CAIRN UK HOLDINGS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

Cairn UK Holdings Limited

Directors.

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

Secretary:

D A Wood

Auditors:

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

Solicitors:

Shepherd+ 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

Report of the Directors

The Directors submit their Report and Financial Statements for the year ended 31 December 2007 The comparative figures cover the period from the Company's incorporation as Cairn UK Holdings Limited on 26 June 2006 to 31 December 2006

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

During the year the Company made a profit of $48 9m (2006 $2,589 9m) A dividend of $1,217 6m (2006 $nil) has been paid during the year ended 31 December 2007

During the period, an additional gain of $47 8m has been recognised as part of the transaction between the Company and CIL in 2006 The gain represents additional consideration received from CIL under the sale and purchase agreement dated 12 October 2006 whereby CIL acquired the entire share capital of Cairn India Holdings Limited from the Company The additional consideration arose as a result of the price stabilisation mechanism which required the issue by CIL of 13 1m new shares There was a consequent reduction in the Company's percentage holding of CIL from 69 5% to 69%

Financial Risk Management Policy
For detail of the Company's financial risk management policy see note 13

Principal Risks and uncertainties
The Company is subject to a variety of risks which derive from the nature of the oil and gas exploration business

The Company's future depends significantly upon its subsidiaries success in finding or acquiring and developing oil and gas reserves If it subsidiaries are unsuccessful, it would adversely affect the results of its operations and financial condition

Post Balance Sheet Event
On 16 April 2008 CIL entered an agreement with Petronas and Orient Global Tamarind Fund Pte Limited, further to which the investors agreed to purchase a total of 113 million shares in CIL at Rs 224 30 per share This reduced the Company's holding in CIL by 4 12%

Share option exercises under the Cairn India Senior Management Plan further reduced the Company's percentage holding in CIL At 30 June 2008, the Company retained a holding of 64 76% in CIL

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

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

Charitable Donations
The Company did not make any charitable contributions during the year (2006 $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

Cairn UK Holdings Limited

Report of the Directors (continued)

Disclosure of Information to Auditors
The directors of the Company who held office at 31 December 2007 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

Ameen Wood

Secretary

50 Lothian Road
Edinburgh EH3 9BY
24 October 2008

Cairn UK Holdings Limited

Directors' Responsibility Statement

The directors are responsible for preparing the Company financial statements in accordance with applicable laws and regulations

UK company law requires the directors to prepare Company financial statements for each financial year Under such law the directors are required to prepare the Company financial statements in accordance with IFRS (as adopted by the EU)

The Company financial statements are required by law and IFRS (as adopted by the EU) to present fairly the financial position and performance of the Company, the Companies Act provides in relation to such financial statements that references in the relevant part of the Companies Act to financial statements giving a true and fair view, are references to their achieving a fair presentation

In preparing the Company financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS (as adopted by the EU), and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

The directors confirm that, to the best of their knowledge and belief

- the financial statements have been prepared in accordance with the standards summarised above, give a true and fair view of the assets, liabilities and financial position of the Company's affairs as at 31 December 2007 and of its profit for the year then ended, and
- the Directors Report includes a fair review of the development and performance of the Company's business and a description of the principal risks and uncertainties that it faces

Independent Auditors' Report
To the members of Cairn UK Holdings Limited

We have audited the financial statements of Cairn Energy UK Holdings Limited for the year ended 31 December 2007 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 Statement of Directors' Responsibilities

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 2007 and of its profit 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 October 2008

Cairn UK Holdings Limited

Income Statement

For the year ended 31 December 2007

Continuing operations	Notes	12 months to 31 December 2007 $'000	6 months to 31 December 2006 $'000
Administrative expenses		**(23)**	
Gain on sale of investments		**47,785**	2,599,326
Operating profit	2	**47,762**	2,599,326
Finance income	4	**9,249**	547
Finance costs	5	**(8,119)**	(9,944)
Profit before tax		**48,892**	2,589,929
Taxation			
Profit for the year attributable to the equity holders	12	**48,892**	2,589,929

Cairn UK Holdings Limited

Statement of Recognised Income and Expenses

For the year ended 31 December 2007

	Notes	**12 months to 31 December 2007 $'000**	6 months to 31 December 2006 $'000
Profit for the year	12	48,892	2,589,929
Foreign currency translation differences	12	245,564	55,105
Total recognised expense for the year		**294,456**	2,645,034

