Registered No: SC304517

CAIRN UK HOLDINGS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

CAIRN UK HOLDINGS LIMITED

Directors:

W B B Gammell
M J Watts
S J Thomson
J M Brown
M S Thoms

Secretary:

D A Wood

Auditors:

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen AB15 4DT

Solicitors:

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh EH3 8UL

Registered Office:

50 Lothian Road
Edinburgh EH3 9BY

Registered No:

SC304517

CAIRN UK HOLDINGS LIMITED

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2008.

Principal Activities and Business Review
The Company's principal activity is that of a holding company. The Company holds an investment in Cairn India Limited ("CIL") which is listed on the Bombay Stock Exchange and National Stock Exchange of India.

Consolidated accounts are not produced for the company and its subsidiaries (detailed in note 7 to the accounts) as provided under the exemption in section 228(1) of the Company's Act 1985. The results of the company and its subsidiaries are included within the consolidated accounts of the ultimate parent undertaking, Cairn Energy PLC.

During the year the Company made a loss of $0.1m (2007: restated profit $54.5m). No dividend has been paid or declared in respect of the year ended 31 December 2008 (2007: $1,217.6m).

Principal Risks and Uncertainties
The principal risks and uncertainties facing the Company derive from holding investments, where the value of its investments is ultimately dependent on the performance of its subsidiaries, and from holding cash and channelling cash to subsidiaries as set out in the financial risk management objectives and policies detailed in note 13.

Financial Instruments
For detail of the Company's financial risk management policy see note 13.

Directors
The Directors who held office during the year and subsequently are as follows:

W B B Gammell
M J Watts
S J Thomson (appointed 16 October 2008)
J M Brown (appointed 16 October 2008)
M S Thoms

Charitable and Political Donations
The Company did not make any charitable or political contributions during the year (2007: $nil).

Creditors Payment Policy
It is the Company's payment policy to ensure settlement of suppliers' services in accordance with the terms of the applicable contracts. In most circumstances, settlement terms are agreed prior to business taking place.

Disclosure of Information to Auditors
The directors of the Company who held office at 31 December 2008 confirm, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. In making this confirmation, the directors have taken appropriate steps to make themselves aware of the relevant audit information and that the Company's auditors are aware of this information.

By Order of the Board

Anne Wood

Secretary

50 Lothian Road
Edinburgh EH3 9BY

28 September 2009

CAIRN UK HOLDINGS LIMITED

Directors' Responsibility Statement

The directors are responsible for preparing the Directors' Report and the Company financial statements in accordance with applicable United Kingdom law and those IFRSs as adopted by the EU.

The directors are required to prepare the Company financial statements for each financial year which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period. In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirement in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company's financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAIRN UK HOLDINGS LIMITED

We have audited the financial statements of Cairn UK Holdings Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Cash Flows, the Statement of Recognised Income and Expense and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' Responsibility Statement.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Aberdeen

28 September 2009

CAIRN UK HOLDINGS LIMITED
Income Statement
For the year ended 31 December 2008

Continuing Operations	Notes	2008 $'000	2007 (restated) $'000
Administrative expenses		-	(23)
Gain on sale of investments	16	-	53,426
Operating profit	2	-	53,403
Finance income	4	-	9,249
Finance costs	5	**(120)**	(8,119)
(Loss)/profit before taxation		**(120)**	54,533
Taxation expense on (loss)/profit	6	-	-
(Loss)/profit for the year	12	**(120)**	54,533

CAIRN UK HOLDINGS LIMITED

Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Notes	**2008 $'000**	2007 $'000
(Loss)/profit for the year			
(Loss)/profit for the year	12	**(120)**	48,892
Prior year adjustment	16	**-**	5,641
(Loss)/profit for the year (restated)		**(120)**	54,533
Foreign currency translation differences	12	**(389,505)**	240,402
Total recognised income and expense for the year		**(389,625)**	294,935

CAIRN UK HOLDINGS LIMITED

Balance Sheet

As at 31 December 2008

	Notes	2008 $'000	2007 (restated) $'000
Non-current assets			
Investments	7	**1,664,930**	2,054,541
		1,644,930	2,054,541
Current assets			
Trade and other receivables	8	**5,641**	5,641
Cash and cash equivalents	9	**17**	26
		5,658	5,667
Total assets		**1,670,588**	2,060,208
Current liabilities			
Trade and other payables	10	**5**	-
Total liabilities		**5**	-
Net assets		**1,670,583**	2,060,208
Called-up share capital	11	**337,834**	337,834
Foreign currency translation	12	**(93,998)**	295,507
Retained earnings	12	**1,426,747**	1,426,867
Total equity		**1,670,583**	2,060,208

Signed on behalf of the Board on 28 September 2009.

