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Cairn Energy PLC

2004

Annual Report & Accounts



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CAIRN IS AN INDEPENDENT SCOTTISH BASED OIL AND GAS EXPLORATION AND PRODUCTION COMPANY

OUR FOCUS

Our area of focus is South Asia where we are an extremely active explorer and producer.

OUR STRATEGY

To secure high equity interests and strategic positions in potential high worth exploration plays.

OUR GOAL

To create and deliver shareholder value by accelerating development, production and monetisation of exploration discoveries where appropriate.

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MAXIMISING THE VALUE OF DISCOVERY

Cairn are building on their oil and gas discoveries with an expanding production programme.

Cairn's vision was that Rajasthan had the potential for the discovery of in place reserves of several billion barrels of oil. Our focus was to capture as high an equity position as possible in the area and our competitive edge was to absolutely concentrate and dedicate all our top resources into the dream. By constantly being out of step with conventional thinking, encouraging diversity of opinion, and recognising failure as a piece of the jigsaw towards success, Cairn has opened up a major new hydrocarbon province.

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Chairman's Statement

CAIRN HAS A CLEAR STRATEGY TO CREATE VALUE THROUGH EXPLORATION. IT HAS FOCUSED ITS EXPLORATION AND DEVELOPMENT ACTIVITIES ON SOUTH ASIA FOR MORE THAN TEN YEARS AND HAS OPENED UP AN IMPORTANT NEW HYDROCARBON BASIN IN RAJASTHAN.

By developing and producing its own discoveries across the region Cairn has grown organically creating a robust and material business presently operating more than 100,000 boepd on behalf of its joint venture partners. Cairn has a clear competitive edge for the future in this part of Asia.

India is one of the fastest growing economies in the world. It currently imports the bulk of its oil needs which explains the importance it places on new indigenous oil discoveries. Our relationship and partnership with ONGC, India's largest oil and gas company which took a 30% stake in the Rajasthan development area earlier this year along with an alignment of needs with the Rajasthan State Government and Government of India, leaves Cairn well placed to maximize the value of the Rajasthan discoveries.

The Mangala oil discovery in the Rajasthan desert in January 2004 highlights the vision and perseverance with which this South Asian strategy has been pursued. Mangala is the largest oil discovery by any company in India within the last 22 years.

Cairn has made a total of 11 discoveries on the Rajasthan block. Each discovery is at a different stage of appraisal and evaluation. It is currently estimated that the total volume of oil in place found so far is more than two billion bbls. During 2004, six discoveries were made, including the three northern fields Mangala, Aishwariya (March) and Bhagyam (August). The Mangala and Aishwariya fields have both been fully appraised by six and five appraisal wells respectively and 3D seismic data. Appraisal of Bhagyam had to be delayed until the award of the north-west extension acreage in January 2005. Four successful Bhagyam appraisal wells have since been drilled between February and April 2005 and two more appraisal wells are planned. A 3D seismic survey over Bhagyam is commencing shortly.

Mangala is the largest of these discoveries and it will form the core of future developments. Cairn's proven plus probable (2P) oil in place estimate for the Mangala field is 1,071 mmbbls.

The 2P reserves estimate has been revised by Cairn to 376 mmbbls, based on secondary recovery by water flood until 2041.

Cairn estimates the total 2P reserves for the three northern fields to be 500 mmbbls. There is scope to add further reserves to this figure by applying Enhanced Oil Recovery (EOR) techniques, early in the production life of the fields. In the case of Mangala this could be more than 100 mmbbls.

An independent review by the international firm of reservoir engineering consultants, DeGolyer & MacNaughton (D&M), conducted in April 2005 has assigned a 2P oil in place volume estimate of 1.64 billion bbls for the three northern fields comprising Mangala 1,067 mmbbls, Bhagyam 355 mmbbls and 219 mmbbls at Aishwariya.

Peak production targets for the three northern fields are in the 120,000 to 150,000 bopd range with Mangala planned to come on stream at the end of 2007.

Cairn currently estimates full field development costs of \$3 - \$3.50 per barrel (bbl). The majority of expenditure is expected to be incurred after the commencement of Mangala production.

The other discoveries made in 2004 were Shakti (June), Vijaya (N-R-1, September) and Vandana (N-R-2, November).

A total of 77 wells have now been drilled by Cairn in Rajasthan, 51 of them in 2004 and 10 in 2005 to date. This is a strong achievement when the logistical requirements for land acquisition, well site preparation, road building as well as forging relationships with the local community are considered. A further 20 to 30 wells are presently planned in 2005. This pace of activity can only be sustained in an onshore environment where the costs of each well are relatively low compared to offshore drilling.

It is Cairn's belief that there is potential to add further oil in place volumes, elsewhere in the basin, through the continuing exploration and appraisal programme.

Chairman's Statement

The appointment of Andrew Shilston, the finance director of Rolls-Royce plc, as a non-executive director during 2004 has added considerable industry knowledge and financial expertise to the Board.

I would like to thank and congratulate all employees for their tremendous efforts in what has been a very special year for the Company. The scale of the discoveries in Rajasthan meant that extra staff were needed and increased demands were placed on those already in place. The continued success of Cairn is very much a team effort, based on the energy, expertise, enterprise, enthusiasm and commitment of every one of its employees in Bangladesh, India and Edinburgh.

Financial Results

Average daily production for 2004 was 22,789 boepd (2003: 30,214 boepd). The reduced rate reflects an increase in Government entitlement pursuant to the Sangu and Ravva Production Sharing Contracts ("PSCs") and a temporary reduction in field deliverability from Sangu and Lakshmi as a result of well intervention and infill drilling programmes. This activity to increase delivery capacity at both these gas fields commenced in the latter part of the year. As a consequence, 2005 production is currently forecast to exceed 2004 levels.

Due to the Group's current production mix being heavily gas biased and the existence of contractual caps on the price received for this gas, the average price realised for 2004 was \$24.06 (2003: \$22.86). Group turnover, pre exceptional items, was £110.2m (2003: £155.8m). Operating profit pre exceptional items and operating cashflow were £31.5m and £77.5m respectively (2003: £73.1m and £122.2m). Profit after tax before exceptional items was £19.6m compared to £46.2m in 2003. Exceptional items mainly comprise a provision made following the recent Ravva arbitration award. Profit after tax and exceptional items was £10.8m (2003: £46.2m).