Cairn UK Holdings Limited

Balance Sheet

As at 31 December 2007

	Notes	2007 $'000	2006 $'000
Non current assets			
Investments	7	**2,054,541**	1,828,940
		2,054,541	1,828,940
Current assets			
Trade and other receivables	8		692,679
Cash and cash equivalents	9	**26**	632,060
		26	1,324,739
Total assets		**2,054,567**	3,153,679
Current liabilities			
Trade and other payables	10		41,942
Total liabilities			41,942
Net assets		**2,054,567**	3,111,737
Equity			
Called up share capital	11	**337,834**	466,703
Foreign currency translation	12	**295,507**	55,105
Retained earnings	12	**1,421,226**	2,589,929
Total equity attributable to the equity holders		**2,054,567**	3,111,737

Signed on behalf of the Board on 24 October 2008

Director

Cairn UK Holdings Limited

Statement of Cash Flows

For the year ended 31 December 2007

	Notes	12 months to 31 December 2007 $'000	6 months to 31 December 2006 $'000
Cash flows from operating activities			
Profit for year		**48,892**	2,589,929
Exceptional gain on sale of investments		**(47,785)**	(2,599,326)
Finance income		**(9,249)**	(547)
Finance costs		**8,119**	9,944
Debtors movement		**691,944**	
Creditors movement		**(41,626)**	32,258
Foreign exchange differences		**4,784**	(473)
Net cash generated from operating activities		**655,079**	31,785
Cash flows from investing activities			
Expenditure on investments			(1,596,851)
Proceeds on disposal of investment		**47,785**	2,197,128
Interest received		**9,249**	269
Net cash from investing activities		**57,034**	600,546
Cash flows from financing activities			
Purchase of own shares		**(128,869)**	
Dividends paid		**(1,217,595)**	
Bank charges		**(143)**	(271)
Net cash flows used in financing activities		**(1,346,607)**	(271)
Net increase/(decrease) in cash and cash equivalents		**(634,494)**	632,060
Exchange movements on cash and cash equivalents		**2,460**	
Opening cash and cash equivalents at beginning of year		**632,060**	
Closing cash and cash equivalents	9	**26**	632,060

Cairn UK Holdings Limited

Notes to the Accounts
For the year ended 31 December 2007

1 Accounting Policies

a) Basis of preparation

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 The accounts prepared are separate financial statements of the Company Group accounts are not submitted as the Company is exempt from the obligation to prepare Group accounts under Section 228(1) of the Companies Act 1985 The results of subsidiary and associated undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking, Cairn Energy PLC, a company registered in Scotland

b) Accounting standards

The Company prepares its accounts in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU

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 Cairn	Impact on initial application
Effective date from 1 January 2009			
Revised IAS 1 '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

During the year, the Company adopted amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures', and IFRS 7 'Financial Instruments Disclosures', amendment to IAS 32 'Financial Instruments Disclosure and Presentation'

c) Presentational currency

The functional currency of Cairn UK Holdings Limited is India Rupees These accounts have been presented in US Dollars ("$") This is a change from prior periods when the accounts were presented in Sterling It is deemed to be more appropriate to present the financial statements in line with the presentational currency of the rest of the Cairn Energy PLC Group The Company's policy on foreign currencies is detailed in note 1(h)

d) Other income

Interest income is recognised using the effective interest method on an accruals basis and is recognised within 'Finance Income' in the Income Statement

e) Investments

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment The recoverable value of investments is the fair value less costs to sell Fair value is determined with reference to the market price, as quoted in an active market

f) 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

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 which are classified as loans and receivables

1 Accounting Policies (continued)

f) Financial instruments (continued)

Financial liabilities generally substantiate claims for repayment in cash or another financial asset Financial liabilities are categorised as either fair value through profit or loss or held at amortised cost All of the Company's financial liabilities are held at amortised cost

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

Loans and other receivables

Trade receivables, loans and other receivables that have fixed or determinable payment 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 purpose 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

g) 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

h) Foreign currencies

The Company translates foreign currency transactions into the functional currency, India Rupee's, 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

i) Taxation

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

The current tax is based on taxable profit/ (loss) for the year Taxable profit/(loss) differs from net profit/(loss) 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/ (loss)

1 Accountıng Polıcıes (contınued)

ı) Taxatıon (contınued)

