Auditor's Report on Consolidated Financial Statements

To
The Board of Directors of Cairn India Limited

1. We have audited the accompanying consolidated balance sheet of Cairn India Group, as at March 31, 2011 comprising Cairn India Limited ('the Company') and its subsidiaries (together, 'the Group'), and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The accompanying financial statements include Cairn India Group's share of net assets, expenses and cash flows aggregating to INR 850,002 thousand, INR 411,580 thousand, INR 1,517 thousand respectively in the unincorporated joint ventures not operated by the Cairn India Group, the accounts of which have been audited by the auditors of the respective unincorporated joint ventures and relied upon by us.

4. We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, notified pursuant to the Companies (Accounting Standards) Rules, 2006, (as amended).

5. In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   (a) in the case of the consolidated balance sheet, of the state of affairs of the Cairn India Group as at March 31, 2011;
   (b) in the case of the consolidated profit and loss account, of the profit for the year ended on that date; and
   (c) in the case of the consolidated cash flow statement, of the cash flows for the year ended on that date.

For S.R. Batliboi & Co.
Firm Registration No. : 301003E
Chartered Accountants

per Raj Agrawal
Partner
Membership No.:82028

Place Gurgaon   Date 25 May, 2011

Consolidated Balance Sheet

AS AT MARCH 31, 2011

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	Schedules	As at March 31, 2011		As at March 31, 2010	
Sources of Funds					
Shareholders' funds					
Share capital	1		19,019,171		18,969,741
Stock options outstanding	2		554,722		463,978
Reserves and surplus	3		383,358,363		319,249,603
			402,932,256		**338,683,322**
Loan funds					
Secured loans	4		13,282,158		34,007,131
Unsecured loans	5		13,500,000		-
			26,782,158		**34,007,131**
Deferred tax liabilities (net)	6		5,750,251		4,619,418
			435,464,665		**377,309,871**
Application of Funds					
Fixed assets					
Gross cost	7	66,539,435		2,227,578	
Less: Accumulated depreciation / amortisation		7,303,788		958,067	
Net book value			59,235,647		1,269,511
Cost of producing facilities (net)	8A		20,849,582		4,994,770
Exploration, development and capital work in progress	8B		39,818,769		91,634,579
Goodwill			253,192,675		253,192,675
Investments	9		10,944,489		17,124,133
Deferred tax assets (net)	6		138,377		166,215
Current assets, loans and advances					
Inventories	10	3,276,994		2,909,438	
Sundry debtors	11	14,828,644		3,067,474	
Cash and bank balances	12	44,847,353		9,294,240	
Other current assets	13	386,367		144,586	
Loans and advances	14	16,269,116		6,565,731	
		79,608,474		**21,981,469**	
Less: Current liabilities and provisions					
Current liabilities	15	12,637,641		9,868,645	
Provisions	16	16,628,311		4,936,971	
		29,265,952		**14,805,616**	
Net current assets			**50,342,522**		**7,175,853**
Miscellaneous Expenditure to the extent not adjusted			942,604		1,752,135
(Ancillary costs of loan)					
			435,464,665		**377,309,871**
Notes to accounts	25				

The schedules referred to above and the notes to accounts are an integral part of the consolidated balance sheet.
As per our report of even date

For S. R. Batliboi & Co.
Firm Registration No.:301003E
Chartered Accountants

per Raj Agrawal
Partner
Membership No. 82028

For and on behalf of the Board of Directors

Rahul Dhir Managing Director and Chief Executive Officer
Indrajit Banerjee Executive Director and Chief Financial Officer
Aman Mehta Director
Neerja Sharma Company Secretary

Place Gurgaon   Date 25 May, 2011

Consolidated Profit and Loss Account

FOR THE YEAR ENDED MARCH 31, 2011

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	Schedules	Year ended March 31, 2011	Year ended March 31, 2010
Income			
Income from operations	17	102,779,277	16,230,261
Other income	18	1,287,956	4,076,616
		104,067,233	**20,306,877**
Expenditure			
Operating expenses	19	15,170,254	4,248,252
Depletion	8A	5,816,674	1,376,477
Unsuccessful exploration costs	8B	1,666,816	2,085,346
Staff costs	20	1,104,633	1,101,635
Administrative expenses	21	2,650,590	1,372,497
(Increase) / decrease in inventories	22	(263,556)	(366,021)
Prior period items (refer note no. 21 in schedule 25)		-	68,716
Depreciation and amortisation	7	6,112,951	108,588
Finance costs	23	2,909,097	148,031
		35,167,459	**10,143,521**
Profit before taxation		**68,899,774**	**10,163,356**
Tax expenses			
Current tax		15,610,615	2,216,325
MAT credit entitlement		(11,213,560)	(1,372,228)
Deferred tax charge / (credit)		1,158,671	(1,086,649)
Fringe benefit tax (refer note no. 22 in schedule 25)		-	(105,218)
Wealth tax		48	67
		5,555,774	(347,703)
Profit for the year		**63,344,000**	**10,511,059**
Surplus brought forward from the previous year		18,088,381	7,577,322
Surplus carried to Balance sheet		**81,432,381**	**18,088,381**
Earnings per share in INR	24		
Basic		33.36	5.54
Diluted		33.20	5.52
(Nominal value of shares in INR 10)			
Notes to accounts	25		

The schedules referred to above and the notes to accounts are an integral part of the consolidated profit and loss account.

As per our report of even date

For S. R. Batliboi & Co.
Firm Registration No.: 301003E
Chartered Accountants

per Raj Agrawal
Partner
Membership No. 82028

Place Gurgaon Date 25 May, 2011

For and on behalf of the Board of Directors

Rahul Dhir Managing Director and Chief Executive Officer
Indrajit Banerjee Executive Director and Chief Financial Officer
Aman Mehta Director
Neerja Sharma Company Secretary

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31, 2011

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	Year ended March 31, 2011	Year ended March 31, 2010
Cash flow from operating activities		
Profit before taxation for the year	68,899,774	10,163,356
Adjustments for		
- Employee compensation expense (equity settled stock options)	234,454	89,175
- Depreciation and depletion	12,226,482	1,780,276
- Loss/(Profit) on sale/discard of fixed assets (net)	230,975	(313)
- Unsuccessful exploration costs	1,666,816	2,085,346
- Unrealised exchange loss / (gain) on restatement of assets and liabilities (net)	1,053,277	(2,604,018)
- Interest expense	2,077,458	59,518
- Profit on sale of non trade current investments (net)	(61,054)	(2,385)
- Interest income	(576,183)	(1,375,578)
- Dividend from investments	(650,667)	(224,461)
- Loan facility and management fees	806,042	103,834
- Other finance charges	38,363	-
- Unrealised loss on currency option contracts	1,646	-
- Unrealised loss on commodity hedge contracts	38,876	-
- Balances written back (net)	-	(143,360)
Operating profit before working capital changes	85,986,259	9,931,390
Movements in working capital:		
(Increase)/decrease in inventories	(367,556)	(1,226,630)
(Increase)/decrease in debtors	(11,815,949)	(1,598,096)
(Increase)/decrease in loans and advances and other current assets	882,803	(3,050,580)
Increase/(decrease) in current liabilities and provisions	1,212,364	(1,206,652)
Cash generated from operations	75,897,921	2,849,432
Current tax paid (net of refunds)	(12,591,655)	(1,752,558)
Net cash from operating activities (A)	**63,306,266**	**1,096,874**
Cash flow from investing activities		
Payments made for exploration, development activities and purchase of fixed assets	(25,647,920)	(33,662,150)
Short term investments in mutual funds (net)	6,240,697	(15,416,641)
Fixed deposits made	(43,947,656)	(16,716,524)
Proceeds from matured fixed deposits	13,703,008	57,327,022
Proceeds from sale of fixed assets	-	313
Interest received	252,328	2,138,135
Dividend from short term investments received	650,667	222,195
Net cash (used in) investing activities (B)	**(48,748,876)**	**(6,107,650)**
Cash flow from financing activities		
Proceeds from issue of equity shares	670,480	20,363
Finance lease taken	-	9,406
Repayment of finance lease	(79,576)	(91,483)
Proceeds from issue of non convertible debentures	13,500,000	-
Proceeds from long term borrowings	5,180,000	34,604,616
Repayment of long term borrowings	(25,698,627)	(41,409,564)
Loan facility and management fees paid	(236,140)	(1,908,255)
Interest paid	(1,991,220)	(1,678,228)
Net cash (used in) financing activities (C)	**(8,655,083)**	**(10,453,145)**
Net increase/(decrease) in cash and cash equivalents (A+B+C)	5,902,307	(15,463,921)
Cash and cash equivalents at the beginning of the year	6,366,698	21,732,635
Cash and cash equivalents at the end of the year	12,269,005	6,268,714

Consolidated Statement of Cash Flows Continued

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	Year ended March 31, 2011	Year ended March 31, 2010
Unrealised exchange gain/(loss) on closing cash and cash equivalents	(223,572)	97,984
Cash and cash equivalents as per cash flow statement	**12,045,433**	**6,366,698**

Components of cash and cash equivalents as at	March 31, 2011	March 31, 2010
Cash in hand	524	452
Balances with banks		
- on current accounts	151,915	390,057
- on site restoration fund	577,537	143,703
- on deposit accounts	44,117,377	8,760,028
- Less: Deposits having maturity of over 90 days	(32,801,920)	(2,927,542)
	12,045,433	**6,366,698**

Notes :

i) The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard-3 on "Cash flow statements".

ii) Amounts in bracket indicate a cash outflow or reduction.

iii) Bank balance in deposit accounts includes INR 17,662 thousand, previous year INR 1,955,866 thousand, pledged with the banks.

As per our report of even date

For S. R. Batliboi & Co.
Firm Registration No.:301003E
Chartered Accountants

per Raj Agrawal
Partner
Membership No. 82028

For and on behalf of the Board of Directors

Rahul Dhir Managing Director and Chief Executive Officer
Indrajit Banerjee Executive Director and Chief Financial Officer
Aman Mehta Director
Neerja Sharma Company Secretary

Place Gurgaon Date 25 May, 2011

Schedules to the Consolidated Financial Statements

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	As at March 31, 2011	As at March 31, 2010
Schedule 1		
Share capital		
Authorised:		
2,250,000,000 (previous year 2,250,000,000) equity shares of INR 10 each	22,500,000	22,500,000
Issued, subscribed and fully paid up:		
1,901,917,101 (previous year 1,896,974,132) equity shares of INR 10 each	19,019,171	18,969,741
	19,019,171	**18,969,741**

Notes :

i) Issued, subscribed and fully paid up share capital includes 1,183,243,791 equity shares (previous year - 1,183,243,791 equity shares) of INR 10 each held by Cairn UK Holdings Limited, the holding company, together with its nominees. Also refer note no. 23 in schedule 25.

ii) Shares held by the holding company includes 861,764,893 equity shares (previous year - 861,764,893 equity shares) of INR 10 each, allotted as fully paid up pursuant to contracts for consideration other than cash.

iii) 10,517,681 (previous year 5,574,712) shares have been allotted pursuant to exercise of employee stock option schemes.

iv) For stock options outstanding, refer note no. 7 in schedule 25.