The financial statements presented have been impacted by the weakening of the US\$ against Sterling during the year as although principally a US\$ underlying business the Group reports in Sterling. Cairn will implement International Financial Reporting Standards in 2005. The Group is also considering a transition to US\$ for future currency reporting.

The Group had net funds of £72m at the year end (2003: net funds £17.8m) and unutilised unsecured credit facilities of \$240m. \$135m proceeds were received in March 2005 following completion of the DNGC transaction.

Directors and Employees

A key asset of a business is its people. The attitude, common sense and judgement of the Cairn team is critical to our business culture. Operating in any foreign country is only sustainable when values are shared.

Outlook

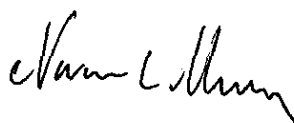
Our explorational and operational strengths continue to be underpinned by a solid financial base, which gives us maximum flexibility to capitalise on the many opportunities in South Asia. Having already built a material business, Cairn is well positioned to use its competitive edge to participate in the economic and energy growth of the region.

Cairn will submit development plans for its commercial discoveries for the fields within the original development area in May 2005, with the aim of obtaining all of the required approvals by the end of the year.

An application has been made to the Government of India to enlarge the existing development area to include the Bhagyam and Shakti discoveries. If granted, the size of the development area will increase from 1,858 km² to 4,743 km².

It is Cairn's belief that significant exploration potential remains in South Asia. Commitment to this belief combined with the application of state of the art exploration technology in both mature and frontier areas, offers the best chance for continued success. As evidence of this belief Cairn will be participating in the Government of India's next exploration licensing round (NELP V) which closes at the end of May 2005.

The challenge for Cairn in 2005 is to grow and augment the world class position it has created in Rajasthan, taking the projects through appraisal, development and on to production.



Norman Murray
Chairman
19 April 2005

HARD WORKING PEOPLE MAKE US STRONG

A key asset of a business is its people.

The attitude, common sense and judgement of the Cairn team of people is critical to our business culture. Operating in any foreign country is only sustainable when values are shared. We believe that our core values of integrity, social and environmental responsibility, teamwork and nurturing of individuals, creativity, risk management and forming alliances with key partners are ingredients that are central to our success.

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Operational Review

CAIRN IS AN INDEPENDENT SCOTTISH BASED OIL AND GAS EXPLORATION AND PRODUCTION COMPANY LISTED ON THE LONDON STOCK EXCHANGE. OUR CORE AREA OF FOCUS IS SOUTH ASIA, WHERE WE ARE A VERY ACTIVE EXPLORER AND PRODUCER IN THIS REGION.

Region	Exploration	Development & Production
Bangladesh	Cairn has operated interests in exploration blocks 5, 10 and 16 in Bangladesh. Cairn is in discussions with Petrobangla for a potential PSC extension of block 16 exploration acreage.	Cairn discovered, developed and now operates the Sangu gas field offshore Bangladesh in the Bay of Bengal. This field has been in production since mid-1998.
Eastern India	Cairn has a non-operated interest in deep water exploration block KG-DWN-98/2 in the Krishna-Godavari Basin offshore Andhra Pradesh.	Cairn operates the producing Ravva oil and gas field in the Krishna-Godavari Basin offshore Andhra Pradesh.
Western India	Cairn operates block CB/OS-2 in the Cambay Basin offshore Gujarat and also block RJ-ON-90/1 onshore Rajasthan. Cairn has recently signed production sharing contracts for two new exploration blocks onshore in the Cambay Basin: CB-ONN-2002/1 and CB-ONN-2001/1.	Cairn discovered, developed and now operates the producing Lakshmi and Gauri gas fields, both of which are located offshore Gujarat. Cairn and its co-venturers have been granted a development area covering 1,858 km ² in block RJ-ON-90/1. This development area contains the Mangala and Aishwariya oil fields and a number of other discoveries. A field development plan for some of these discoveries is being prepared for submission to the Indian Government in May 2005.
Northern India & Nepal	Cairn has recently acquired interests in two onshore exploration blocks: GV-DNN-2002/1 (operated by Cairn) in Bihar, northern India and GV-ONN-97/1 (operated by ONGC) located in the Ganga Basin, northern India. Cairn has also been awarded five new operated exploration blocks in Nepal (blocks 1,2,4,6 & 7).	

Operational Review

Cairn is involved in a range of oil and gas exploration and production activities; from scouting of acreage, mapping of prospects through to seismic surveys, land procurement, well drilling on and offshore, processing facilities and pipeline installation, operation of processing facilities and finally to the sale and exportation of oil and gas. Cairn's head office is located in Edinburgh, there are regional centres in Chennai and Dhaka and operational and support offices in Barmer and Delhi.

The majority of Cairn's operational activity during 2004 and to date in 2005 has been focused on Rajasthan and the infill development drilling at Sangu and Lakshmi. In Rajasthan this has resulted in the discovery and appraisal of a number of fields, including the world class Mangala field and two other significant discoveries Bhagyam and Aishwariya in the north of the block.

Mike Watts
Exploration Director

Phil Tracy
Engineering & Operations Director

Operational Review

continued

WESTERN INDIA - RAJASTHAN

The Rajasthan block, RJ-ON-90/1, comprises 6,688 km² of semi desert terrain. It lies in the Barmer Basin, which is a northern extension of the well established oil and gas producing Cambay Basin. Exploration successes by Cairn in 2004 confirmed the oil and gas potential of the Barmer Basin. While hydrocarbons had previously been found at a number of stratigraphic levels throughout the block, a key to the major success was finding high quality oil bearing reservoirs in the Fatehgarh formation in the north. The high oil flow rates and good reservoir interconnectivity seen on well tests are indicative that excellent recovery rates may be expected from these Fatehgarh sands.

Cairn drilled a total of 51 exploration and appraisal wells in Rajasthan during 2004, bringing the total number of wells drilled to 77 as of 1st April 2005. These wells can be drilled very cost effectively because of the shallow reservoir depths and being onshore. It also acquired 2,306 km of 2D seismic and 468 km² of 3D seismic. Cairn holds a 100% equity interest in block wide exploration and in January 2005 ONGC exercised its rights to take a 30% equity interest in the development area associated with the commercial discoveries.

Cairn estimates the total oil in place discovered to date on the block to be more than 2 billion bbls. For the northern fields a combination of high angle wells, high density well spacing, secondary recovery as well as the application of EOR techniques means that oil recovery will be optimized. The current gross life of field 2P reserves estimate for these fields based on primary and secondary recovery only is 500 mmbbls.