Deferred ıncome tax lıabılıtıes are recognısed for all taxable temporary dıfferences except ın respect of taxable temporary dıfferences assocıated wıth ınvestments ın subsıdıarıes, assocıates and ınterests ın Joınt Ventures where the tımıng of the reversal of the temporary dıfference can be controlled and ıt ıs probable that the temporary dıfference wıll not reverse ın the foreseeable future A deferred ıncome tax lıabılıty ıs not recognısed ıf a temporary dıfference arıses on ınıtıal recognıtıon of an asset or lıabılıty ın a transactıon that ıs not a busıness combınatıon and, at the tıme of the transactıon, affects neıther the accountıng profit nor taxable profit or loss

Deferred ıncome tax assets are recognısed for all deductıble temporary dıfferences, carry forward of unused tax assets and unused tax losses, to the extent that ıt ıs probable that taxable profits wıll be avaılable agaınst whıch the deductıble temporary dıfferences, carry forward of unused tax assets and unused tax losses can be utılısed, except where the deferred ıncome tax asset relatıng to the deductıble temporary tımıng dıfference arıses from the ınıtıal recognıtıon of an asset or lıabılıty ın a transactıon that ıs not a busıness combınatıon and, at the tıme of the transactıon, affects neıther the accountıng profit nor taxable profit or loss In respect of deductıble temporary dıfferences assocıated wıth ınvestments ın subsıdıarıes, assocıates and ınterests ın Joınt Ventures, deferred tax assets are only recognısed to the extent that ıt ıs probable that the temporary dıfferences wıll reverse ın the foreseeable future and taxable profits wıll be avaılable agaınst whıch the temporary dıfferences can be utılısed

The carryıng amount of deferred ıncome tax assets are revıewed at each Balance Sheet date and reduced to the extent that ıt ıs no longer probable that suffıcıent taxable profits wıll be avaılable to allow all or part of the deferred ıncome tax asset to be utılısed

Deferred tax assets and lıabılıtıes are measured at the tax rates that are expected to apply ın the perıods ın whıch the asset ıs realısed or the lıabılıty ıs settled, based on tax rates and laws enacted or substantıvely enacted at the Balance Sheet date

Deferred tax assets and lıabılıtıes are only offset where they arıse wıthın the same tax jurısdıctıon and the Company ıntends eıther to settle on a net basıs, or to realıse the asset and settle the lıabılıty sımultaneously

2 Operatıng Profit

Operatıng profit ıs stated after credıtıng

	12 months to 31 December 2007 $'000	6 months to 31 December 2006 $'000
Gaın on sale of ınvestments	**47,785**	2,599,326

Audıtors' remuneratıon of $6,300 (2006 $6,000) has been borne by the ultımate holdıng company, Caırn Energy PLC

The Company has a polıcy ın place for the award of non audıt work to the audıtors whıch, ın certaın cırcumstances, requıres Audıt Commıttee approval Audıtors' remuneratıon for other servıces ıs dısclosed ın the financıal statements of Caırn Energy PLC, the ultımate parent undertakıng

3 Dırectors' Emoluments

No remuneratıon was paıd to any dırector for servıces to thıs Company durıng the year (2006 $nıl)

Cairn UK Holdings Limited

Notes to the Accounts (continued)

For the year ended 31 December 2007

4 Finance Income

	12 months to 31 December 2007 $'000	6 months to 31 December 2006 $'000
Bank interest	9,249	269
Realised exchange gain		278
	9,249	547

5 Finance Costs

	12 months to 31 December 2007 $'000	6 months to 31 December 2006 $'000
Bank charges	143	271
Other finance costs – currency exchange option	1,469	9,673
Realised exchange loss	6,507	
	8,119	9,944

6 Taxation

A reconciliation of the income tax expense applicable to the profit before income tax at the applicable tax rate, to the income tax expense at the Company's effective tax rate, is as follows

	12 months to 31 December 2007 $'000	6 months to 31 December 2006 $'000
Profit before taxation	48,892	2,589,929
Tax at the UK corporation tax rate of 30% (2006 30%)	14,668	776,979
Effects of		
Deferred tax not recognised	87	2,741
Non taxable income/non deductible expenses	(14,335)	(779,719)
Change of UK tax rate to 28% on deferred tax	202	
Impact of fluctuations in rate of exchange	(622)	(1)
Tax expense		

There is a deferred tax asset of $2,828,244 as at 31 December 2007 (2006 $2,741,323) 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

Cairn UK Holdings Limited

Notes to the Accounts (continued)
For the year ended 31 December 2007

7 Investments

	Total $'000
At date of incorporation	
Additions	2,346,671
Disposals	(483,948)
Exchange differences arising	(33,783)
At 31 December 2006	1,828,940
Exchange differences arising	225,601
At 31 December 2007	**2,054,541**