Schedule 2		
Stock options outstanding		
Employee stock options outstanding	780,026	768,120
Less: Deferred employee compensation outstanding	(225,304)	(304,142)
Closing Balance	**554,722**	**463,978**

Schedule 3		
Reserves and surplus		
Securities premium account		
Opening Balance	301,161,222	301,090,274
Add: Additions during the year (refer note no. 14 in schedule 25)	764,760	70,948
Closing Balance	**301,925,982**	**301,161,222**
Profit and Loss Account	81,432,381	18,088,381
	383,358,363	**319,249,603**

Schedule 4		
Secured loans		
Finance lease liabilities	59,866	140,325
Long term loans		
- from financial institutions	2,644,458	5,092,111
- from banks	10,577,834	28,774,695
	13,282,158	**34,007,131**

Notes:

i) Finance lease liabilities are secured by way of hypothecation of the office equipments and leaseholds improvements acquired under such lease.

ii) Long term loans are secured against hypothecation of the shares of Cairn Energy Hydrocarbons Limited, a wholly owned subsidiary of the Company.

iii) As at the end of the previous year there was an additional lien requirement on 35% participating interest in RJ-ON-90/1 block against long term loan facility of INR 40,000,000 thousand. The outstanding amount out of such facility has been fully repaid in the current year.

Schedules to the Consolidated Financial Statements Continued

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	As at March 31, 2011	As at March 31, 2010
Schedule 5		
Unsecured loans		
6,250 (previous year Nil) non convertible debentures of INR 1,000,000 each (fully paid up) redeemable at par after 21 months from date of allotment viz. October 12, 2010, issued at a coupon rate of 8.35% (Series A)	6,250,000	-
6,250 (previous year Nil) non convertible debentures of INR 1,000,000 each (fully paid up) redeemable at par after 24 months from date of allotment viz. October 12, 2010, issued at a coupon rate of 8.40% (Series B)	6,250,000	-
10,000 (previous year Nil) non convertible debentures of INR 1,000,000 each (INR 100,000 called-up) redeemable at par after 27 months from date of allotment viz. October 12, 2010, issued at a coupon rate of 8.50 % for the first 12 months & thereafter at market determined floating rate subject to a minimum of 8.50 % (Series C)	1,000,000	-
	13,500,000	**-**

Notes:

i. The debenture holders have a negative lien on the assets of Cairn India Limited.

ii. The Company has the option to prepay the debenture issued under series A and B at the end of 12 months from the date of issue.

	As at March 31, 2011	As at March 31, 2010
Schedule 6		
Deferred tax asset / liabilities (net)		
Effect of differences in block of fixed assets/exploration and development assets as per tax books and financial books	5,635,961	4,478,541
Gross deferred tax liabilities	**5,635,961**	**4,478,541**
Effect of lease accounting	7,842	7,877
Expenditure debited to profit and loss account but allowed for tax purposes in following years	16,245	17,461
Gross deferred tax assets	**24,087**	**25,338**
Net deferred tax liabilities	**5,611,874**	**4,453,203**

Notes:

i) Deferred tax liabilities are after setting off net deferred tax assets aggregating to INR 138,377 thousand (previous year INR 166,215 thousand) in respect of certain group companies.

ii) In the absence of virtual certainty, deferred tax assets of INR 811,000 thousand (previous year INR 361,000 thousand) and INR 393,000 thousand (previous year INR 224,720 thousand) in respect of accumulated tax losses and differences in block of fixed assets/exploration assets as per tax books and financial books respectively have not been recognised by the Company.

Schedules to the Consolidated Financial Statements Continued

(All amounts are in thousand Indian Rupees, unless otherwise stated)

Schedule 7

Fixed Assets

Description	Gross Block				Accumulated Depreciation / Amortisation				Net Block	
	As on 01.04.2010	Additions	Deletions	As on 31.03.2011	As on 01.04.2010	For the year	Deletions	As on 31.03.2011	As on 31.03.2011	As on 31.03.2010
A) Tangible Assets										
Freehold land	43,583	-	-	43,583	-	-	-	-	43,583	43,583
Leasehold land	-	853,800	-	853,800	-	77,391	-	77,391	776,409	-
Buildings	10,289	6,418,017	-	6,428,306	3,115	397,454	-	400,569	6,027,737	7,174
Plant and machinery	777,549	56,619,216	-	57,396,765	21,845	5,543,774	-	5,565,619	51,831,146	755,704
Office equipments	469,624	172,174	(41,325)	600,473	291,398	138,632	(40,518)	389,512	210,961	178,226
Furniture and fittings	311,496	54,760	(178)	366,078	186,625	69,766	(78)	256,313	109,765	124,871
Vehicles	11,565	52,225	-	63,790	5,268	8,754	-	14,022	49,768	6,297
B) Intangible Assets										
Computer software	603,472	206,659	(23,491)	786,640	449,816	174,037	(23,491)	600,362	186,278	153,656
Grand Total	**2,227,578**	**64,376,851**	**(64,994)**	**66,539,435**	**958,067**	**6,409,808**	**(64,087)**	**7,303,788**	**59,235,647**	**1,269,511**
Previous year	**1,434,686**	**1,040,598**	**(247,706)**	**2,227,578**	**801,843**	**403,799**	**(247,575)**	**958,067**	**1,269,511**	**632,843**

Notes :

i) Gross block of furniture and fittings includes leasehold improvements of INR 282,259 thousand (previous year INR 282,259 thousand), accumulated depreciation thereon INR 225,838 thousand (previous year INR 168,063 thousand).

ii) Furniture and fittings and Office equipments of gross book value of INR 281,634 thousand (previous year INR 281,634 thousand) and INR 100,733 thousand (previous year INR 100,733 thousand) respectively have been acquired under finance lease. The depreciation charge for the year on these assets is INR 57,750 thousand (previous year INR 57,556 thousand) and INR 19,962 thousand (previous year INR 27,197 thousand) respectively and the accumulated depreciation thereon is INR 225,661 thousand (previous year INR 167,910 thousand) and INR 63,476 thousand (previous year INR 43,514 thousand) respectively.

iii) Depreciation charge for the year includes INR 296,857 thousand (previous year INR 295,211 thousand) allocated to joint ventures.

iv) Gross block of fixed assets includes INR 65,053,851 thousand (previous year INR 996,883 thousand) jointly owned with the joint venture partners. Accumulated depreciation on these assets is INR 6,216,929 thousand (previous year INR 131,109 thousand) and net book value is INR 58,836,922 thousand (previous year INR 865,773 thousand).

v) Gross block of leasehold land includes INR 23,418 thousand (previous year Nil) for which the lease deed is yet to be executed.

	As at March 31, 2011	As at March 31, 2010
Schedule 8A		
Cost of producing facilities (net)		
Opening balance	4,994,770	3,013,742
Add: Additions	499,935	482,378
Add: Transferred from exploration, development and capital work in progress	21,171,551	2,875,127
Less: Depletion	(5,816,674)	(1,376,477)
Closing balance	**20,849,582**	**4,994,770**

Schedule 8B

Exploration, development and capital work in progress

Opening balance	91,634,579	62,027,323
Add: Additions	34,965,461	35,345,278
Less: Transferred to cost of producing facilities	(21,171,551)	(2,875,127)
Less: Transferred to fixed assets	(63,942,904)	(777,549)
Less: Unsuccessful exploration costs	(1,666,816)	(2,085,346)
Closing balance	**39,818,769**	**91,634,579**

Schedules to the Consolidated Financial Statements Continued

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	As at March 31, 2011	As at March 31, 2010
Schedule 9		
Investments		
Current Investments (at lower of cost and market value)		
Quoted and non-trade		
Nil (previous year 755,275) equity shares of INR 10 each fully paid up in Videocon Industries Limited	-	105,334
Unquoted and non trade		
Mutual Funds	10,944,489	17,018,799
	10,944,489	**17,124,133**
Schedule 10		
Inventories		
Stores and spares	2,560,383	2,456,383
Finished goods	716,611	453,055
	3,276,994	**2,909,438**
Schedule 11		
Sundry Debtors		
Debts - Unsecured and outstanding for a period exceeding six months :		
- Considered good	73,920	78,687
Other unsecured debts :		
- Considered good	14,754,724	2,988,787
	14,828,644	**3,067,474**
Schedule 12		
Cash and bank balances		
Cash in hand	524	452
Balances with banks:		
- on current accounts	151,915	390,057
- on deposit accounts (including deposits with maturity of more than 90 days)*	44,117,377	8,760,028
- on site restoration fund	577,537	143,703
	44,847,353	**9,294,240**
* includes INR 17,662 thousand (previous year INR 1,955,866 thousand) pledged with the banks.		
Schedule 13		
Other Current Assets		
Interest accrued on bank deposits	347,139	23,285
Dividend receivable	-	7,553
Outstanding currency option contracts	39,228	113,748
	386,367	**144,586**

Schedules to the Consolidated Financial Statements Continued

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	As at March 31, 2011	As at March 31, 2010
Schedule 14		
Loans and advances		
Unsecured and considered good, unless otherwise stated:		
Advances recoverable in cash or in kind or for value to be received*	8,811,318	8,711,825
Deposits	193,291	197,740
Advance tax and tax deducted at source (net of tax provisions INR 229 thousand, previous year INR 3,697,411 thousand)	645	365,392
MAT credit entitlement	12,164,292	950,733
Fringe benefit tax paid (net of provisions INR 394,040 thousand, previous year INR 394,040 thousand)	4,329	4,329
	21,173,875	**10,230,019**
Less: Provision for doubtful advances	(4,904,759)	(3,664,288)
	16,269,116	**6,565,731**

* includes doubtful balances INR 4,904,759 thousand (previous year INR 3,664,288 thousand) and also capital advances INR 260,751 thousand (previous year INR 549,799 thousand).