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Director

CAIRN UK HOLDINGS LIMITED

Statement of Cash Flows

For the year ended 31 December 2008

	Notes	**2008**	2007 (restated)
		$'000	$'000
Cash flows from operating activities			
(Loss)/profit before taxation		**(120)**	54,533
Exceptional gain on sale of investments		-	(53,426)
Finance income		-	(9,249)
Finance costs		**120**	8,119
Foreign exchange differences		-	4,784
Trade and other receivables movement		-	691,944
Trade and other payables movement		-	(41,626)
Net cash from operating activities		-	655,079
Cash flows used in investing activities			
Proceeds on disposal of investment		-	53,426
Group borrowings		-	(5,641)
Interest received		-	9,249
Net cash from investing activities		-	57,034
Cash flows used in financing activities			
Prurchase of own shares		-	(128,869)
Dividends paid		-	(1,217,595)
Bank charges		**(10)**	(143)
Net cash flows used in financing activities		**(10)**	(1,346,607)
Net decrease in cash and cash equivalents		**(10)**	(634,494)
Opening cash and cash equivalents at beginning of year		**26**	632,060
Exchange gains on cash and cash equivalents		**1**	2,460
Closing cash and cash equivalents	9	**17**	26

1 Accounting Policies

a) Basis of preparation

The financial statements of Cairn UK Holdings Limited ("the Company") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 28 September 2009. The Company is incorporated in Scotland under the Companies Act 1985 and domiciled in the United Kingdom. The registered office is located at 50 Lothian Road, Edinburgh, Scotland.

The Company prepares its accounts on a historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

b) Accounting standards

The Company prepares its accounts in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the EU. The Company's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board ("IASB").

Relevant new standards and interpretations issued by the IASB, but not yet effective and not applied in these financial statements are as follows:

Title	Change to accounting policy	Date of adoption by Company	Impact on initial application
Effective date from 1 January 2009			
IAS 1 'Revised Presentation of Financial Statements'	No changes to current accounting policy.	1 Jan 2009	Presentation and disclosure requirements for certain items in the Income Statement.

No other IFRS as issued by the IASB which are not yet effective are expected to have an impact on the Company's financial statements.

c) Presentation currency

The functional currency of the Company is Indian Rupees. These accounts have been presented in US Dollars ($). It is deemed to be more appropriate to present the financial statements in line with the presentation currency of the rest of the Cairn Energy PLC Group. The Company's policy on foreign currencies is detailed in note 1(h).

d) Investments

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. The recoverable value of investments is the higher of its fair value less costs to sell and value in use. Value in use is based on the discounted future net cash flows of the oil and gas assets held by the subsidiary.

Discounted future net cash flows for IAS 36 purposes are calculated using an estimated short term oil price of $50/bbl and a long term oil price of $65/bbl (2007: short and long term of $60/bbl) or the appropriate gas price as dictated by the relevant gas sales contract, escalation for prices and costs of 3%, and a discount rate of 10% (2007: 3% and 10% respectively). Forecast production profiles are determined on an asset by asset basis, using appropriate petroleum engineering techniques.

e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are categorised as financial assets held at fair value through profit or loss, held-to-maturity investments, loans and receivables and available for sale financial assets. The Company holds financial assets that are classified as loans and receivables.

Financial instruments are generally recognised as soon as the Company becomes party to the contractual regulations of the financial instrument.