In the opinion of the directors, the value of shares in the Company's subsidiary undertakings is not less than the amounts at which these are shown in the balance sheet

Details of the Company's principal subsidiaries at 31 December 2007 are as follows

Company	Principal activity	Country of incorporation	Country of operation	Proportion of voting rights and ordinary shares
Direct holdings				
Cairn India Limited	Holding company	India	India	69%
Indirect holdings				
Cairn India Holdings Limited	Holding company	Jersey	Jersey	69%
Cairn Energy Holdings Limited	Holding company	Scotland	Scotland	69%
Cairn Energy Hydrocarbons Limited	Exploration & production	Scotland	India	69%
Cairn Energy Australia Pty Limited	Holding company	Australia	Australia	69%
Cairn Energy India Pty Limited	Exploration & production	Australia	India	69%
Cairn Energy Netherlands Holdings B V	Holding company	The Netherlands	The Netherlands	69%
Cairn Energy Group Holdings B V	Holding company	The Netherlands	The Netherlands	69%
Cairn Energy India Holdings B V	Holding company	The Netherlands	The Netherlands	69%
Cairn Energy India West Holdings B V	Holding company	The Netherlands	The Netherlands	69%
Cairn Energy Cambay Holdings B V	Holding company	The Netherlands	The Netherlands	69%
Cairn Energy Gujarat Holdings B V	Holding company	The Netherlands	The Netherlands	69%
Cairn Energy India West B V	Exploration & production	The Netherlands	India	69%
Cairn Energy Cambay B V	Exploration & production	The Netherlands	India	69%
Cairn Energy Gujarat B V	Exploration & production	The Netherlands	India	69%
Cairn Energy Discovery Limited	Exploration	Scotland	India	69%
Cairn Energy Gujarat Block 1 Limited	Exploration	Scotland	India	69%
Cairn Energy Exploration (No 2) Limited	Exploration	Scotland	India	69%
Cairn Energy Exploration (No 4) Limited	Exploration	Scotland	India	69%
Cairn Energy Exploration (No 6) Limited	Exploration	Scotland	India	69%
Cairn Energy Exploration (No 7) Limited	Exploration	Scotland	India	69%

8 Trade and Other Receivables

	2007 $'000	2006 $'000
Amounts owed by subsidiary undertakings		692,410
Other debtors and prepayments		269
		692,679

All trade and other receivables at 31 December 2007 and 2006 were current and unimpaired

9 Cash and Cash Equivalents

	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**

	At date of incorporation $'000	Cash flow $'000	Exchange movements $'000	At 31 December 2006 $'000
Cash at bank				632,060
Cash and cash equivalents				632,060

10 Trade and Other Payables

	2007 $'000	2006 $'000
Amounts owed to Parent undertakings		32,258
Other creditors and accruals		9,684
		41,942

Cairn UK Holdings Limited

11 Share Capital

	£1 Ordinary Number
Authorised ordinary shares	
On incorporation	100
Increase in authorised ordinary shares	251,499,900
At 31 December 2006	**251,500,000**
At 31 December 2007	**251,500,000**

	Number £1 Ordinary	£1 Ordinary $'000
Allotted, issued and fully paid ordinary shares		
Issued on incorporation	1	
New shares issued	251,453,182	466,703
At 31 December 2006	**251,453,183**	**466,703**
Repurchase of shares	(64,921,232)	(128,869)
At 31 December 2007	**186,531,951**	**337,834**

The company was incorporated on 26 June 2006 with one issued £1 ordinary share

On 30 June 2006 the Company's authorised share capital was increased to 221,500,000 £1 ordinary shares and the Company issued 221,444,034 £1 ordinary shares at par to Cairn Energy PLC, the Company's parent company, pursuant to a group reorganisation of Cairn Energy PLC

On 1 September 2006 the Company's authorised share capital was further increased to 251,500,000 £1 ordinary shares The Company subsequently issued 29,780,710 £1 ordinary shares at par on 1 September 2006 and 228,438 £1 ordinary shares at par on 20 December 2006 to Cairn Energy PLC on conversion of intercompany loan balances

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 2006

12 Equity

	Equity share capital $'000	Foreign currency translation $'000	Retained earnings $'000	**Total $'000**
On incorporation				
Shares issued	466,703			466,703
Currency translation differences		55,105		55,105
Profit for period			2,589,929	2,589,929
At 1 January 2007	466,703	55,105	2,589,929	**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 year			48,892	**48,892**
At 31 December 2007	**337,834**	**295,507**	**1,421,226**	**2,054,567**