The development plans for the northern fields envisage a phased development with production start up at Mangala at the end of 2007 followed by the subsequent production start up of Bhagyam and Aishwariya. The Government of India has instructed various of its oil Public Sector Undertakings to propose export and purchase plans for the increased volumes of crude in order to meet the development schedule. As part of this overall process, various pipeline export options are being investigated including a dedicated pipeline to the coast.

The smaller southern fields in Rajasthan are being reviewed for possible early production and evacuation of crude by trucking.

Exploration

The main oil discoveries made by Cairn during 2004 were:

- NB-1 (Mangala Field) in mid January
- NA-1 (Aishwariya Field) in March
- NC-1 (Shakti Field) in April
- NV-1 (Bhagyam Field) in August
- NR-1 (Vijaya Field) in September
- NR-2 (Vandana Field) in November.

In addition, the Raageshwari-4, 5 and 6 appraisal wells drilled through the shallow Thumbli oil reservoir, have confirmed the deep gas bearing volcanics seen in the E-1 discovery well of 2003. They have also established a Fatehgarh deep gas play in the centre of the basin.

The NC-1 (Shakti Field) and NV-1 (Bhagyam Field) wells discovered hydrocarbons on the very northern edge of the contract area. Under the terms of the PSC, this enabled the granting of two acreage extensions, totalling an additional 1,708 km², to appraise the extent of these discoveries.

The Mangala and Aishwariya Fields, together with the Saraswati and Raageshwari Fields, were declared commercial by the Government of India in October 2004. These fields were included in a 1,858 km² development area. This area incorporates other discoveries, which at the time were unappraised, including Guda, Kameshwari (Q-1) and GR-F. The granting of the development area secures rights until at least 2020 and the Joint Venture will be seeking to extend this period to 2041 when it submits its development plans. An additional or extended development area to secure the Shakti and Bhagyam Fields as well as a number of small Barmer Hill discoveries has been applied for.

The ongoing drilling campaign in Rajasthan will focus on the further appraisal of existing discoveries as well as on exploration prospects in the north and south.

Oil Appraisal and Development

Mangala Field

Mangala was fully appraised by wells between March and July and a 3D seismic survey acquired between May and December in 2004. A range of technical studies to characterise the geological, geophysical and geochemical nature and disposition of the reservoirs and fluids is being undertaken. These studies have been integrated with both subsurface and facilities engineering studies in a Front End Engineering and Design (FEED) study that forms the basis of the field development plan which is to be submitted to the Indian Government in May 2005.

The development plan for Mangala will target a 35% recovery factor assuming a secondary water flood. Ongoing studies, including water injectivity testing, are aimed at supporting this objective. To combat the high pour point and waxy nature of the crude, injected water is likely to be heated.

Cairn is working closely with the local water authorities to ensure a sustainable water extraction and re-injection process. Extensive deep saline (non drinking water) aquifers have been discovered which can be utilised as a source of water for injection purposes. Extraction will be monitored to ensure minimal impact on the water table.

Tertiary and enhanced oil recovery techniques, such as polymer flooding or the use of surfactants, are under investigation. Such techniques may further raise the recovery factors in addition to the conventional water flood scheme. Analogous fields worldwide, including some in the neighbouring Cambay Basin in Gujarat, are being reviewed to determine the optimum secondary and tertiary recovery methods. An ultimate recovery factor of more than 40% of oil in place is possible.

The current internal Mangala life of field 2P gross reserve estimate is 376 mmbbls, based on secondary recovery by water flood and production to 2041. Peak production is envisaged to be between 100,000 and 110,000 bopd with field start up planned for Q4 2007.

Prior to the 3D seismic survey over Mangala being completed, an independent analysis of the data by D&M (July 2004) confirmed a 2P oil in place volume of 1,005 million barrels. After incorporating the 3D seismic data in April 2005 D&M has revised its estimate to 1,067 million barrels. The D&M 2P current reserve estimate for Mangala is 256 mmbbls based on secondary recovery only assuming the production contract term runs until only 2025. D&M estimate that an additional 108 mmbbls of reserves could be added with a successful EOR programme.

Aishwariya Field

The Aishwariya Field was fully appraised between April and September 2004. A 3D seismic survey has been acquired over the field and is being interpreted. As a result of the early 3D interpretation, an additional appraisal well was drilled to test the crest of the structure.

The field is slightly deeper than Mangala and the oil quality, whilst similarly waxy and of high pour point, is less variable than at Mangala, with a mean API gravity of 29 degrees. Despite being smaller than the Mangala Field and having a slightly different reservoir configuration, the proposed techniques of dense drilling, secondary recovery via waterflooding and enhanced/tertiary oil recovery techniques introduced early in field life are equally applicable to the Aishwariya Field. Reserve estimates will be revised once these studies are complete.

In April 2005 D&M estimated the 2P oil in place volume for Aishwariya to be 219 mmbbls. The D&M current 2P reserve estimate for Aishwariya is 41 mmbbls based on secondary recovery only and assuming the production contract term runs until only 2025.

Bhagyam Field

The Bhagyam Field has been appraised between January and April 2005 and two more appraisal wells are planned. A cased hole test in Bhagyam 1-ST established a flow rate of 1,050 bopd of 26 degree API oil from one zone. Two cased hole tests in Bhagyam-4 established a flow rate of 660 bopd of 24.5 degree API oil and 1,700 bopd of 30 degree API oil from two separate zones.

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Operational Review

continued

The field is slightly shallower than the Mangala field and the oil quality, whilst similarly waxy and of high pour point, is more viscous than at Mangala. Despite being smaller than the Mangala Field, the proposed techniques of dense drilling, secondary recovery via waterflooding and enhanced/tertiary oil recovery techniques introduced early in field life are equally applicable to the Bhagyam field. Reserve estimates may change once the final appraisal wells have been drilled and studies are complete.

In April 2005 D&M estimates the 2P oil in place volume for Bhagyam to be 355 mmbbls. The D&M 2P reserve estimate for Bhagyam is 85 mmbbls based on primary and secondary recovery only and production until 2025. D&M estimate that an additional 48 mmbbls of reserves could be added with a successful EOR programme.

Shakti Field

The Shakti Field was partially appraised between September and December 2004. The Shakti-2 and Shakti-3 wells were put on pumped test for a four day period in January 2005 to assess recovery of this relatively viscous 19 degree API oil. Shakti-2 flowed at a sustained rate of 50 bopd and Shakti-3 at a rate of 60 bopd from selected intervals.