1 Accounting Policies (continued)

e) Financial instruments (continued)

Loans and other receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted on an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Trade and other receivables are recognised when invoiced. Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

The carrying amounts of loans and other receivables are tested at each reporting date to determine whether there is objective material evidence of impairment, for example overdue trade debt. Any impairment losses are recognised through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement or Balance Sheet in accordance with where the original receivable was recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade payables and other non derivative financial liabilities

Trade payables and other creditors are non-interest bearing and are measured at cost.

f) Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

g) Taxation

The tax expense represents the sum of current tax and deferred tax.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred income tax liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary timing difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

1 Accounting Policies (continued)

g) Taxation (continued)

The carrying amount of deferred income tax assets are reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

h) Foreign currencies

The Company translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

The Company maintains the accounts in their functional currency, Indian Rupees. The Company translates into the presentation currency, $, using the closing rate method for assets and liabilities which are translated into $ at the rate of exchange prevailing at the Balance Sheet date and rates at the date of transactions for Income Statement accounts. Exchange differences arising on the translation of net assets is taken directly to reserves.

i) Key estimations and assumptions

The Company has used estimates and assumptions in arriving at certain figures within the financial statements. The resulting accounting estimates may not equate with the actual results, which will only be known in time. Those areas believed to be key areas of estimation are noted below, with further details of the assumptions used listed at the relevant note.

Item	**Refer to:**
Impairment testing	1 (d); 1 (e)

2 Operating Profit

a) Operating profit is stated after crediting:

	2008 **$'000**	2007 (restated) $'000
Gain on sale of investments	-	53,426

The Company has a policy in place for the award of non-audit work to the auditors which, in certain circumstances, requires approval by the Audit Committee of Cairn Energy PLC, the ultimate parent undertaking.

The Company's auditors' remuneration of $8,777 (2007: $6,300) has been borne by the ultimate parent company Cairn Energy PLC. Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking.

3 Directors' Emoluments

No remuneration was paid to directors for services to this Company during the year (2007: $nil).

4 Finance Income

	2008 $'000	2007 $'000
Bank interest	-	9,249
	-	9,249

5 Finance Costs

	2008 $'000	2007 $'000
Bank charges	10	143
Other finance costs – currency exchange option	-	1,469
Exchange loss	110	6,507
	120	8,119

6 Taxation on Profit

A reconciliation of income tax expense applicable to (loss)/profit before income tax at the applicable tax rate to income tax expense at the Company's effective income tax rate is as follows:

	2008 $'000	2007 (restated) $'000
(Loss)/profit before taxation	**(120)**	54,533
Tax at the standard rate of UK corporation tax of 28.5% (2007: 30%)	**(34)**	16,360
Effects of:		
Non-taxable income/non-deductible expenses	-	(16,027)
Current year deferred tax movement not recognised	**(535)**	87
Group relief surrendered	**38**	-
Other	**531**	(420)
Total tax charge	-	-

Finance Act 2007 reduced the UK main rate of tax from 30% to 28%. This reduction took effect from 1 April 2008 onwards, resulting in an averaged main rate of corporation tax of 28.5% for the period from 1 January to 31 December 2008, as shown above.

There is a deferred tax asset of $2,286,007 at 31 December 2008 (2007 restated: $2,820,955) in relation to tax losses. This asset has not been recognised as there is insufficient evidence that it will reverse in the foreseeable future. This asset will be recoverable if the Company generates sufficient taxable income in the future.

7 Investments

	Total $'000
Cost and net book value	
At 1 January 2007	**1,828,940**
Exchange differences arising	**225,601**
At 1 January 2008	**2,054,541**
Exchange differences arising	**(389,611)**
At 31 December 2008	**1,664,930**

The Company's principal subsidiaries as at the Balance Sheet date are set out below:-