	As at March 31, 2011	As at March 31, 2010
Schedule 15		
Current liabilities		
Amount payable to Cairn Energy Plc., the ultimate holding company	5,087	1,773
Sundry creditors	10,507,287	8,652,475
Lease equalisation liability	15,220	12,250
Interest accrued but not due	638,984	7,838
Outstanding commodity hedge contracts	38,876	-
Other liabilities	1,432,187	1,194,309
	12,637,641	**9,868,645**

	As at March 31, 2011	As at March 31, 2010
Schedule 16		
Provisions		
Provision for taxation (net of advance tax - INR 17,205,018 thousand, previous year INR 576,716 thousand)	2,732,371	52,031
Provision for site restoration *	13,523,349	4,466,429
Provision for compensated absences	24,866	22,840
Provision for gratuity	60,670	64,879
Provision for employee stock options (cash settled) **	287,055	330,792
	16,628,311	**4,936,971**
* Provision for site restoration		
Opening balance	4,466,429	3,886,882
Additions for the year	9,056,920	579,547
Closing balance	13,523,349	4,466,429
** Provision for employee stock options (cash settled)		
Opening Balance	330,792	27,201
Additions for the year	238,298	451,596
Payments during the year	(225,684)	(144,762)
Reversed during the year	(56,351)	(3,243)
Closing Balance	287,055	330,792

Schedules to the Consolidated Financial Statements Continued

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	Year ended March 31, 2011	Year ended March 31, 2010
Schedule 17		
Income from operations		
Revenue from sale of oil, gas and condensate	108,454,963	22,018,998
Less: Government share of profit petroleum	(6,197,678)	(6,396,752)
	102,257,285	15,622,246
Tolling income	50,945	41,406
Income received as operator from joint venture	471,047	566,609
	102,779,277	**16,230,261**
Schedule 18		
Other income		
Interest on bank deposits	563,409	1,375,578
Interest others	12,774	-
Profit on sale of non trade current investments (net)	61,054	2,385
Dividend income from non trade current investments	650,667	222,195
Dividend income from non trade long term investments	-	2,266
Exchange fluctuation (net)*	-	2,325,709
Miscellaneous income	52	4,810
Profit on sale of fixed assets (net)	-	313
Balances written back (net)	-	143,360
	1,287,956	**4,076,616**
* Previous year amount included net gain on derivative contracts of INR 450,547 thousand.		
Schedule 19		
Operating expenses		
Production expenses	4,376,704	1,182,979
Arbitration costs	48,098	71,431
Transportation expenses	830,457	1,198,660
Data acquisition and analysis	94,588	328,887
Royalty	219,975	241,351
Cess	9,537,311	1,148,496
Production bonus	63,121	76,448
	15,170,254	**4,248,252**
Schedule 20		
Staff costs		
Salaries, wages and bonus	4,149,093	3,763,973
Employee compensation expense (stock options)	416,401	537,529
Contribution to provident fund	167,347	177,970
Contribution to superannuation fund	88,175	68,753
Compensated absences	4,056	7,895
Gratuity expenses	32,786	53,570
Staff welfare expenses	394,396	325,567
	5,252,254	**4,935,257**
Less: Cost allocated to joint ventures	(4,147,621)	(3,833,622)
	1,104,633	**1,101,635**

Schedules to the Consolidated Financial Statements Continued

(All amounts are in thousand Indian Rupees, unless otherwise stated)

	Year ended March 31, 2011	Year ended March 31, 2010
Schedule 21		
Administrative expenses		
Contract employee charges	304,389	439,319
Legal and professional expenses	1,606,788	1,345,401
Repairs and maintenance	316,304	275,984
Rent	292,763	305,214
Travelling and conveyance expenses	441,248	357,480
Exchange fluctuation (net)*	1,111,800	-
Net loss on commodity hedging contracts	27,640	-
Insurance	4,621	860
Inauguration expenses	-	93,149
Capital expenditure on assets not owned by the group	230,975	-
Miscellaneous expenses	414,125	493,843
	4,750,653	**3,311,250**
Less: Cost allocated to joint ventures	(2,100,063)	(1,938,753)
	2,650,590	**1,372,497**

* Includes net loss on derivative contracts of INR 137,972 thousand.

Schedule 22		
(Increase) / Decrease in inventories		
Inventories at the beginning of the year		
Finished goods	453,055	87,034
Inventories at the end of the year		
Finished goods	716,611	453,055
	(263,556)	**(366,021)**

Schedule 23		
Finance costs		
Interest		
- on term loan	1,080,273	17,807
- on debentures	527,175	-
- others	448,691	11,681
- finance lease charges	21,319	30,030
Other finance charges	38,363	-
Loan facility and management fees	806,042	103,834
Bank charges	5,857	12,153
	2,927,720	**175,505**
Less: Cost allocated to joint ventures	(18,623)	(27,474)
	2,909,097	**148,031**

Schedule 24		
Earnings per share		
Profit for the year as per profit and loss account	63,344,000	10,511,059
Weighted average number of equity shares in calculating basic earnings per share	1,898,666,456	1,896,696,475
Add: Number of equity shares arising on grant of stock options	9,039,600	8,321,392
Weighted average number of equity shares in calculating diluted earnings per share	1,907,706,056	1,905,017,867
Earnings per share in INR		
Basic	33.36	5.54
Diluted	33.20	5.52

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

1. NATURE OF OPERATIONS

Cairn India Limited ('the Company') was incorporated in India on August 21, 2006 and is a subsidiary of Cairn UK Holdings Limited, which in turn is a wholly owned subsidiary of Cairn Energy Plc., UK which is listed on London Stock Exchange.

The Company is primarily engaged in the business of surveying, prospecting, drilling, exploring, acquiring, developing, producing, maintaining, refining, storing, trading, supplying, transporting, marketing, distributing, importing, exporting and generally dealing in minerals, oils, petroleum, gas and related by-products and other activities incidental to the above. As part of its business activities, the Company also holds interests in its subsidiary companies which have been granted rights to explore and develop oil exploration blocks in the Indian sub-continent.

The Company along with its subsidiaries, (collectively the 'Cairn India Group') is participant in various Oil and Gas blocks/fields (which are in the nature of jointly controlled assets), granted by the Government of India/Sri Lanka through Production Sharing Contract ('PSC')/Production Resources Agreement ('PRA') entered into between these entities and Government of India/Sri Lanka and other venture partners.

2. COMPONENTS OF THE CAIRN INDIA GROUP

The Consolidated Financial Statements represent consolidation of accounts of the Company and its subsidiaries as detailed below (same as in previous year):

S. No.	Name of the Subsidiaries	Country of Incorporation
1	Cairn Energy Australia Pty Limited	Australia
2	Cairn Energy India Pty Limited	Australia
3	CEH Australia Pty Limited	Australia
4	Cairn Energy Asia Pty Limited	Australia
5	Sydney Oil Company Pty Limited	Australia
6	Cairn Energy Investments Australia Pty Limited	Australia
7	Wessington Investments Pty Limited	Australia
8	CEH Australia Limited	British Virgin Islands
9	Cairn India Holdings Limited ('CIHL')	Jersey
10	CIG Mauritius Holding Private Limited ('CMHPL')	Mauritius
11	CIG Mauritius Private Limited	Mauritius
12	Cairn Energy Holdings Limited	United Kingdom
13	Cairn Energy Discovery Limited	United Kingdom
14	Cairn Exploration (No. 2) Limited	United Kingdom
15	Cairn Exploration (No. 6) Limited	United Kingdom
16	Cairn Energy Hydrocarbons Limited	United Kingdom
17	Cairn Petroleum India Limited	United Kingdom
18	Cairn Energy Gujarat Block 1 Limited	United Kingdom
19	Cairn Exploration (No. 4) Limited	United Kingdom
20	Cairn Exploration (No. 7) Limited	United Kingdom
21	Cairn Energy Development Pte Limited (Liquidated during the year)	Singapore
22	Cairn Lanka (Pvt) Limited	Sri Lanka
23	Cairn Energy Group Holdings BV	Netherlands
24	Cairn Energy India West BV	Netherlands
25	Cairn Energy India West Holding BV	Netherlands
26	Cairn Energy Gujarat Holding BV	Netherlands
27	Cairn Energy India Holdings BV	Netherlands
28	Cairn Energy Netherlands Holdings BV	Netherlands
29	Cairn Energy Gujarat BV	Netherlands
30	Cairn Energy Cambay BV	Netherlands
31	Cairn Energy Cambay Holding BV	Netherlands

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

CIHL and CMHPL are wholly owned subsidiaries of the Company. All other above mentioned companies are direct or indirect wholly owned subsidiaries of either CIHL or CMHPL. The Company's percentage holding in these subsidiaries was same in the previous year.

Cairn India Group has interest in the following Oil & Gas blocks/fields:

Oil & Gas blocks/fields	Area	Participating Interest
Operated block		
Ravva block	Krishna Godavari	22.50%
CB-OS/2 – Exploration	Cambay Offshore	60%
CB-OS/2 - Development & production	Cambay Offshore	40%
RJ-ON-90/1 – Exploration	Rajasthan Onshore	100%
RJ-ON-90/1 – Development & production	Rajasthan Onshore	70%
PR-OSN-2004/1	Palar Basin offshore	35%
SL 2007-01-001	North West Sri Lanka offshore	100%
KG-ONN-2003/1	Krishna Godavari Onshore	49%
KG-OSN-2009/3*	Krishna Godavari Offshore	100%
MB-DWN-2009/1*	Mumbai	100%
*Acquired during the year		
Following blocks have been relinquished		
GV-ONN-2002/1 in July 2009	Ganga Valley Onshore	50%
VN-ONN-2003/1 in Aug 2009	Vindhyan Onshore	49%
GV-ONN-2003/1 in Feb 2010	Ganga Valley Onshore	24%
Non – operated block		
KG-DWN-98/2	Krishna Godavari Deep water	10%
KK-DWN-2004/1	Kerala Konkan Basin offshore	40%
Following blocks have been relinquished		
RJ-ONN-2003/1 in Jan 2010	Rajasthan Onshore	30%
GS-OSN-2003/1 in Nov 2010	Gujarat Saurashtra Onshore	49%

The participating interests were same in the previous year.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards notified under the Companies (Accounting Standard) Rules, 2006 (as amended) under the historical cost convention and on an accrual basis. The accounting policies, in all material respects, have been consistently applied by Cairn India Group and are consistent with those used in the previous year, except to the extent stated in note 6 below.