Guda and GR-F Field

The Guda discovery well was drilled in 1999 and encountered oil in the Dharvi Dungar Formation. The GR-F-1 discovery well drilled 9km to the south in 2003 encountered oil in the Thumbli Formation.

Subsequent appraisal of these two fields by the Guda-3 and GR-F-2 wells drilled early in 2005, when combined with remapping of the 3D seismic, has established that they are in fact one field at the Thumbli level. Re-examination of the original Guda well has confirmed that the Thumbli reservoir, which was not tested at the time, was oil bearing in these wells. The combined field is to be called Guda.

Cairn currently estimates that the range of oil in place volumes for Guda is between 40 and 400 mmbbls. Further appraisal of the Guda Field, comprising an eight well programme, is planned to commence later this year to delineate the potential field size.

Saraswati and Raageshwari Fields

The Saraswati Field was discovered in late 2001. It has been covered by 3D seismic and 2 appraisal wells were drilled in

2003. The field is complexly faulted and has oil in Barmer Hill and Fatehgarh reservoirs. In 2004, the Saraswati-4 crestal well successfully established significant oil flows from the fractured basement. Although the reservoir quality in the Barmer Hill and Fatehgarh formations gave somewhat low initial flow rates, subsequent fracture stimulation has been more successful in increasing rates.

Oil was discovered in Thumbli reservoirs at Raageshwari in early 2003. The Raageshwari -2 and Raageshwari -3 appraisal wells drilled in 2003-2004 have confirmed the presence of oil and gas down dip of the discovery well in separate fault blocks and with slightly differing pressures and oil water contacts.

The Declaration of Commerciality submitted to the Government of India in May 2004 included the Saraswati and Raageshwari oil fields. The development plans based on current data will be submitted to the Government of India in May 2005, however a full evaluation programme on these fields is yet to be carried out. Initial fracture stimulation studies have highlighted the potential for productivity increases from the reservoirs in these southern fields.

The southern fields, Saraswati, Raageshwari oil and Guda are all candidates for early production and evacuation of crude by trucking.

Other Potentially Significant Oil Fields

Further evaluation and appraisal of oil discoveries at Kameshwari, Vijaya (NR-1) and Vandana (NR-2) is ongoing. The Vijaya and Vandana discoveries are the first stratigraphic traps to be tested on the block. Both fields have been covered by a 3D seismic survey which is currently being evaluated. The combined oil in place estimates for the Vijaya and Vandana discoveries range between 50 and 500 mmbbls.

The Raageshwari Gas Field and Deep Gas Exploration Potential

The Raageshwari gas field and the deep gas exploration potential within the southern area is a potential important new resource. Gas has value as an important component of the development plan for the Mangala and northern fields, which will have their own power requirements.

The Raageshwari-4 well was drilled in 2004 and confirmed the extension of the deep gas potential proven in the volcanic

section at the base of the Raageshwari -1 well. This well also encountered gas in Fatehgarh sands. In 2005, the Raageshwari -5 and -6 wells were drilled to appraise these deep gas reservoirs. The proven mobile gas column established at Raageshwari is 500m. However, the low permeability of both the volcanic and Fatehgarh reservoirs has produced mixed results on test. A further two Raageshwari appraisal wells are planned this year to further delineate this gas field. The Raageshwari -4 well is currently being tested across the volcanic and Fatehgarh reservoirs.

The maximum stable rate achieved has been 3.3 mmscfd. A stimulation programme is planned to be carried out in the second half of 2005 which is expected to improve productivity.

An exploration review of the Central Basin High prospects on trend with Raageshwari, has highlighted potentially significant additional unrisked gas volumes. An exploration well is planned for this year.

WESTERN INDIA - CAMBAY BASIN

Block CB/DS-2 Lakshmi & Gauri Gas Fields; (Cairn interest: 40%; Cairn Operator)

The average gas production from the Lakshmi and Gauri fields in 2004 was 78 mmscfd (2003: 109 mmscfd).

During the year, an additional offshore gas platform was installed as part of the Gauri development and the Gauri field was brought on stream in April 2004.

Production rates from the Lakshmi field were adversely affected by production related issues on a number of Lakshmi wells, which resulted in these wells being shut-in. The second phase of Lakshmi development drilling, which involved the drilling of five additional production wells, started in November 2004 and was completed in March 2005. In addition, the installation of onshore booster compression is underway. The combined Lakshmi and Gauri gas production can now exceed 100 mmscfd and is currently meeting buyers nominations.

As part of the contractual specifications relating to the transmission of sales gas, additional gas dehydration equipment was installed and commissioned at the Suvali gas processing plant during 2004.

The potential phased oil development programme for Lakshmi and Gauri, which was scheduled to start with initial

test production from the Gauri development well GA-3, has been delayed until Q3 2005 when the results of Phase II of the Lakshmi gas project are expected to have been fully evaluated.

Cairn's equity interest in the Lakshmi and Gauri developments has been reduced to 40% following completion of the ONGC deep-water transaction.

Exploration

(Cairn interest: 60%; Cairn Operator)

The CB-X-1 exploration well drilled in January 2004 discovered modest volumes of gas in the Tarkeshwar formation in a structure that is along trend from the producing Olpad Field in an adjacent block. A Declaration of Commerciality has been submitted to the Government of India and a development plan is in preparation to bring the gas to the Suvali processing facility by pipeline at the earliest opportunity.

Other Cambay Basin Exploration

(Cairn interest: 30% non operator)

The first three year exploration phase on block CB-ONN-2002/1 will involve the acquisition of 120 km² of seismic data and the drilling of three wells. A 3D seismic survey is nearing completion on block CB-ONN-2001/1 and exploration drilling is anticipated in 2005.

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Operational Review

continued

EASTERN INDIA - KRISHNA-GODAVARI BASIN

Ravva Field

(Cairn interest: 22.5%; Cairn Operator)

The Ravva Field continued to perform well with average 2004 gross daily production of 53,521 bopd and 87 mmscf/d (2003: 53,463 bopd and 74 mmscf/d). Cairn's average 2004 net entitlement production was 7,516 boepd (2003: 10,562 boepd). Under the terms of the Ravva PSC, the Government of India's share of production increased to 60% during 2004, which has resulted in a reduction in Cairn's net entitlement interest.