	Principal activity	Country of incorporation	Country of operation	Proportion of voting rights and ordinary shares
Direct holdings				
Cairn India Limited	Holding company	India	India	64.68%
Indirect holdings				
Cairn India Holdings Limited	Holding company	Jersey	Jersey	64.68%
Cairn Energy Holdings Limited	Holding company	Scotland	Scotland	64.68%
Cairn Energy Hydrocarbons Limited	Exploration & production	Scotland	India	64.68%
Cairn Energy Australia Pty Limited	Holding company	Australia	Australia	64.68%
Cairn Energy India Pty Limited	Exploration & production	Australia	India	64.68%
Cairn Energy Netherlands Holdings B.V.	Holding company	The Netherlands	The Netherlands	64.68%
Cairn Energy Group Holdings B.V.	Holding company	The Netherlands	The Netherlands	64.68%
Cairn Energy India Holdings B.V.	Holding company	The Netherlands	The Netherlands	64.68%
Cairn Energy India West Holdings B.V.	Holding company	The Netherlands	The Netherlands	64.68%
Cairn Energy Cambay Holdings B.V.	Holding company	The Netherlands	The Netherlands	64.68%
Cairn Energy Gujarat Holdings B.V.	Holding company	The Netherlands	The Netherlands	64.68%
Cairn Energy India West B.V.	Exploration & production	The Netherlands	India	64.68%
Cairn Energy Cambay B.V.	Exploration & production	The Netherlands	India	64.68%
Cairn Energy Gujarat B.V.	Exploration & production	The Netherlands	India	64.68%
Cairn Energy Discovery Limited	Exploration	Scotland	India	64.68%
Cairn Energy Gujarat Block 1 Limited	Exploration	Scotland	India	64.68%
Cairn Exploration (No. 2) Limited	Exploration	Scotland	India	64.68%
Cairn Exploration (No. 4) Limited	Exploration	Scotland	India	64.68%
Cairn Exploration (No. 6) Limited	Exploration	Scotland	India	64.68%
Cairn Exploration (No. 7) Limited	Exploration	Scotland	India	64.68%
CIG Mauritius Holding Private Limited	Holding company	Mauritius	Mauritius	64.68%
CIG Mauritius Private Limited	Holding company	Mauritius	Mauritius	64.68%
Cairn Lanka Private Limited	Exploration	Sri Lanka	Sri Lanka	64.68%
Cairn Energy Developments Pte Limited	Holding company	Singapore	India	64.68%

8 Trade and Other Receivables

	2008 $'000	2007 (restated) $'000
Amounts owed by group companies	**5,641**	5,641
	5,641	5,641

Amounts due from group companies are past due but not impaired. The balance is non-interest bearing.

As at 31 December, the ageing analysis of trade and other receivables is set out below:

	Total $'000	**Current $'000**	**< 30 days $'000**	**30-60 days $'000**	**60-90 days $'000**	**90-120 days $'000**	**>120 days $'000**
2008 Past due but not impaired	**5,641**	-	-	-	-	-	5,641
As at 31 December 2008	**5,641**	-	-	-	-	-	**5,641**
2007 Past due but not impaired	5,641	-	-	-	-	-	5,641
As at 31 December 2007	5,641	-	-	-	-	-	5,641

9 Cash and cash equivalents

	At 1 January 2008 $'000	Cash flow $'000	Exchange movements $'000	**At 31 December 2008 $'000**
Cash at bank	26	(10)	1	**17**
Cash and cash equivalents	**26**	**(10)**	**1**	**17**

	At 1 January 2007 $'000	Cash flow $'000	Exchange movements $'000	At 31 December 2007 $'000
Cash at bank	632,060	(634,494)	2,460	26
Cash and cash equivalents	632,060	(634,494)	2,460	26

10 Trade and Other Payables

	31 December 2008 $'000	31 December 2007 $'000
Other creditors and accruals	**5**	-
	5	-

11 Share Capital

	2008 Number of shares	2007 Number of shares
Authorised ordinary shares		
Ordinary shares of £1 each	**251,500,000**	**251,500,000**

	2008		2007	
	Number of shares	**$'000**	Number of shares	$'000
Allotted, issued and fully paid ordinary shares of £1 each				
1 January	**186,531,951**	**337,834**	**251,453,183**	466,703
Repurchase of shares	**-**	**-**	**(64,921,232)**	(128,869)
31 December	**186,531,951**	**337,834**	**186,531,951**	337,834

On 31 December 2007 the Company repurchased 64,921,232 £1 ordinary shares from Cairn Energy PLC under the Share Repurchase Agreement, in accordance with s171 to s174 of the Companies Act 1985.