Principles of consolidation:

The consolidated financial statements relate to the Cairn India Group. In the preparation of these consolidated financial statements, investments in subsidiaries have been accounted for in accordance with the provisions of Accounting Standard-21 (Consolidated Financial Statements). The financial statements of the subsidiaries have been drawn up to the same reporting date as of Cairn India Limited. The Consolidated Financial Statements are prepared on the following basis:

1. The financial statements of the Company and its subsidiary companies are consolidated on a line-by-line basis by adding together the book values of the like items of assets, liabilities, income and expenses after eliminating all significant intra-group balances and intra-group transactions and also unrealised profits or losses in accordance with Accounting Standard-21 (Consolidated Financial Statements).
2. The Consolidated Financial Statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented, to the extent possible, in the same manner as the Company's separate financial statements. The financial statements of the subsidiaries are adjusted for the accounting principles and policies followed by the Company.
3. The difference between the cost to the Company of its investment in subsidiaries and its proportionate share in the equity of the investee company at the time of acquisition of shares in the subsidiaries is recognized in the financial statements as Goodwill or Capital Reserve, as the case may be. Goodwill is tested for impairment by the management on each reporting date.

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

(B) Oil and gas assets

Cairn India Group follows the successful efforts method of accounting for oil and gas assets as set out by the Guidance Note issued by the Institute of Chartered Accountants of India (ICAI) on “Accounting for Oil and Gas Producing Activities”.

Expenditure incurred on the acquisition of a license interest is initially capitalised on a license by license basis. Costs are held, undepleted, within exploratory & development work in progress until the exploration phase relating to the license area is complete or commercial oil and gas reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets which cannot be directly related to individual exploration wells is expensed in the period in which it is incurred.

Exploration/appraisal drilling costs are initially capitalised within exploratory and development work in progress on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that oil and gas reserves exist and there is a reasonable prospect that these reserves are commercial.

Where results of exploration drilling indicate the presence of oil and gas reserves which are ultimately not considered commercially viable, all related costs are written off to the profit and loss account. Following appraisal of successful exploration wells, when a well is ready for commencement of commercial production, the related exploratory and development work in progress are transferred into a single field cost centre within producing properties, after testing for impairment.

Where costs are incurred after technical feasibility and commercial viability of producing oil and gas is demonstrated and it has been determined that the wells are ready for commencement of commercial production, they are capitalised within producing properties for each cost centre. Subsequent expenditure is capitalised when it enhances the economic benefits of the producing properties or replaces part of the existing producing properties. Any costs remaining associated with such part replaced are expensed off in the financial statements.

Net proceeds from any disposal of an exploration asset within exploratory and development work in progress are initially credited against the previously capitalised costs and any surplus proceeds are credited to the profit and loss account. Net proceeds from any disposal of producing properties are credited against the previously capitalised cost and any gain or loss on disposal of producing properties is recognised in the profit and loss account, to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Amounts which are considered doubtful of recovery from the joint venture partner in oil and gas blocks where Cairn India Group is the operator are treated as exploration, development or production costs, as the case may be.

(C) Depletion

The expenditure on producing properties is depleted within each cost centre.

Depletion is charged on a unit of production basis, based on proved reserves for acquisition costs and proved and developed reserves for other costs.

(D) Site restoration costs

At the end of the producing life of a field, costs are incurred in restoring the site of production facilities. Cairn India Group recognizes the full cost of site restoration as a liability when the obligation to rectify environmental damage arises. The site restoration expenses form part of the exploration & development work in progress or cost of producing properties, as the case may be, of the related asset. The amortization of the asset, calculated on a unit of production basis based on proved and developed reserves, is included in the depletion cost in the profit and loss account.

(E) Impairment

i The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized where the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset’s net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset.

ii After impairment, depreciation/depletion is provided in subsequent periods on the revised carrying amount of the asset over its remaining useful life.

(F) Tangible fixed assets, depreciation and amortization

Tangible assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which take a substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready to be put to use.

Depreciation is provided using the Straight Line Method as per the useful lives of the assets estimated by the management stated below, or at the rates prescribed under Schedule XIV of the Companies Act 1956, whichever is higher.

Vehicles	2 to 5 years

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

Freehold buildings	10 years
Computers	2 to 5 years
Furniture and fixtures	2 to 5 years
Office equipments	2 to 5 years
Plant and equipment	2 to 10 years
Leasehold land	Lease period

Leasehold improvements are amortized over the remaining period of the primary lease or expected useful economic lives, whichever is shorter.

(G) Intangible fixed assets and amortization

Intangible assets, other than oil and gas assets, have finite useful lives and are measured at cost and amortized over their expected useful economic lives as follows:

Computer software	2 to 4 years

Goodwill arising on consolidation is tested for impairment only.

(H) Leases

As lessee

Finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that Cairn India Group will obtain the ownership by the end of the lease term, capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

(I) Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are measured at cost or market value, whichever is lower, determined on an individual investment basis. Long term investments are measured at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

(J) Inventory

Inventories of oil and condensate held at the balance sheet date are valued at cost or net realizable value, whichever is lower. Cost is determined on a quarterly weighted average basis.

Inventories of stores and spares related to exploration, development and production activities are valued at cost or net realizable value whichever is lower. Cost is determined on first in first out (FIFO) basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

(K) Joint Ventures

Cairn India Group participates in several Joint Ventures involving joint control of assets for carrying out oil and gas exploration, development and producing activities. Cairn India Group accounts for its share of the assets and liabilities of Joint Ventures along with attributable income and expenses in such Joint Ventures, in which it holds a participating interest. Joint venture cash and cash equivalent balances are considered by the Cairn India Group to be the amounts contributed in excess of the Cairn India Group's obligations to the joint ventures and are, therefore, disclosed within Loans and Advances.

(L) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Cairn India Group and the revenue can be reliably measured.

Revenue from operating activities

From sale of oil, gas and condensate

Revenue represents the Cairn India Group's share (net of Government's share of profit petroleum) of oil, gas and condensate production, recognized on a direct entitlement basis, when significant risks and rewards of ownership are transferred to the buyers. Government's share of profit petroleum is accounted for when the obligation (legal or constructive), in respect of the same arises.

As operator from the joint venture

Cairn India Group recognizes parent company overhead as revenue from joint ventures based on the provisions of respective PSCs.

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

Tolling income

Tolling income represents Cairn India Group's share of revenues from Pilotage and Oil Transfer Services from the respective joint ventures, which is recognized based on the rates agreed with the customers, as and when the services are rendered.

Interest income

Interest income is recognised on a time proportion basis.

Dividend income

Revenue is recognized when the shareholders' right to receive payment is established by the balance sheet date.

(M) Borrowing costs

Borrowing costs include interest and commitment charges on borrowings, amortisation of costs incurred in connection with the arrangement of borrowings, exchange differences to the extent they are considered a substitute to the interest cost and finance charges under leases. Costs incurred on borrowings directly attributable to development projects, which take a substantial period of time to complete, are capitalised within the development/producing asset for each cost-centre.

All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

(N) Foreign currency transactions and translations

Cairn India Group translates foreign currency transactions into Indian Rupees at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Indian Rupees at the rate of exchange prevailing at the Balance Sheet date. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on reporting Cairn India Group's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the period in which they arise except those arising from investments in non-integral operations.

All transactions of integral foreign operations are translated as if the transactions of those foreign operations were the transactions of the group itself. In translating the financial statements of a non-integral foreign operation for incorporating in the consolidated financial statements, Cairn India Group translates the assets and liabilities at the rate of exchange prevailing at the balance sheet date. Income and expenses of non-integral operations are translated using rates at the date of transactions. Resulting exchange differences are disclosed under the foreign currency translation reserve until the disposal of the net investment in non-integral operations.

(O) Income taxes

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the income tax laws prevailing in the respective tax jurisdictions where Cairn India Group operates. Deferred income tax reflects the impact of current period timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier period.

Deferred tax assets and liabilities are measured, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various subsidiaries or countries of operation are not set off against each other as Cairn India Group does not have a legal right to do so. Current and deferred tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If Cairn India Group has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty, supported by convincing evidence, that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier periods are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be, that future taxable income will be available against which such deferred tax assets can be realised.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. The Company writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Minimum Alternative Tax (MAT) credit is recognised as an asset only when and to the extent there is convincing evidence that the company will pay income tax under the normal provisions during the specified period, resulting in utilization of MAT credit. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of a credit to the profit and loss account and shown as MAT Credit Entitlement. Cairn India Group reviews the same at each balance sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that the individual company will utilize MAT credit during the specified period.

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

(P) Earnings Per Share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period is adjusted for events of bonus issue, bonus element in a rights issue to existing shareholders, share split and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares, if any.

(Q) Provisions

A provision is recognised when Cairn India Group has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

(R) Cash and Cash equivalents

Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand and short term investments, with an original maturity of 90 days or less.

(S) Employee Benefits

Retirement and Gratuity benefits

Retirement benefits in the form of provident fund and superannuation scheme are defined contribution schemes and the contributions are charged to the profit and loss account of the period when the contributions to the respective funds are due. There are no obligations other than the contribution payable to the respective funds.

Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. The scheme is maintained and administered by an insurer to which the trustees make periodic contributions.

Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation made at the end of each financial year. The actuarial valuation is done as per projected unit credit method.

Actuarial gains / losses are immediately taken to profit and loss account and are not deferred.

Employee Stock Compensation Cost

Measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. Cairn India Group measures compensation cost relating to employee stock options using the intrinsic value method. Compensation expense is amortized over the vesting period of the option on a straight line basis. The cost of awards to employees under the Company's ultimate parent entity's Long Term Incentive Plans ("the LTIP") is recognised based on the amount cross charged by the parent entity.

(T) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(U) Segment Reporting Policies

Identification of segments:

Cairn India Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The analysis of geographical segments is based on the areas in which major operating divisions of Cairn India Group operate.

(V) Derivative Instruments

As per the ICAI Announcement, accounting for derivative contracts, other than those covered under AS-11, is done on marked to market on a portfolio basis, and the net loss is charged to the income statement. Net gains are ignored.

(W) Deferred Revenue Expenditure

Costs incurred in raising debts are amortised using the effective interest rate method over the period for which the funds have been acquired.

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

4. SEGMENTAL REPORTING

Business segments

The primary reporting of Cairn India Group has been prepared on the basis of business segments. Cairn India Group has only one business segment, which is the exploration, development and production of oil and gas and operates in a single business segment based on the nature of the products, the risks and returns, the organisation structure and the internal financial reporting systems. Accordingly, the figures appearing in these financial statements relate to the Cairn India Group's single business segment.

Geographical segments

The operating interests of the Cairn India Group are confined to the Indian sub-continent in terms of oil and gas blocks and customers. Accordingly, the figures appearing in these financial statements relate to Cairn India Group's single geographical segment, being operations in the Indian sub-continent.