The estimated ultimate reserves (EUR) of both oil and gas have been revised from 279 mmbbl to 298 mmbbl. An infill development drilling campaign is planned for the field later this year to extend the plateau. A number of exploration

prospects have been identified on the Ravva block and it is envisaged that an exploration drilling campaign may be carried out in the next one to three years.

Exploration

A 90% interest in the KG-DWN-98/2 deepwater block has been farmed out to ONGC, which becomes operator. A multi-well appraisal of the discoveries made by Cairn in 2001 is expected to commence in 2005.

Cairn's interest in the KG-OS/6 block was relinquished in May 2004.

NORTHERN INDIA AND NEPAL

Exploration

Ganga Basin Exploration - India

Cairn was awarded a 100% interest in the large 15,500 km² GV-DNN-2002/1 block in February, as part of its exploration strategy for the lightly explored Ganga Basin in northern India and Nepal. Exploration activity will begin with some aerial geophysical surveys and soil sampling once the Petroleum Exploration License has been finalised.

Cairn acquired a 30% interest from ONGC in block GV-DNN-97/1 which is operated by ONGC. A 2D seismic survey has been acquired during 2004 and the prospectivity is being evaluated prior to any drilling.

Ganga Basin Exploration - Nepal

In August 2004, Cairn signed agreements with the government of Nepal for two Petroleum Agreements covering five large blocks. These blocks lie adjacent to India in the Ganges flood plain and foothills of the Himalayas. The first four year exploration commitment is in respect of seismic data only.

Work in 2005 will focus largely on environmental, operational and social impact studies which will be crucial to the successful implementation of any operations programme. Cairn is alert to the sensitivities of operating in Nepal and is actively engaging with the authorities and Non Governmental Officers, including the World Wildlife Fund for Nature, to ensure a viable programme. Upon signature of the agreements, Cairn relinquished 2,704 km² that were designated areas of scientific and environmental importance. Cairn is also monitoring developments and security within the country as a result of recent political events.

BANGLADESH

Cairn discovered the Sangu gas field in 1996 and took over operatorship of Sangu following the acquisition of Shell's interests in Bangladesh in July 2004.

Sangu Development Area; Block 16 (Cairn interest: 75%; Cairn Operator)

During 2004, gross offtake from the Sangu field averaged 132 mmscfd (2003: 141 mmscfd). The dip in production was partly attributable to production related issues and the subsequent shut-in of one of the Sangu wells. The average realised gas price for 2004 was \$2.904/mcf (2003: \$2.921/mcf).

Three additional Sangu development wells were drilled and completed between November 2004 and April 2005. Current Sangu production is in excess of 150 mmscfd. It is expected that production will further increase to assist in meeting the increased gas demand in southern Bangladesh.

Production performance in conjunction with the three new development wells identified a difference between the volumetrically-derived estimates and material-balance derived estimates of gas in place for two of the main producing reservoirs. Cairn is adopting the lower material-balance derived estimates and re-categorising the difference in the "possible" reserve category. This review has resulted in a revision of the EUR for the field from 1,205 bcf to 950 bcf.

During 2004, a significant milestone was achieved, with the

Sangu work-force reaching 5 million working hours without a lost time incident.

Exploration

Seismic data acquisition began on Block 10 in April 2004 and continued until the end of the year. A total of 1,244 km of seismic data was acquired in Block 10 and 70 km in Block 5. This data is currently being interpreted. The next contract phase, which includes drilling commitments, begins in June 2005. Cairn has reached agreement, subject to requisite Government and partner approvals, to extend the term of the PSC in respect of certain parts of Block 16 where a number of material exploration prospects have been mapped.

In view of the improved business climate in Bangladesh, Cairn is currently reviewing its options for investment in exploration. Subject to Government and partner approvals, Cairn plans to drill some of these exploration prospects during the winter of 2005/2006.

NORTH SEA

Cairn disposed of its 10% interest in the Gryphon field in May 2004.

RESERVES

The table below shows reserves information at the end of 2004 on an entitlement basis for the Group.

	Reserves at 31/12/03 mmboe	Produced in 2004 mmboe	Acquisitions in 2004 mmboe	Disposals in 2004 mmboe	Revisions in 2004 mmboe	Reserves at 31/12/04 mmboe
North Sea	1.5	(0.1)	-	(1.4)	-	-
South Asia	75.1	(8.2)	35.5	-	(21.0)	81.4
TOTAL	76.6	(8.3)	35.5	(1.4)	(21.0)	81.4

On a direct working interest basis, reserves at 31 December 2004 totalled 123.9 mmboe (2003: 113.4 mmboe).

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Partnership

WORKING
TOGETHER TO
ACHIEVE MORE

Cairn's goal is to make a positive social impact in areas where the Company operates.

We recognise that the social and community impact we make is fundamentally linked to the achievement of our business objectives.

Wherever we operate our goal is to obtain an understanding of the social environment and the risks associated with an operation, and then prepare management plans covering our operational activities and how we work with communities.

Wherever possible, we seek to apply an operational approach that informs and involves the people from the communities in which we work.

Over the years we have participated in programmes to share skills and facilities with local communities and provided support for programmes focused in the areas of education, sport, health, animal welfare and infrastructure development.

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Financial Review

Cairn enters 2005 with a strong balance sheet and net funds which will enable it to pursue the financially transforming developments in Rajasthan.

Key Statistics	2004	2003	% Increase/(Decrease)
Production (boepd)*	22,789	30,214	(25)
Average price per boe (\$)	24.06	22.86	5
Turnover before exceptionals (£m)	110.2	155.8	(29)
Average cost of sales per boe (\$)	13.29	10.49	27
Profit before tax and exceptionals (£m)	29.4	69.0	(57)
Profit after tax and exceptionals (£m)	10.8	46.2	(77)
Operating cashflow (£m)	77.5	122.2	(37)
Net funds (£m)	72.0	17.8	304

* on an entitlement interest basis

Profit and Loss

Turnover

Average production on a working interest basis remains relatively unchanged year on year at 34,276 boepd (2003: 34,342 boepd). On an entitlement basis, production for the year was 22,789 boepd compared to 30,214 boepd in 2003.

Production acquired with the acquisition of Shell's interests in Bangladesh has been recognised from the transaction completion date (30 June 2004). Production relating to the 10% interest in the Gryphon field has been included up to the disposal completion date (26 May 2004). Field production in 2004 has also been impacted by well intervention and infill drilling programmes undertaken to enhance production in the latter part of the year on both the Sangu and Lakshmi gas fields.