12 Equity

	Equity Share Capital $'000	Retained earnings (restated) $'000	Foreign currency translation reserve $'000	**Total Equity (restated) $'000**
At 1 January 2007	466,703	2,589,929	55,105	**3,111,737**
Repurchase of shares	(128,869)	-	-	**(128,869)**
Currency translation differences	-	-	240,402	**240,402**
Dividends paid	-	(1,217,595)	-	**(1,217,595)**
Profit for the year	-	54,533	-	**54,533**
At 1 January 2008	337,834	1,426,867	295,507	**2,060,208**
Currency translation differences	-	-	(389,505)	**(389,505)**
Loss for the year	-	(120)	-	**(120)**
At 31 December 2008	**337,834**	**1,426,747**	**(93,998)**	**1,670,583**

13 Financial Risk Management: Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk, interest rate risk, foreign currency risk and credit risk. The Board of Cairn Energy PLC ("the Board"), the parent company, reviews and agrees policies for managing each of these risks and these are summarised below:

The Company's treasury functions are managed by the treasury functions of Cairn Energy PLC. Local operational offices are responsible for managing liquidity and credit risk relating to instruments other than receivables for their respective businesses in accordance with the policy set by their Board. This is carried out by monitoring of investment and funding requirements by using a number of techniques including daily cash flow monitoring. They must also recognise and manage interest and foreign exchange exposure whilst ensuring that the Company has adequate liquidity at all times in order to meet its immediate cash requirements. Credit risk relating to receivables is managed by both the parent company and local management.

The primary financial instruments comprise cash, intra-group loans and other receivables and financial liabilities held at amortised cost. The Company's finance strategy is managed as part of a wider strategy undertaken by the Board for the various companies in the group – mainly to finance its operations through a mixture of retained profits and bank borrowings. Other alternatives like equity and other forms of non investment grade debt finance are reviewed by the Board, when appropriate, to fund substantial acquisitions or oil and gas projects.

13 Financial Risk Management: Objectives and Policies (continued)

Liquidity risk
The Company's subsidiary CIL has available an $850m revolving credit facility to fund Rajasthan developments. The facility was previously held by Cairn Energy PLC and certain of its subsidiaries but an amendment agreement was entered into on 22 November 2006 to transfer the facility to CIL. Following the IPO of CIL on the Bombay Stock Exchange and the National Stock Exchange of India, the amendment agreement became fully effective on 31 January 2007.

The facility is provided by a consortium of ten international banks (expiry date 31 December 2011) and the International Finance Corporation (expiry date 31 December 2015). Interest is charged at floating rates determined by LIBOR plus an applicable margin. The maximum facility amount that can be drawn at any point in time is determined by reference to the net present value of the Rajasthan developments. The full $850m facility is available to be drawn, of which $500m was drawn at 31 December 2008 (2007: $75m). CIL may cancel and repay the facility at any time.

Under the terms of the original agreement, as security under the facility, a share pledge was provided over the shares in Cairn Energy Hydrocarbons Limited (a 100% subsidiary of Cairn India Holdings Limited which holds 50% of the Group's interest in Rajasthan).

In addition, as at 31 December 2008, the Company's parent Cairn Energy PLC has $80m (2007: $90m) of facilities in place to cover the issue of bank guarantees. Fixed rates of interest apply to these. $49m was unutilised at 31 December 2008 (2007: $28m).

The Cairn Energy PLC Group currently has surplus cash which it has placed in a combination of money market liquidity funds and short and medium-term deposits, ensuring sufficient liquidity to enable the Company to meet its short/medium-term expenditure requirements.

The Board is conscious of the current environment and constantly monitors counterparty risk. Policies are in place to limit counterparty exposure. The treasury function monitors counterparties using published ratings and when investing in money market liquidity and mutual funds primarily by consideration of the funds investment policy.

Interest rate risk
Surplus funds are placed on short/medium term deposit at floating rates. It is Board's policy to deposit funds with banks or other financial institutions that offer the most competitive interest rate at time of issue. The requirement to achieve an acceptable yield is balanced against the need to minimise liquidity and counterparty risk.