5. RELATED PARTY TRANSACTIONS

(A) Names of related parties:

Companies having control

- Cairn UK Holdings Limited, UK
  Holding Company
- Cairn Energy Plc., UK
  Ultimate holding company

Fellow Subsidiaries

- Capricorn Energy Limited, UK
- Cairn Energy Search Limited, UK

Key Management Personnel

- Rahul Dhir
  Managing Director and Chief Executive Officer
- Winston Frederick Bott Jr.
  Executive Director and Chief Operating Officer
- Indrajit Banerjee
  Executive Director and Chief Finacial Officer
- Philip Tracy
  Alternate Director (till 26th May 2009)

(B) Transactions during the year

Nature of the Transactions	Related Party	Current year	Previous year
Reimbursement of expenses to parent company	Cairn Energy Plc.	7,857	39,919
Expenses incurred on behalf of subsidiary	Cairn Energy Search Limited	13,954	Nil
Professional charges paid	Cairn Energy Plc.	119,303	Nil
	Capricorn Energy Limited	49,517	Nil
	Total	**168,820**	**Nil**
Waiver of outstanding balance by the parent company	Cairn Energy Plc.	Nil	1,083,654
Shares issued including premium and stock option charge	Indrajit Banerjee	21,074	Nil
Remuneration	Rahul Dhir	99,779	106,814
	Winston Frederick Bott Jr.	68,545	95,593
	Indrajit Banerjee	16,791	14,633
	Philip Tracy	Nil	3,865
	Total	**185,115**	**220,905**

In addition to the above remuneration, incentives and bonus of INR 23,234 thousand (previous year INR 28,813 thousand), INR 16,060 thousand (previous year INR 69,151 thousand) and INR 11,538 thousand (previous year INR 38,123 thousand) were paid to Rahul Dhir, Winston Frederick Bott Jr. and Indrajit Banerjee respectively. Further, the remuneration does not include provisions made for gratuity and leave benefits, as they are determined on an actuarial basis for the Cairn India Group as a whole.

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

(C) Balances outstanding as at the end of the year:

Nature of the Balance	Related Party	31st March 2011	31st March 2010
Accounts payable	Cairn Energy Plc.	5,087	1,773
Accounts payable	Capricorn Energy Limited	23,912	Nil

6. During the current year, Cairn India Group has changed the accounting policy for valuation of oil and condensate inventory from "net realizable value" to "cost or net realizable value, whichever is lower". The management believes that such change will result in a more appropriate presentation of the financial statements as profits on unsold inventories would be recorded only when the goods have been sold to the customers. Accordingly, value of inventory as at March 31, 2011 is lower by INR 3,220,544 thousand and profit after tax for the year is lower by INR 3,143,717 thousand. Had Cairn India Group, accounted for its inventories on the basis of "cost or net realizable value, whichever is lower" in the previous year, value of inventory and profit after tax would have been lower by INR 312,827 thousand and INR 245,814 thousand respectively in the previous year.

7. EMPLOYEES STOCK OPTION PLANS

Cairn India Group has provided various share based payment schemes to its employees. During the year ended 31st March 2011, the following schemes were in operation:

Particulars	CISMP	CIPOP	CIESOP	CIPOP Phantom	CIESOP Phantom
Date of Board Approval	17th Nov 2006	17th Nov 2006	17th Nov 2006	Not applicable	Not applicable
Date of Shareholder's approval	17th Nov 2006	17th Nov 2006	17th Nov 2006	Not applicable	Not applicable
Number of options granted till March 2011	8,298,713	7,311,868	21,225,258	2,331,445	667,490
Method of Settlement	Equity	Equity	Equity	Cash	Cash
Vesting Period	Refer vesting conditions below	3 years from grant date	3 years from grant date	3 years from grant date	3 years from grant date
Exercise Period	18 months from vesting date	3 months from vesting date	7 years from vesting date	Immediately upon vesting	Immediately upon vesting
Number of options granted till 31st March 2011					
Date of Grant					
24th Nov 2006	8,298,713	-	-	-	-
1st Jan 2007	-	1,708,195	3,467,702	-	-
20th Sept 2007	-	3,235,194	5,515,053	-	-
29th July 2008	-	789,567	3,773,856	822,867	324,548
10th Dec 2008	-	-	36,040	-	38,008
22nd June 2009	-	-	-	69,750	-
29th July 2009	-	994,768	5,405,144	1,060,472	211,362
27th July 2010	-	584,144	3,027,463	354,711	93,572
23rd Dec 2010	-	-	-	23,645	-
Total	**8,298,713**	**7,311,868**	**21,225,258**	**2,331,445**	**667,490**

The vesting conditions of the above plans are as under-

CISMP Plan

(A) 6,714,233 options are to be vested in the following manner-

- 1/3rd of the options will vest on the day following the date on which the equity shares have been admitted to listing on the Stock Exchanges ('admission date'). Listing date was 9th Jan 2007.
- 1/3rd of the options will vest 18 months after the admission date.
- 1/3rd of the options will vest on achieving 30 days' consecutive production of over 150,000 bopd from the Rajasthan Block.

(B) 1,584,480 options are to be vested in the following manner-

- 1/2 of the options will vest on the day following the date on which the equity shares have been admitted to listing on the Stock Exchanges.
- 1/4th of the options will vest on the date on which all major equipment for the start-up of the Mangala field is delivered to site.
- 1/4th of the options will vest on achieving 100,000 bopd from the Mangala Field.

CIPOP plan (including phantom options)

Options will vest (i.e., become exercisable) at the end of a "performance period" which has been set by the remuneration committee at the time of grant (although such period will not be less than three years). However, the percentage of an option which vests on this date will be determined by

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SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

the extent to which pre-determined performance conditions have been satisfied. Phantom options are exercisable proportionate to the period of service rendered by the employee subject to completion of one year.

CIESOP plan (including phantom options)

There are no specific vesting conditions under CIESOP plan other than completion of the minimum service period. Phantom options are exercisable proportionate to the period of service rendered by the employee subject to completion of one year.

Details of activities under employees stock option plans

CISMP Plan	Current year		Previous year	
	Number of options	Weighted average exercise price in INR	Number of options	Weighted average exercise price in INR
Outstanding at the beginning of the year	2,238,077	33.70	2,238,077	33.70
Granted during the year	Nil	NA	Nil	NA
Expired during the year	Nil	NA	Nil	NA
Exercised during the year	Nil	NA	Nil	NA
Forfeited / cancelled during the year	Nil	NA	Nil	NA
Outstanding at the end of the year	2,238,077	33.70	2,238,077	33.70
Exercisable at the end of the year	Nil	NA	Nil	NA
Weighted average fair value of options granted on the date of grant is INR 131.50 (previous year INR 131.50)				

CIPOP Plan	Current year		Previous year	
	Number of options	Weighted average exercise price in INR	Number of options	Weighted average exercise price in INR
Outstanding at the beginning of the year	2,626,830	10.00	3,200,096	10.00
Granted during the year	584,144	10.00	994,768	10.00
Expired during the year	Nil	NA	Nil	NA
Exercised during the year	922,043	10.00	190,983	10.00
Forfeited / cancelled during the year	141,268	10.00	1,377,051	10.00
Outstanding at the end of the year	2,147,663	10.00	2,626,830	10.00
Exercisable at the end of the year	Nil	NA	168,382	10.00
Weighted average fair value of options granted on the date of grant is INR 186.37 (previous year INR 174.47)				
Weighted average share price at the date of exercise of stock options is INR 323.30 (previous year INR 272.22)				

CIESOP Plan	Current year		Previous year	
	Number of options	Weighted average exercise price in INR	Number of options	Weighted average exercise price in INR
Outstanding at the beginning of the year	14,646,209	206.43	10,914,244	185.39
Granted during the year	3,027,463	331.25	5,405,144	240.05
Expired during the year	Nil	NA	Nil	NA
Exercised during the year	4,020,926	164.45	115,333	160.00
Forfeited / cancelled during the year	922,020	253.08	1,557,846	179.09
Outstanding at the end of the year	12,730,726	246.00	14,646,209	206.43
Exercisable at the end of the year	1,864,110	164.94	1,981,770	160.00
Weighted average fair value of options granted on the date of grant is INR 112.48 (previous year INR 107.64)				
Weighted average share price at the date of exercise of stock options is INR 328.61 (previous year INR 274.23)				

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SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

CIPOP Plan – Phantom options	Current year		Previous year	
	Number of options	Weighted average exercise price in INR	Number of options	Weighted average exercise price in INR
Outstanding at the beginning of the year	1,728,641	10.00	784,859	10.00
Granted during the year	448,106	10.00	1,977,426	10.00
Expired during the year	Nil	NA	Nil	NA
Exercised during the year	655,600	10.00	795,230	10.00
Forfeited / cancelled during the year	173,718	10.00	238,414	10.00
Outstanding at the end of the year	1,347,429	10.00	1,728,641	10.00
Exercisable at the end of the year, subject to vesting conditions	Nil	NA	812,543	10.00
Weighted average fair value of options granted on the date of grant is INR 341.52 (previous year INR 296.39)				
Weighted average share price at the date of exercise of stock options is INR 327.68 (previous year INR 276.62)				

CIESOP Plan – Phantom options	Current year		Previous year	
	Number of options	Weighted average exercise price in INR	Number of options	Weighted average exercise price in INR
Outstanding at the beginning of the year	844,688	195.03	362,556	218.19
Granted during the year	93,572	331.25	936,862	181.98
Expired during the year	Nil	NA	Nil	NA
Exercised during the year	446,354	169.27	392,977	178.22
Forfeited / cancelled during the year	110,328	210.92	61,753	240.05
Outstanding at the end of the year	381,578	253.96	844,688	195.03
Exercisable at the end of the year, subject to vesting conditions	Nil	NA	695,079	185.34
Weighted average fair value of options granted on the date of grant is INR 161.08 (previous year INR 136.51)				
Weighted average share price at the date of exercise of stock options is INR 319.43 (previous year INR 266.52)				

The details of exercise price for stock options outstanding as at March 31, 2011 are:

Scheme	Range of exercise price in INR	No. of options outstanding	Weighted average remaining contractual life of options (in years)	Weighted average exercise Price in INR
CISMP Plan	33.70	2,238,077	0.08	33.70
CIPOP Plan	10.00	2,147,663	1.25	10.00
CIESOP Plan	143-331.25	12,730,726	1.10	246.00
CIPOP Plan – Phantom options	10.00	1,347,429	1.38	10.00
CIESOP Plan – Phantom options	227-331.25	381,578	1.14	253.96
The details of exercise price for stock options outstanding as at March 31, 2010 are:				
CISMP Plan	33.70	2,238,077	1.08	33.70
CIPOP Plan	10.00	2,626,830	1.36	10.00
CIESOP Plan	143-240	14,646,209	1.28	206.43
CIPOP Plan – Phantom options	10.00	1,728,641	1.71	10.00
CIESOP Plan – Phantom options	143-240	844,688	1.09	195.03

Effect of Employees Stock Option Plans on Financial Position

Effect of the employee share-based payment plans on the profit and loss account and on its financial position:

Particulars	Current year	Previous year
Total Employee Compensation Cost pertaining to share-based payment plans	416,401	552,002
Compensation Cost pertaining to equity-settled employee share-based payment plan included above	234,454	103,649
Compensation Cost pertaining to cash-settled employee share-based payment plan included above	181,947	448,353
Equity settled employee stock options outstanding as at year end	554,722	463,978
Liability for cash settled employee stock options outstanding as at year end	287,055	330,792
Deferred compensation cost of equity settled options	225,304	304,142
Deferred compensation cost of cash settled options	220,178	315,490

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SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

Inputs for Fair valuation of Employees Stock Option Plans

The Share Options have also been fair valued using an Option Pricing Model (Black Scholes Model). The main inputs to the model and the Fair Value of the options, based on an independent valuation, are as under:

Variables - CISMP	A	B
Grant date	24th Nov 2006	24th Nov 2006
Stock price/fair value of the equity shares on the date of grant (INR)	160.00	160.00
Vesting date	Refer vesting conditions	Refer vesting conditions
Vesting %	Refer vesting conditions	Refer vesting conditions
Volatility (Weighted average)	44.08%	46.59%
Risk free rate (Weighted average)	7.05%	6.94%
Time to maturity in years (Weighted average)	2.45	2.00
Exercise price (INR)	33.70	33.70
Fair Value of the options (Weighted average) - INR	131.69	130.69

Variables – CIPOP					
Grant date	1st Jan 2007	20th Sept 2007	29th July 2008	29th July 2009	27th July 2010
Stock price/fair value of the equity shares on the date of grant (INR)	160.00	166.95	228.55	234.75	331.50
Vesting date	1st Jan 2010	20th Sept 2010	29th July 2011	29th July 2012	27th July 2013
Vesting %	Refer vesting conditions	Refer vesting conditions	Refer vesting conditions	Refer vesting conditions	Refer vesting conditions
Volatility	41.61%	36.40%	37.49%	43.72%	53.73%
Risk free rate	7.33%	7.23%	9.37%	5.78%	6.99%
Time to maturity (years)	3.12	3.12	3.12	3.13	3.00
Exercise price (INR)	10.00	10.00	10.00	10.00	10.00
Fair Value of the options (INR)	152.05	158.97	221.09	226.40	323.39

Variables – CIESOP						
Grant date	1st Jan 2007	20th Sept 2007	29th July 2008	10th Dec 2008	29th July 2009	27th July 2010
Stock price/fair value of the equity shares on the date of grant (INR)	160.00	166.95	228.55	150.10	234.75	331.50
Vesting date	1st Jan 2010	20th Sept 2010	29th July 2011	10th Dec 2011	29th July 2012	27th July 2013
Vesting %	100%	100%	100%	100%	100%	100%
Volatility	41.04%	40.24%	39.43%	38.19%	39.97%	53.73%
Risk free rate	7.50%	7.65%	9.20%	6.94%	6.91%	6.99%
Time to maturity (years)	6.50	6.50	6.50	6.50	6.50	6.50
Exercise price (INR)	160.00	166.95	227.00	143.00	240.05	331.25
Fair Value of the options (INR)	87.30	90.72	130.42	79.80	122.24	141.56

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SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

Variables – CIPOP Phantom					
Grant date	**29th July 2008**	**22nd June 2009**	**29th July 2009**	**27th July 2010**	**23rd Dec 2010**
Stock price of the equity shares on the reporting date (INR)	350.95	350.95	350.95	350.95	350.95
Vesting date	29th July 2011	22nd June 2012	29th July 2012	27th July 2013	23rd Dec 2013
Vesting %	Refer vesting conditions	Refer vesting conditions	Refer vesting conditions	Refer vesting conditions	Refer vesting conditions
Volatility	22.55%	27.07%	27.03%	38.20%	47.92%
Risk free rate	7.62%	7.39%	7.37%	7.36%	7.39%
Time to maturity (years)	0.33	1.23	1.33	2.33	2.73
Exercise price (INR)	10.00	10.00	10.00	10.00	10.00
Fair Value of the options (INR)	341.20	341.82	341.89	342.52	342.78

Variables – CIESOP Phantom				
Grant date	**29th July 2008**	**10th Dec 2008**	**29th July 2009**	**27th July 2010**
Stock price of the equity shares on the reporting date (INR)	350.95	350.95	350.95	350.95
Vesting date	29th July 2011	10th Dec 2011	29th July 2012	27th July 2013
Vesting %	Refer vesting conditions	Refer vesting conditions	Refer vesting conditions	Refer vesting conditions
Volatility	22.55%	25.75%	27.03%	38.20%
Risk free rate	7.62%	7.49%	7.37%	7.36%
Time to maturity (years)	0.33	0.70	1.33	2.33
Exercise price (INR)	227.00	143.00	240.05	331.25
Fair Value of the options (INR)	129.57	215.21	135.67	113.44

Volatility is the measure of the amount by which the price has fluctuated or is expected to fluctuate during the period. The measure of volatility used in Black-Scholes option-pricing model is the annualized standard deviation of the continuously compounded rates of return on the stock over a period of time. Time to maturity /expected life of options is the period for which the Cairn India Group expects the options to be live. Time to maturity has been calculated as an average of the minimum and maximum life of the options

Impact of Fair Valuation Method on net profits and EPS

In March 2005, the Institute of Chartered Accountants of India has issued a guidance note on “Accounting for Employees Share Based Payments” applicable to employee based share plan, the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation accounting in the financial statements. Applying the fair value based method defined in the said guidance note, the impact on the reported net profit and earnings per share would be as follows:

	Current year	Previous year
Profit as reported	63,344,000	10,511,059
Add: Employee stock compensation under intrinsic value method	416,401	552,002
Less: Employee stock compensation under fair value method	(864,945)	(948,058)
Proforma profit	62,895,456	10,115,003
Earnings Per Share (in INR)		
Basic		
- As reported	33.36	5.54
- Proforma	33.13	5.33
Diluted		
- As reported	33.20	5.52
- Proforma	32.97	5.31

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SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

8. LEASE OBLIGATIONS DISCLOSURES

Finance Lease:

Fixed assets include office equipments and leaseholds improvements obtained under finance lease. The lease term is for 3 to 6 years and renewable for further period/years at the option of the Cairn India Group. There is no escalation clause in the lease agreements. There are no restrictions imposed by lease arrangements and there are no subleases.

Current year	Minimum lease payments	Principal amount due	Interest due
Within one year of the balance sheet date	48,020	43,930	4,090
Due in a period between one year and five years	16,608	15,936	672
Due after five years	Nil	Nil	Nil
Total	**64,628**	**59,866**	**4,762**

Previous year	Minimum lease payments	Principal amount due	Interest due
Within one year of the balance sheet date	72,047	60,928	11,119
Due in a period between one year and five years	85,391	79,397	5,994
Due after five years	Nil	Nil	Nil
Total	**157,438**	**140,325**	**17,113**

Note: The interest rate on finance lease ranges from 3.77 % to 14.61%

Operating Lease:

Cairn India Group has entered into operating leases for office premises and office equipments, some of which are cancellable and some are non-cancellable. The leases have a life of 3 to 6 years. There is an escalation clause in the lease agreement during the primary lease period. There are no restrictions imposed by lease arrangements and there are no subleases. There are no contingent rents.

Particulars	31st March 2011	31st March 2010
Lease payments made during the year	145,179	132,390
Within one year of the balance sheet date	35,361	140,321
Due in a period between one year and five years	Nil	34,536
Due after five years	Nil	Nil

9. CONTINGENT LIABILITIES

(A) Ravva Joint Venture Arbitration proceedings : ONGC Carry

Ravva is an unincorporated Joint Venture (JV) in which Cairn India Group has an interest. The calculation of the Government of India's (GoI) share of petroleum produced from the Ravva oil field has been a matter of disagreement for some years. An arbitration panel opined in October 2004 and Cairn has been willing to be bound by the award, although it was not as favourable as had been hoped. The GoI, however, had lodged an appeal in the Malaysian courts in respect of one element of the award which was in Cairn's favour, namely the "ONGC Carry" issue. The "ONGC Carry" issue relates to whether Contractor Parties under Ravva PSC are entitled to include in their accounts for the purposes of calculating the PTRR certain costs paid by Contractor Parties in consideration for ONGC having paid 100% of costs prior to the signing of the Ravva PSC in 1994. Cairn India Group challenged both the GoI's right to appeal and the grounds of that appeal.

A judgment was delivered by the Malaysian High Court on 12th January 2009, ruling in favour of the GoI and setting the arbitration award aside. This had the effect of negating the original award in favour of Cairn India Group.

Cairn India Group appealed against above judgment to the Malaysian Court of Appeal. A judgment was delivered by the Malaysian Court of Appeal on 15th September 2009, which reversed the ruling of the High Court in Malaysia of 12th January 2009 and had the effect of reinstating the original award in favour of Cairn India Group. The Government of India had applied for leave to appeal this judgment to the Federal Court of Malaysia (the apex court). The Federal Court heard the matter on 19th January, 2011 and reserved the verdict.

In addition, consistent with GoI's view that the set-aside meant they have a binding judgment in their favour, GoI has demanded and commenced recovery from Cairn's buyers, of revenues from sale proceeds to set-off against the sums they claim are due as a result of the Malaysian judgment being in their favour. This recovery action was contested by Cairn in the Indian courts, pursuant to which, the Government has given an undertaking to stop recoveries post January 2010. The amounts recovered by the Government aggregate to approximately INR 10,359,589 thousand (USD 232 million). The net effective deduction as on 31st March 2011, after adjusting the current year's profit petroleum, amounts to approximately INR 485,732 thousand (USD 11 million).

In the event that the GoI's appeal is successful, then Cairn India Group would be required to pay approximately INR 2,888,000 thousand (USD 64 million) and potential interest of INR 1,489,931 thousand (USD 33 million). The same dispute existed at the end of the previous year.

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SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

(B) Ravva Joint Venture Arbitration Proceedings : Base Development Cost

Ravva joint venture had received a claim from the Director General of Hydrocarbons (DGH) for the period from 2000-2005 for USD 166.4 million for an alleged underpayment of profit petroleum to the Indian Government, out of which, Cairn India Group's share will be USD 37.4 million (approximately INR 1,688,000 thousand) plus potential interest at applicable rate (LIBOR plus 2% as per PSC).