13 Financial Risk Management Objectives and Policies

The Company's primary financial instruments comprise bank loans, cash and short and medium term deposits The Company's strategy has been to finance its operations through a mixture of retained profits and bank borrowings Other alternatives such as equity finance and project finance are reviewed by the Board, when appropriate, to fund substantial acquisitions or oil and gas projects

The Company's treasury function is responsible for managing investment and funding requirements including banking and cash flow monitoring It 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

The Company may from time to time opt to use derivative financial instruments to minimise its exposure to fluctuations in foreign exchange rates, interest rates and movements in oil and gas prices Derivative financial instruments have not been used throughout 2006 or 2007 It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken

The main risks arising from the Company's financial instruments are liquidity risk, interest rate risk, foreign currency risk and credit risk The Board reviews and agrees policies for managing each of these risks and these are summarised below

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 currently available to be drawn 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)

13 Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

In addition, as at 31 December 2007, the Company's parent Cairn Energy PLC has $80m (2006 $65m) of facilities in place to cover the issue of bank guarantees Fixed rates of interest apply to these $18 2m was unutilised at 31 December 2007 (2006 $28 9m)

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

Interest rate risk

Surplus funds are placed on short/medium term deposit at floating rates It is the Company's policy to deposit funds with banks or other financial institutions that offer the most competitive interest rate at time of issue

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 such as interest rate swaps At this time, however, there is no requirement for such instruments as there is no debt drawn

Foreign currency risk

The Company 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 allow loans denominated in US Dollars, Sterling, Euro or such other currency as may be agreed between the lenders and Company from time to time

No forward foreign exchange contracts were entered into during 2007 (2006 $nil) There were no outstanding foreign exchange contracts at the start of the year or at the end of the year

Credit risk

With respect to deposit and other treasury arrangements, as a general rule the Board will only approve a bank or financial institution that has a Moody's rating for long term deposits of A and above

The Board will continue to assess the Company's strategies for managing credit risks At the year end the Company does not have any significant concentrations of bad debt risk and overall the exposure to bad debts is not considered to be significant

Capital Management

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

No changes were made in the objectives, policies or processes during the period ended 31 December 2007

As at 31 December 2007 Capital and net debt was made up as follows

	2007	2006
	$'000	$'000
Amounts owed to Group companies		32,258
Other creditors and accruals		9,684
Less cash and short term deposits	**(26)**	(632,060)
Net Debt	**(26)**	(590,118)
Equity	**2,054,567**	3,111,737
Capital and net debt	**2,054,541**	2,521,619
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, together with their fair values are as follows

Financial assets

	Carrying amount		Fair value	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents	**26**	632,060	**26**	632,060
	26	632,060	**26**	632,060

The Company did not have any financial liabilities as at 31 December 2007 (2006 $nil)

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk

At 31 December 2007

	Less than one year	Total
	$'000	$'000
Floating rate		
Cash assets	26	26
	26	26

At 31 December 2006

	Less than one year	Total
	$'000	$'000
Floating rate		
Cash assets	632,060	632,060
	632,060	632,060

15 Related Party Transactions

The following table provides the total amount of transactions which have been entered into with Group companies

	2007	2006
	$'000	$'000
Balances at 31 December		
Amounts owed by Group companies		692,410
Amounts owed to Group companies		(32,258)
		660,152

The amounts outstanding are unsecured, repayable on demand and will be settled in cash Interest, where charged, is at market rates No guarantees have been given All transactions with other Group companies are carried out on an arms length basis

15 Related Party Transactions (continued)

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 2006

Remuneration of key management personnel

No remuneration was paid to directors, who are the key management personnel of the Company, for services to this Company during the year (2006 $nil)

16 Ultimate Parent Company

The Company is a subsidiary of Cairn Energy PLC, which is the Company's ultimate holding company Cairn Energy PLC is registered in Scotland and its 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

17 Post Balance Sheet Event

On 16 April 2008 CIL entered an agreement with Petronas and Orient Global Tamarind Fund Pte Limited, further to which the investors agreed to purchase a total of 113 million shares in CIL at Rs 224 30 per share This reduced the Company's holding in CIL by 4 12%

Share option exercises under the Cairn India Senior Management Plan further reduced the Company's percentage holding in CIL At 30 June 2008, the Company retained a holding of 64 76% in CIL