In accordance with the terms of the respective PSCs, Cairn's production entitlement from both the Ravva and Sangu fields decreased in 2004. Following the Arbitration Hearing award in relation to the interpretation of the Ravva PSC in October, first quarter 2004 entitlement production from the field has been revised to reflect a higher Government profit share during this period.

The average price realised by the Group for the year was \$24.06 per boe (2003: \$22.86 per boe). Turnover, pre exceptional items, which has been impacted by the weakening of the US\$ against Sterling during the year, was £110.2m (2003: £155.8m).

Gross Profit

The Group generated a gross profit before exceptional items of £49.7m (2003: £85.4m). Total cost of sales for the year was £60.5m (2003: £70.5m). Cost of sales per barrel were \$13.29 (£7.25) compared to \$10.49 (£6.39) in 2003.

The Group depletion charge has reduced by 2% to £3.79 per boe in comparison to £3.87 in the previous year. The completion of the Bangladesh acquisition has reduced the depletion charge for the South Asia cost pool, but this has been offset by a revision to the remaining entitlement reserves. This revision was due to a reduction in the calculation of gross remaining proved plus probable reserves, primarily from the Sangu field, and the impact of an increase in the Group's base oil price assumption from \$15/bbl to \$20/bbl used in calculating Cairn's share of future production.

The development plans for Mangala and Aishwariya have yet to be finalised and so the associated Rajasthan reserves have been disclosed but not been booked in the year end financial statements.

As a consequence of lower net entitlement, production costs averaged £3.32 per boe for the year compared with £2.41 per boe in 2003. These costs include charges for litigation, arbitration and stock adjustments.

Profit for the Year

Administrative expenses for the year were £18.2m (2003: £12.3m). This includes a charge of £6.2m (2003: £0.9m) for LTIP amortisation and associated NIC. Net interest payable before exceptional items was £2.1m (2003: £4.1m), including a foreign currency exchange loss of £2.0m (2003: loss £2.7m).

The majority of the £9.8m pre exceptional tax charge (2003: £22.8m) arises on profits in India. Profit after tax before exceptional items was £19.6m (2003: £46.2m).

Exceptional Items/Discontinued Operations

Following the Arbitration award given on the interpretation of

Financial Review

the Ravva PSC, the Group has reviewed its provisioning for this liability and has recognised an additional exceptional charge net of tax of £9.6m.

Cairn completed the disposal of its 10% interest in the Gryphon field in the UK North Sea (the Group's only remaining interest in its North Sea cost pool) during the first half of 2004. Following completion of this transaction and the Group's exit from the North Sea, a £0.8m post tax gain has been recognised in the profit and loss account in respect of discontinued activities.

Profit after tax and exceptional items was £10.8m (2003: £46.2m).

Balance Sheet

Capital Expenditure

Capital expenditure during 2004 was £124.8m (2003: £82.8m), made up of £90.9m on exploration/appraisal activities, £32.4m on development activities and £1.5m on other fixed assets. Exploration/appraisal expenditure during the year was incurred largely on the drilling programme in Rajasthan. The majority of development expenditure is in respect of the infill campaigns on both Lakshmi and Sangu gas fields. In addition, £16.9m has been capitalised in respect of the Bangladesh acquisition.

Net Assets

Net assets at 31 December 2004 were £431.1m (2003: £337.8m). Net assets have been reduced by the weakening of the US\$ against Sterling from \$1.79 to \$1.92 in the period.

Payments for Sangu Gas

Payments for Sangu Gas have continued to improve during 2004. There are currently no payment arrears (31 December 2003: three months in arrears).

Accounting Developments & Policies

Adoption of International Financial Reporting Standards (IFRSs)

In accordance with European legislation, Cairn will adopt IFRSs in preparing its Financial Statements from 1 January 2005. The project team, established to manage the transition from UK GAAP to IFRS, has completed the majority of its work, with the standards which affect Cairn now identified and their impacts interpreted.

Cairn is currently finalising revised accounting policies to comply with IFRSs through discussions with the Group's auditors and industry peers. The major areas of impact on Cairn's net profit and shareholders' funds have been identified as IFRS 2 which requires a change to be made for all employee share incentives, and IAS 21 which changes the treatment of exchange differences on consolidation of certain group subsidiaries.

In accordance with IFRS 6 *Exploration for and evaluation of mineral resources*, Cairn will also be required to expense pre-licence exploration costs, currently capitalised in the Balance Sheet.

As part of the transition to IFRS, a re-statement of Cairn's 2004 UK GAAP results is also being undertaken. The reconciliations from UK GAAP to IFRS will be published on the Group's website prior to the 2005 interims.

Other issues

UITF 38 *Accounting for ESDP Trusts* became effective for accounting periods ending on or after 22 June 2004 and has therefore been applied to the current year, increasing the charge to the profit and loss account by £2.3m. A prior year adjustment has arisen from this change in accounting policy and prior year comparatives have been restated to reflect the required changes.

Cairn is considering reporting its future financial results in US\$ which would match the functional currency of the business. The Group currently reports in Sterling, although both income and expenditure are mainly in US\$.

Cash Flow

Net Cash Inflow, Tax and Interest

Group net cash inflow from operations was £77.5m (2003: £122.2m). Tax payments during 2004 were £4.7m (2003: £4.4m). Net interest received was £0.5m (2003: paid £0.6m).

Capital Expenditure/Financial Investment


Cash outflow from capital expenditure during 2004 was £96.2m, made up of £76.5m exploration/appraisal expenditure, £18.3m development expenditure and £1.4m other expenditure. This differs from balance sheet capital expenditure due to the timing of this expenditure (2003: £75.8m - £55.9m exploration, £18.7m development and £1.2m other). In addition there is an outflow on completion of the Bangladesh acquisition (£23.8m) and a £7.3m inflow on completion of the Gryphon disposal (2003: £10.4m inflow on sale of Dutch assets).

Net Funds/Debt and Financing

The Group had a net cash outflow before use of liquid resources and financing of £39.4m during 2004 (2003: inflow £51.9m).

The Group's financial position was improved by the £102m raised by the placing of 7.5 million new shares in July 2004.

At the year end the Group had no gearing and net funds of £72m (2003: net funds £17.8m). In addition, pre tax proceeds of approximately \$135m from the previously announced ONGC transaction were received in March 2005. The Group currently has \$240m of unutilised unsecured revolving credit facilities. Following the significant discoveries made in Rajasthan during 2004, the Group is currently undertaking a review of its financing requirements and arrangements.