This claim relates to the Indian Government's allegation that the Ravva JV has recovered costs in excess of the Base Development Costs ("BDC") cap imposed in the PSC and that the Ravva JV has also allowed these excess costs in the calculation of the Post Tax Rate of Return (PTRR). Joint venture partners initiated the arbitration proceedings and Arbitration Tribunal published the Award on 18th January, 2011 at Kuala Lumpur, allowing Claimants (including Cairn) to recover the Development costs spent to the tune of USD 278 million and disallowed over run of USD 22.3 million spent in respect of BDC along with 50% legal costs reimbursable to the Joint venture partners. Government of India has appealed before High Court in Malaysia against the Award and currently, service of notice of appeal is in progress.

(C) Service Tax

One of the constituent company of the Cairn India Group has received five show cause notices from the tax authorities in India for nonpayment of service tax as a recipient of services from foreign suppliers.

These notices cover periods from 16th August 2002 to 31st March 2010. A writ petition has been filed with Chennai High Court challenging the liability to pay service tax as recipient of services in respect of first show cause notice (16th August 2002 to 31st March 2006) and another challenging the scope of some services in respect of second show cause notice (1st April 2006 to 31st March 2007). Writ petition for the first show cause notice was decided in favour of Cairn India Group, resulting in quashing of demand notice of INR 474,692 thousand.

The replies to the second, third, fourth and fifth show cause notices have also been filed before the authorities.

Should future adjudication go against Cairn India Group, it will be liable to pay the service tax of approximately INR 1,281,850 thousand (previous year INR 1,679,000 thousand) plus potential interest of approximately INR 463,395 thousand (previous year INR 634,000 thousand), although this could be recovered in part, where it relates to services provided to Joint Venture of which Cairn India is operator.

(D) Tax holiday on gas production

Section 80-IB (9) of the Income Tax Act, 1961 allows the deduction of 100% of profits from the commercial production or refining of mineral oil. The term 'mineral oil' is not defined but has always been understood to refer to both oil and gas, either separately or collectively.

The 2008 Indian Finance Bill appeared to remove this deduction by stating [without amending section 80-IB (9)] that "for the purpose of section 80-IB (9), the term 'mineral oil' does not include petroleum and natural gas, unlike in other sections of the Act". Subsequent announcements by the Finance Minister and the Ministry of Petroleum and Natural Gas have confirmed that tax holiday would be available on production of crude oil but have continued to exclude gas.

Cairn India Group filed a writ petition to the Gujarat High Court in December 2008 challenging the restriction of section 80-IB to the production of oil. Gujarat High Court did not admit the writ petition on the ground that the matter needs to be first decided by lower tax authorities. A Special Leave Petition has been filed before Supreme Court against the decision of Gujarat High court.

In the event this challenge is unsuccessful, the potential liability for tax and related interest on tax holiday claimed on gas production for all periods to 31st March 2011 is approximately INR 2,400,000 thousand (previous year INR 2,321,000 thousand).

Based on the legal opinions received, the management is of the view that the liability in the cases mentioned in (a) to (d) above are not probable and accordingly no provision has been considered necessary there against.

10. The Company has not created debenture redemption reserve aggregating to INR 831,913 thousand (previous year Nil) due to inadequacy of profits.

11. CAPITAL COMMITMENTS (NET OF ADVANCES)

1 In respect of Cairn India Group's share of Joint Ventures' Exploration activities – INR 14,749,812 thousand (previous year – INR 11,688,763 thousand).

2 In respect of the Cairn India Group's share of Joint Ventures' Development activities – INR 13,627,203 thousand (previous year – INR 28,096,949 thousand).

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SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

12. DERIVATIVE INSTRUMENTS

Cairn India Group has taken USD put/INR call options aggregating to USD 135,000 thousand (previous year USD 233,000 thousand) and forward contracts for sale of USD 10,000 thousand (previous year Nil).

Particulars of Unhedged Foreign Currency Exposure at the Balance Sheet date

Particulars	31st March 2011	31st March 2010
Loans	13,222,292	20,416,806
Sundry debtors	14,772,883	3,067,474
Investments	127,197	201,923
Cash and bank	34,881,550	3,894,233
Other current assets	97,347	4,392
Loans and advances	20,415,731	13,539,375
Current liabilities	6,147,870	4,545,666

Cairn India Group has also taken certain derivative contracts to hedge the discount percentage on sale / purchase of crude oil. Accordingly, a net quantity of 1.5 mmbbls of crude oil have been hedged as at 31st March 2011.

13. Cairn India Group has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarize the components of net benefit expense recognised in the profit and loss account, the funded status and amounts recognised in the balance sheet for the gratuity plans.

Profit and Loss account

Net employee benefit expense (recognised in staff cost)

Particulars	31st March 2011	31st March 2010
Current service cost	36,446	31,030
Interest cost on benefit obligation	12,951	8,674
Expected return on plan assets	(9,119)	(3,598)
Net actuarial (gain) / loss recognised in the year	(7,492)	17,464
Past service cost	Nil	Nil
Net benefit expense	32,786	53,570
Actual return on plan assets	9,547	6,604

Balance sheet

Details of Provision for Gratuity

Particulars	31st March 2011	31st March 2010
Defined benefit obligation	200,008	161,887
Fair value of plan assets	139,338	97,008
Less: Unrecognized past service cost	Nil	Nil
Plan asset / (liability)	(60,670)	(64,879)

Changes in the present value of the defined benefit obligation are as follows:

Particulars	31st March 2011	31st March 2010
Opening defined benefit obligation	161,887	108,425
Current service cost	36,446	31,030
Interest cost	12,951	8,674
Benefits paid	(4,213)	(4,038)
Actuarial (gains) / losses on obligation	(7,063)	17,796
Closing defined benefit obligation	200,008	161,887

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(All amounts are in INR thousand unless, otherwise stated)

Changes in the fair value of plan assets are as follows:

Particulars	31st March 2011	31st March 2010
Opening fair value of plan assets	97,008	68,854
Expected return	9,119	3,598
Contributions by employer	36,995	28,262
Benefits paid	(4,213)	(4,038)
Actuarial gains / (losses)	429	332
Closing fair value of plan assets	139,338	97,008

Note : The Group's expected contribution to the fund in the next year is INR 47,771 thousand (previous year INR 40,582 thousand).
The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Particulars	31st March 2011	31st March 2010
Investments with insurer	100%	100%

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining gratuity liability for the Group's plans are shown below:

Particulars	31st March 2011	31st March 2010
Discount rate	8.00%	8.00%
Future salary increase	10.00%	10.00%
Expected rate of return on assets	9.40%	9.40%
Employee turnover	5.00%	5.00%
Mortality Rate	LIC (1994-96) Ultimate Table	LIC (1994-96) Ultimate Table

Note The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Gratuity liabilities for the current and previous years / period are as follows:

Particulars	31st March 2011	31st March 2010	31st March 2009	31st Dec 2007
Defined benefit obligation	200,008	161,887	108,425	66,142
Plan assets	139,338	97,008	68,854	29,163
Surplus / (deficit)	(60,670)	(64,879)	(39,571)	(36,979)
Experience adjustments on plan assets (loss)/gain	428	365	3,132	2,970
Experience adjustments on plan liabilities (loss)/gain	6,938	(13,839)	(11,964)	(6,960)

Notes :

i) The Group had adopted AS-15, Employee Benefits, for the first time during the year ended December 31, 2007. Disclosures required by paragraph 120 (n) of AS-15 are required to be furnished prospectively from the date of transition and hence have been furnished for year/ period ended December 31, 2007 onwards.

ii) The Group is maintaining a fund with the Life Insurance Corporation of India (LIC) to meet its gratuity liability. The present value of the plan assets represents the balance available with the LIC as at the end of the year. The total value of plan assets amounts to INR 139,338 thousand (Previous year INR 97,008 thousand) is as certified by the LIC.

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

14. DETAILS OF MOVEMENT IN SHARE CAPITAL AND SECURITIES PREMIUM IS AS UNDER

Description	No. of equity shares	Issue price in INR	Share capital	Securities premium
Balance as on 1st April 2009	**1,896,667,816**		**18,966,678**	**301,090,274**
Exercise of share options-CIPOP	190,983	10.00	1,910	Nil
Exercise of share options-CIESOP	115,333	160.00	1,153	17,300
Share options liability transferred to securities premium upon exercise of the options				28,648
Waiver of parent company outstanding balance, pertaining to share issue expenses paid by parent company, which had earlier been adjusted from securities premium				25,000
Balance as on 31st March 2010	**1,896,974,132**		**18,969,741**	**301,161,222**
Exercise of share options-CIPOP	922,043	10.00	9,220	Nil
Exercise of share options-CIESOP	1,443,752	160.00	14,438	216,563
Exercise of share options-CIESOP	2,577,174	166.95	25,772	404,487
Share options liability transferred to securities premium upon exercise of the options				143,710
Balance as on 31st March 2011	**1,901,917,101**		**19,019,171**	**301,925,982**

15. The price contract for sale of gas with one customer is due for revision with effect from December 2008 and currently the same is under negotiation. Pending finalization of the price contract, revenue has been recognised based on the last agreed prices on a conservative basis, as the management is expecting an upward price revision.

16. The goodwill of Cairn India Group amounting to INR 253,192,675 thousand has arisen on consolidation of financial statements of the Company with its subsidiaries and represents the difference between the cost of its investment in Cairn India Holdings Limited (which largely represent Cairn India Group's operations in India through its subsidiaries) and consolidated net book value of assets in Cairn India Holdings Limited, at the time of acquisition of shares in Cairn India Holdings Limited. The management has carried out the tests for impairment of goodwill at the year-end as per requirements of AS 28 (Impairment of Assets) by computing the value in use of the assets and comparing the same with the carrying amount of the net assets. Value in use is based on the discounted future net cash flows of the oil and gas assets held by the Cairn India Group. For all blocks in the exploration stage, valuation has been carried out using risked net present value per barrel of oil equivalent. The result of the impairment tests indicate that the value in use is higher than the carrying amounts and no impairment provision is required to be created at the reporting date.

17. In respect of the RJ-ON-90/1 block, the Joint Venture partner Oil & Natural Gas Corporation Limited (ONGC) has raised a dispute during the year that the Royalty payable under the Production Sharing Contract (PSC) should be considered as contract cost for cost recovery purposes. As per the PSC provisions, the cost of royalty shall be borne by the licensee and the licensee under the PSC is ONGC. Based on PSC provisions and legal advice received, management is of the view that royalty is not a contract cost eligible for cost recovery.

18. The shareholders of the Company have approved a Scheme of Arrangement between the Company and some of its wholly owned subsidiaries, to be effective from 1st January 2010. The Scheme of Arrangement has been approved by the Hon'ble High Court of Madras and the Hon'ble High Court of Bombay. However, it is pending for approval from other regulatory authorities. Pending receipt of such approvals, no accounting impact of the scheme has been given in these financial statements. After the implementation of the scheme, the Company will directly own the Indian businesses, which are currently owned by some of its wholly owned subsidiaries and as contemplated in the scheme, any goodwill arising in the Company pursuant to the scheme, shall be adjusted against the securities premium account.

