executed by your Company's upstream and midstream teams, the operating expense of Rajasthan — including the pipeline — is estimated at ~USD 5 per barrel. Even after adding the interest and overhead charges, the cost of Rajasthan oil will be in the neighbourhood of USD 10 per barrel. Therefore, under any realistic pricing scenario, your Company should generate returns for all its stakeholders.

Today, it is not enough to be operationally successful and therefore profitable. Companies like ours must consciously strive to meet societal goals. I am proud to say that Cairn India has played a leading role in this front — from the perspective of both the environment and corporate social responsibility. The chapter on Management Discussion and Analysis, a part of this Annual Report gives a summary of your Company's achievements in occupational health, safety and environment (HSE). And a separate chapter on corporate social responsibility (CSR) lists the various initiatives that Cairn India carries out in this regard. I am as satisfied with your Company's

HSE and CSR activities as I am with its operations in Rajasthan, Ravva and Cambay.

You will read about all these and more in the chapters that follow. It is now required of me to thank six sets of stakeholders.

- **First**, the Government of India, the Government of Rajasthan and the Government of Gujarat, who have been exemplary in their support
- **Second**, the people, local communities, non-governmental organisations and district authorities in Rajasthan and Gujarat, who have co-operated and worked with us throughout the period
- **Third**, ONGC, our partner in the Rajasthan project, without whose steady and supporting hand little could have been achieved
- **Fourth**, the various suppliers, contractors and contracting companies that helped set up the Mangala Processing Terminal and the pipeline
- **Fifth**, the team leaders and each and every employee of Cairn India, who together ensured that we will overcome all odds and forge ahead
- **And finally**, to you, for your faith in Cairn India's ability to deliver long term value.

It has been a great journey. And it will be even better in the years to come. Stay with us!

**Thank you for your support.**

**Rahul Dhir**

Managing Director and CEO

**It has been the story of a team of committed and dedicated people overcoming one challenge after another**



MANAGEMENT  
DISCUSSION AND ANALYSIS

# Delivering to the Nation