Kevin Hart
Finance Director
19 April 2005

Board of Directors

Bill Gammell, Chief Executive (52)

Bill Gammell holds a BA in Economics and Accountancy from Stirling University. He founded Cairn and was appointed Chief Executive on its initial listing in 1989. He has over 25 years' experience in the international oil and gas industry and is also a director of the Scottish Institute of Sport and Artemis AiM VCT plc.

Mike Watts, Exploration Director (49)

Mike Watts holds a BSc Hons and a PhD in Geology from Cardiff University. He began his career in 1980 with Shell International and subsequently worked for Burmah Oil Exploration and Premier Oil. In 1991 he became Managing Director of Holland Sea Search Holding N.V. ("HSSH"), where he developed an acreage strategy for South Asia. HSSH was acquired by Cairn in 1995 and he transferred to Cairn after the completion of the acquisition. He was closely associated with Cairn's acquisition of Command Petroleum Limited in 1996 (a major shareholder in HSSH). He was appointed an executive director at Cairn in 1997. He is the executive director with delegated responsibility for providing assurance to the Board on health, safety, environment, community and human rights matters.

Kevin Hart, Finance Director (36)

Kevin Hart holds a BSc Hons in Physics and Natural Philosophy from Edinburgh University. Prior to joining Cairn as Finance Director in 1998, he spent nine years in London working in investment banking where he was a senior associate director with Deutsche Morgan Grenfell, specialising in oil and gas sector mergers and acquisitions. He is also a non-executive director of Glasgow Income Trust PLC. He is the executive director with delegated responsibility for employee matters.

Malcolm Thoms, Group General Manager (49)

Malcolm Thoms holds a BSc Hons in Physics from Edinburgh University and an MBA from Heriot-Watt University. He started his career as a field engineer with Schlumberger and subsequently became manager of their businesses in Qatar and Brunei. He joined Cairn in 1989 where he held a number of senior management positions prior to his appointment as an executive director in 2000. He is also a non-executive director of Revus Energy AS.

Phil Tracy, Engineering & Operations Director (54)

Phil Tracy holds an MSc in Petroleum Engineering from Imperial College and a BSc in Chemical Engineering from Leeds University. He is a Chartered Engineer with over 30 years' experience in the international oil and gas industry. He originally joined Cairn in 1988 and served as an executive director from 1989 until 1999. He subsequently became managing director of Providence Resources P.L.C. before re-joining Cairn in 2002 as Chairman of Cairn Energy India Pty Limited. He was appointed Engineering & Operations Director in February 2004. He is also a non-executive director of Vienco Oil & Gas Limited.

Norman Murray, Non-Executive Chairman (57)

Norman Murray was appointed an independent non-executive director of Cairn in 1999 and Chairman in 2002. He qualified as a Scottish Chartered Accountant and has been involved in every aspect of the venture capital industry for some 25 years. He is a former Chairman of Morgan Grenfell Private Equity Limited and was also a director of Morgan Grenfell Asset Management Limited and a non-executive director of Bristow Helicopter Group Limited. He is a past Chairman of the British Venture Capital Association and is currently a Vice-President of the Institute of Chartered Accountants of Scotland and a non-executive director of Greene King PLC and Robert Wiseman Dairies plc.

Hamish Grossart, Non-Executive Deputy Chairman (48)

Hamish Grossart was appointed an independent non-executive director of Cairn in 1994 and became Deputy Chairman in 1996. He is currently Chairman of Indigo Vision Group plc, Deputy Chairman of Scottish Radio Holdings plc and British Polythene Industries PLC and a director of Martin Currie Income & Growth Trust plc, Sigma Technology Group plc and Artemis Investment Management Limited. He has 20 years' experience in executive and non-executive positions in listed groups covering a wide variety of industries. He is also the Company's senior independent non-executive director.

Ed Story, Non-Executive Director (61)

Ed Story was appointed an independent non-executive director of Cairn in 1997. He is President, Chief Executive and founder of SOCO International plc and has over 35 years' experience in the international oil and gas industry. He serves as the Honorary Consul of Mongolia in Houston.

Todd Hunt, Non-Executive Director (52)

Todd Hunt was appointed an independent non-executive director of Cairn in May 2003. He is President and joint owner of Atropos Exploration Company and Atropos Production Company based in Dallas, Texas. He has over 30 years' experience in the oil and gas industry.

Mark Tyndall, Non-Executive Director (47)

Mark Tyndall was appointed an independent non-executive director of Cairn in October 2003. He is Chief Executive of Artemis Investment Management Limited and a director of Standard Life European Private Equity Trust PLC and Micadant Plc.

Andrew Shilston, Non-Executive Director (49)

Andrew Shilston was appointed an independent non-executive director of Cairn in November 2004. He is a Chartered Accountant and has been the Finance Director of Rolls-Royce plc since 2003. Prior to that he was the Finance Director of Enterprise Oil plc from 1993 to 2002. He has over 20 years' experience in the oil and gas industry.

Environmental & Social Review

WE BELIEVE WE DERIVE OUR COMPETITIVE EDGE BY FOCUSING ACTIVITIES IN SOUTH ASIA WHERE SUCCESS IS ONLY POSSIBLE WHEN VALUES ARE SHARED. INTEGRITY, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY, TEAMWORK AND NURTURING OF INDIVIDUALS, CREATIVITY, RISK MANAGEMENT, WORKING IN PARTNERSHIP WITH HOST GOVERNMENTS AND ESTABLISHING ALLIANCES WITH KEY PARTNERS ARE INGREDIENTS THAT ARE CENTRAL TO OUR SUCCESS.

The Environmental & Social Review 2004 is our fifth review which aims to provide relevant information to allow interested parties to understand and evaluate our overall environmental and social performance. It has been designed to complement this 2004 Annual Report and Accounts, updates progress made on our 2004 environmental and social objectives, presents the performance data for 2004 and describes our plans for achieving further performance improvements in 2005. It covers all of our activities across the Group in the UK, India, Bangladesh and Nepal. We have also sought independent assurance from Environmental Resource Management that the contents of the review are accurate. The Environmental & Social Review 2004 is available as a separate document.