19. Operating expenses include cess on crude oil produced from Rajasthan block. The Group has initiated arbitration proceedings against the Government of India and its joint venture partner as it believes that the same should not be borne by the Group.

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

20. Cairn India Group's gross reserve estimates are based on forecast production profiles over the remaining life of the field, determined on an asset-by-asset basis, using appropriate petroleum engineering techniques. The management's internal estimates of hydrocarbon reserves and resources at the year end is as follows:

Particulars	Gross proved and probable hydrocarbons initially in place (mmboe)		Gross proved and probable reserves and resources (mmboe)		Net proved and probable reserves and resources (mmboe)	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Rajasthan MBA Fields	2,054	2,054	656	694	459	486
Rajasthan MBA EOR	-	-	308	308	216	216
Rajasthan Block Other Fields	1,976	1,976	152	152	107	107
Ravva Fields	709	708	88	100	20	23
CBOS/2 Fields	180	175	15	16	6	7
KG-DWN-98/2	650	650	353	353	35	35
KG-ONN-2003/1	57	-	11	-	5	-
Total	**5,626**	**5,563**	**1,583**	**1,623**	**848**	**874**

Cairn India Group's net working interest in proved and probable reserves is as follows:

Particulars	Proved and probable reserves		Proved and probable reserves (developed)	
	Oil (mmstb)	Gas (bscf)	Oil (mmstb)	Gas (bscf)
Reserves as at 1st April 2009*	**339.80**	**28.60**	**14.20**	**28.60**
Additions / revision during the year	2.37	5.93	54.12	5.93
Production during the year	6.26	7.85	6.26	7.85
Reserves as at 31st March 2010**	**335.91**	**26.68**	**62.06**	**26.68**
Additions / revision during the year	(2.21)	1.69	105.98	1.69
Production during the year	29.10	8.20	29.10	8.20
Reserves as at 31st March 2011***	**304.60**	**20.17**	**138.94**	**20.17**

* Includes probable oil reserves of 57.70 mmstb (of which 5.7 mmstb is developed) and probable gas reserves of 12.80 bscf (of which 12.80 bscf is developed)

** Includes probable oil reserves of 57.61 mmstb (of which 14.75 mmstb is developed) and probable gas reserves of 11.13 bscf (of which 11.13 bscf is developed)

*** Includes probable oil reserves of 55.93 mmstb (of which 26.7 mmstb is developed) and probable gas reserves of 9.45 bscf (of which 9.45 bscf is developed)

mmboe = million barrels of oil equivalent

mmstb = million stock tank barrels

bscf = billion standard cubic feet

1 million metric tonnes = 7.4 mmstb

1 standard cubic meter = 35.315 standard cubic feet

MBA = Mangala, Bhagyam & Aishwarya

EOR = Enhanced Oil Recovery

21. Prior period items in previous year represent miscellaneous expenses.

22. The reversal in fringe benefit tax (FBT) in the previous year is on account of the abolishment of FBT with effect from 1st April 2009, as Cairn India Group was accounting for FBT liability on stock options on a pro-rata basis over the vesting period.

23. The holding company of Cairn India Limited, Cairn UK Holdings Limited, along with its holding company, Cairn Energy Plc. (Company's ultimate holding company) has agreed to sell a substantial portion of its investment in the Company to Twin Star Holdings Ltd. and Vedanta Resources Plc. This transaction has been approved by shareholders of both Cairn Energy Plc. and Vedanta Resources Plc. However, pending receipt of certain regulatory approvals, Cairn Energy Plc. continues to be treated as the promoter of the Company.

Schedules to the Consolidated Financial Statements Continued

SCHEDULE 25–NOTES TO ACCOUNTS

(All amounts are in INR thousand unless, otherwise stated)

24. Borrowing costs capitalized during the year include :

Particulars	Current year	Previous year
Interest on term loan	422,775	1,532,076
Interest on debentures	121,250	-
Loan facility and management fees	239,629	198,675*
Exchange differences to the extent considered as an adjustment to interest cost	51,871	836,999
Less: Interest on temporary fixed deposits	-	(125,203)
Total	**835,525**	**2,442,547**

* Net of balances written back INR 250,040 thousand.

25. Previous year figures have been regrouped wherever necessary to confirm to the current year's classifications.

As per our report of even date

For S.R. Batliboi & Co.
Firm Registration No.: 301003E
Chartered Accountants

per Raj Agrawal
Partner
Membership No. 82028

For and on behalf of the Board of Directors

Rahul Dhir Managing Director and Chief Executive Officer
Indrajit Banerjee Executive Director and Chief Financial Officer
Aman Mehta Director
Neerja Sharma Company Secretary

Place Gurgaon Date 25 May, 2011

Financial Information of Subsidiary Companies

(All amounts are in thousand Indian Rupees unless, otherwise stated)

The Ministry of Corporate Affairs, Government of India, vide General Circular No. 2 and 3 dated 8th February 2011 and 21st February 2011 respectively has granted a general exemption from compliance with section 212 of the Companies Act, 1956, subject to fulfilment of conditions stipulated in the circulars. The Company has satisfied the conditions stipulated in the circular and hence is entitled to the exemption. Necessary information relating to the subsidiaries is given below:

S. No.	Name of the Subsidiary Company	Capital	Reserves	Total Assets	Total Liabilities	Investments (excluding Investments in Subsidiaries)	Details of Investment	Turnover	Profit / (Loss) before taxation	Provision for taxation	Profit / (Loss) after taxation	Proposed dividend
1	Cairn Exploration (No.7) Limited	-	(13,208)	-	-	-	-	-	23	-	23	NIL
2	Cairn Exploration (No.4) Limited	-	(435)	-	-	-	-	-	(184)	-	(184)	NIL
3	Cairn Exploration (No.2) Limited	-	(37,846)	-	-	-	-	-	(6,625)	-	(6,625)	NIL
4	Cairn Energy Discovery Limited	1,956	(62,501)	-	-	-	-	-	609	-	609	NIL
5	Cairn Energy Hydrocarbons Limited	21,399,502	35,535,324	91,497,036	91,497,036	33,588	Mutual Funds	46,303,447	32,474,878	554,868	31,920,010	NIL
6	Cairn Energy Petroleum India Limited	-	-	-	-	-	-	-	-	-	-	NIL
7	Cairn Energy Holdings Limited	19,026,756	9,002,879	27,894,245	27,894,245	8,864	Mutual Funds	447,105	437,137	161,318	275,819	NIL
8	Cairn Energy Netherlands Holdings B.V.	28,304	23,402,674	23,455,892	23,455,892	7,546	Mutual Funds	-	(9,819)	-	(9,819)	NIL
9	Cairn Energy Group Holdings B.V.	22,790	26,085,900	26,104,549	26,104,549	-	-	-	(12,577)	-	(12,577)	NIL
10	Cairn Energy India Holdings B.V.	790	6,967	4,449	4,449	1,267	Mutual Funds	-	81	-	81	NIL
11	Cairn Energy Gujarat Holding B.V.	790	(15)	790	790	-	-	-	4	-	4	NIL
12	Cairn Energy Gujarat B.V.	790	1,063,016	1,786,627	1,786,627	3,460	Mutual Funds	891,115	723,961	306,470	417,491	NIL
13	Cairn Energy India West Holding B.V.	791	(15)	790	790	-	-	-	4	-	4	NIL
14	Cairn Energy India West B.V.	790	1,405,320	2,549,505	2,549,505	2,232	Mutual Funds	1,176,271	961,289	406,431	554,858	NIL
15	Cairn Energy Cambay Holding B.V.	789	46	859	859	-	-	-	(6)	-	(6)	NIL
16	Cairn Energy Cambay B.V.	790	1,090,686	1,807,585	1,807,585	4,428	Mutual Funds	900,026	733,974	310,968	423,006	NIL
17	Cairn Energy Australia Pty Limited	36,917,165	5,782,325	42,786,486	42,786,486	7,992	Mutual Funds	-	(9,309)	-	(9,309)	NIL
18	CEH Australia Limited	6,343,395	-	6,343,395	6,343,395	-	-	-	-	-	-	NIL
19	CEH Australia Pty Limited	6,343,395	-	6,343,395	6,343,395	-	-	-	-	-	-	NIL
20	Cairn Energy Asia Pty Limited	20,021,107	1,705,203	21,645,413	21,645,413	3,928	Mutual Funds	-	13,430	-	13,430	NIL
21	Wessington Investments Pty. Limited	194,543	(194,543)	-	-	-	-	-	-	-	-	NIL
22	Cairn Energy Investments Australia Pty Limited	22,419,091	(1,494,807)	20,924,284	20,924,284	-	-	-	-	-	-	NIL
23	Sydney Oil Company Pty. Limited	20,992,104	971,727	21,963,830	21,963,830	-	-	-	-	-	-	NIL
24	Cairn Energy India Pty Limited	35,505,924	46,859,446	115,241,461	115,241,461	49,252	Mutual Funds	53,037,371	34,956,534	3,815,719	31,140,815	NIL
25	Cairn India Holdings Limited	48,993,044	22,001,038	69,776,238	69,776,238	4,638	Mutual Funds	-	407,137	-	407,137	NIL
26	Cairn Energy Gujarat Block 1 Limited	46	53,922	-	-	-	-	-	(653)	-	(653)	NIL
27	Cairn Exploration (No.6) Limited	-	(699)	-	-	-	-	-	(212)	-	(212)	NIL
28	Cairn Lanka Private Limited	991,483	(851,166)	184,111	184,111	-	-	-	(223,936)	-	(223,936)	NIL
29	Cairn Energy Developments Pte Limited*	-	(776)	-	-	-	-	-	776	-	776	NIL
30	CIG Mauritius Holding Pvt Limited	1,002,792	(6,894)	996,549	996,549	-	-	-	(2,749)	-	(2,749)	NIL
31	CIG Mauritius Private Limited	994,737	(2,484)	993,014	993,014	-	-	-	(2,051)	-	(2,051)	NIL

* Cairn Energy Developments Pte Limited, a subsidiary company in singapore, was voluntarily dissolved w.e.f. 8th March 2011.

Exchange Rate As on 31.3.2011: 1 USD = INR 44.595

For and on behalf of the Board of Directors

Rahul Dhir Managing Director and Chief Executive Officer

Aman Mehta Director

Indrajit Banerjee Executive Director and Chief Financial Officer

Neerja Sharma Company Secretary

Place Gurgaon Date 25 May, 2011