Short/medium term borrowing arrangements are available at floating rates. The treasury function may from time to time opt to manage a proportion of the interest costs on this debt by using derivative financial instruments like interest rate swaps. At this time, however, there are no such instruments (2007: none).

Foreign currency risk
The Board manages exposures that arise from receipt of revenues in foreign currencies, by matching receipts and payments in the same currency, and actively managing the residual net position.

In order to minimise the Company's exposure to foreign currency fluctuations, currency assets are matched with currency liabilities by borrowing or entering into foreign exchange contracts in the applicable currency if deemed appropriate. The loan facilities are multi-currency and allow drawings in currencies in US dollars, Sterling or such other currency as may be agreed between the lenders and the Company from time to time.

The Company may from time to time, opt to use derivative financial instruments to minimise its exposure to fluctuations in foreign exchange and interest rates.

13 Financial Risk Management: Objectives and Policies (continued)

Credit risk
Investments in money market liquidity funds are only made with AAA rated funds and where the investment policy is limited to liquidity instruments which excludes equity. Deposits and other investments are generally only placed with banks or financial institutions that has a Moody's or Standard & Poor's rating of AA and above.

The Board will continue to assess the Company's strategies for managing credit risks but at this time they view existing policies as satisfactory. At the year end the Company does not have any significant concentrations of bad debt risk.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the Balance Sheet date.

Capital Management
The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Company to carry out committed work programme requirements. The Board monitor the long term cash flow requirements of their businesses in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility.

The Board manages the capital structure and makes adjustments to it, in light of changes to economic conditions. To maintain or adjust the capital structure, the Board may adjust the dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or other such restructuring activities as appropriate.

No significant changes were made in the objectives, policies or processes during the year ended 31 December 2008.

The Company capital and net debt were made up as follows:

	31 December 2008 $'000	31 December 2007 (restated) $'000
Trade and other payables	**5**	-
Less cash and cash equivalents	**(17)**	(26)
Net funds	**(12)**	(26)
Equity	**1,670,583**	2,060,208
Capital and net debt	**1,670,571**	2,060,182
Gearing ratio	**-**	-

14 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the Balance Sheet date. The Company's financial assets and liabilities, together with their fair values are as follows:

Financial assets

	Carrying amount		Fair value	
	31 December 2008 $'000	31 December 2007 (restated) $'000	**31 December 2008 $'000**	31 December 2007 (restated) $'000
Cash and cash equivalents	**17**	26	**17**	26
Trade and other receivables	**5,641**	5,641	**5,641**	5,641
	5,658	5,667	**5,658**	5,667

An analysis of the ageing of trade and other receivables is provided in note 8. The cash and cash equivalents above are current and unimpaired

Financial liabilities

	Carrying amount		Fair value	
	31 December 2008 $'000	31 December 2007 $'000	**31 December 2008 $'000**	31 December 2007 $'000
Trade and other payables	**5**	-	**5**	-
	5	-	**5**	-

The fair value of financial assets and liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates.

The following table sets out the amount, by maturity, of the Company's financial liabilities:

At 31 December 2008

	Less than one year $'000	**Total $'000**
Trade and other payables	5	**5**
	5	**5**

At 31 December 2007

	Less than one year $'000	Total $'000
Trade and other payables	-	-
	-	-

15 Related Party Transactions

The Company's principal subsidiaries are listed in note 7. The following table provides the balances which are outstanding with subsidiary companies at the Balance Sheet date:

	31 December 2008 $'000	31 December 2007 (restated) $'000
Amounts owed from subsidiary undertakings	**5,641**	5,641

The amounts outstanding are unsecured, repayable on demand and will be settled in cash.

b) Other transactions
The Company did not make any purchases in the ordinary course of business from an entity under common control (2007: $nil).

16 Prior Year Adjustments

Gain on sale of investments and amounts owed by group companies have been restated by $5.6m to reflect an overpayment made to a Group company that occurred when Cairn India was floated on the Bombay Stock Exchange on 9th January 2007. This balance remained outstanding at the year end.

17 Ultimate Parent Company

The Company is a subsidiary of Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY.

Copies of Cairn Energy PLC's financial statements are available to the public and may be obtained from the above mentioned address.