The Environmental & Social Review 2004 can also be accessed on our website at www.cairn-energy.plc.uk/annualreport/esr

Corporate Governance Statement

Cairn is committed to achieving compliance with the principles and provisions set out in the Combined Code appended to the Listing Rules of the United Kingdom Listing Authority (the "Listing Rules") and to ensuring that high standards of corporate governance are maintained. The Board considers that the Company is compliant with the new Combined Code issued in July 2003, except in the areas detailed on page 31. The Chairman and the Company Secretary have held meetings with the Association of British Insurers, Research Recommendations and Electronic Voting and Pensions Investment Research Consultants Limited to discuss their reports on the Company's Annual Report and Accounts for the previous financial year ended 31 December 2003 and current corporate governance issues. Set out below is a statement of how the Company applied the principles of the Combined Code for the year ended 31 December 2004.

The Board

Cairn's business is international in scope and carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has wide experience of the sector and regulatory environment in which Cairn operates and appropriate financial and risk management skills. In each Board appointment, whether executive or non-executive, the Board considers that objectivity and integrity, as well as skills, experience and ability which will assist the Board in its key functions, are pre-requisites for appointment.

The Board currently comprises the Chairman, the Chief Executive, four other executive directors and five independent non-executive directors. Hamish Grossart, Deputy Chairman, is Cairn's senior independent non-executive director. The directors' biographies are on page 21.

All of the directors are subject to election by shareholders at the first Annual General Meeting after their appointment to the Board and to re-election by shareholders at least once every three years. In addition, any non-executive director who has served more than nine years is subject to annual re-election.

The division of responsibilities between the Chairman and the Chief Executive has been clearly established, set out in writing and agreed by the Board.

The Board has a formal schedule of matters specifically reserved to it for decision. These reserved matters include determination of the overall strategy of the Group and approval of the annual report and accounts and any other financial statements, the Group's annual budget and amendments to that budget over a particular amount, borrowing and security, acquisitions and disposals, capital expenditure over a specified amount, amendments to the organisational structure of the Group and Board, approval of

significant changes to accounting policies and approval of management incentive schemes and Group policy on pensions. The Board delegates operational management of the Group on a day-to-day basis to the Group Management Board (the "GMB"), which comprises the executive directors and senior managers.

The Board has full and timely access to all relevant information to enable it to perform its duties. In addition, each director has access to the advice and services of the Company Secretary. There is also a procedure agreed by the Board for directors, in furtherance of their duties, to take independent professional advice if necessary, at the Company's expense, up to a pre-determined limit.

During 2004 seven scheduled meetings of the Board were held. Six of those meetings were held in Edinburgh; the other Board meeting was held at the Company's office in Chennai, India. Details of attendance at each of those meetings and at meetings of Board committees is set out on page 27. Prior to and after the Board meeting held in India, the Board visited the Company's operations and the Company's co-venturers in Rajasthan and met with government officials in India, Bangladesh and Nepal. During the year, additional meetings to deal with specific matters were held at short notice when required. When a specific matter requires consideration at short notice, there is a procedure setting out when those matters must be considered at a short notice Board meeting and when they may be dealt with by a committee of the Board (comprising at least two non-executive directors (one of whom must be the Chairman or Deputy Chairman) and two executive directors). All directors unable physically to attend Board and committee meetings are given the opportunity to be consulted and comment in advance of the meeting by telephone or in writing. Video conferencing facilities are also used when directors are not able to attend meetings in person.

The formal agenda for each scheduled Board meeting is set by the Chairman in consultation with the Chief Executive and the Company Secretary. Formal minutes of all Board and committee meetings are circulated to all directors prior to the next Board meeting and are considered for approval at that Board meeting. In addition, the Board is in frequent contact between meetings to progress the Group's business.

New directors receive a full and appropriate induction on joining the Board. This involves meetings with other Board members, members of the GMB and certain of the Company's principal advisers. In addition, a new director is provided with an induction pack which contains background materials and general information on the Company, the Company's policies and procedures, financial information, an operational review and a briefing on directors' legal and regulatory responsibilities. Details of the procedures

Corporate Governance Statement continued

followed for the appointment of Phil Tracy and Andrew Shilston, who were appointed as directors of the Company during the year, are set out on pages 26 and 27.

The Company provides the necessary resources for developing and updating its directors' knowledge and capabilities. In particular, the Company is committed to the provision of continuing professional development training to its directors and in 2004 held a number of seminars for Board members on subjects appropriate to the Company's business. These seminars were held at the end of Board meetings and were attended by all directors present at the meeting. This process is continuing in 2005. Any director may request that a particular subject is covered in a seminar. In addition, all press cuttings relating to the Company and all brokers' and analysts' reports on the Company are distributed to all directors.

The Company has directors' and officers' liability insurance in place.

Performance Evaluation

The Board has a formal annual process of rigorous performance evaluation for the Board, audit, nomination and remuneration committees and individual directors. The performance evaluation of the Board and the Board committees was primarily based upon answers to a detailed questionnaire which was prepared internally following a review of external papers on the subject. The questionnaire was distributed to all Board members and the Company Secretary. The areas covered in the questionnaire included the effectiveness of the Board and Board committees, performance against objectives, preparation for and performance at meetings and corporate governance matters. The questionnaire addressed all of the issues raised by Derek Higgs in his review of the role and effectiveness of non-executive directors that was published in January 2003. Once a questionnaire had been completed by each member of the Board and the Company Secretary, the Chairman held a meeting with each director and the Company Secretary individually to discuss their responses. The Chairman then reported the results of the process to the Board at a Board meeting, which discussed the comments and implemented the conclusions. The Board and Board committees are satisfied that they are operating effectively.

The Deputy Chairman, who is also the Company's senior independent non-executive director, sought the views of the executive directors and met with each of the other non-executive directors, in the absence of the Chairman, to discuss and assess the Chairman's performance. The Board (not including the Chairman) is satisfied that the Chairman's performance is effective and he demonstrates continued commitment to the role.

The executive directors have their performance individually reviewed by the remuneration committee against objectives which are set annually. The bonus payable to the executive directors under the Company's cash bonus scheme (described further on page 41) is linked directly to the results of these reviews.

Independence of Non-Executive Directors

The Board evaluation and review process also covered the independence of each of the non-executive directors, taking into account their integrity, objectivity and contribution to the Board and its committees. In particular, the process considered the independence of Hamish Grossart and Mark Tyndall.

Mr Grossart has served on the Board for more than nine years. He is also a non-executive director of Artemis Investment Management Limited, which as at 19 April 2005 held under management approximately 2.63% of the Company's issued share capital. The Board concluded, after rigorous review and without Mr Grossart being present, that Mr Grossart remains independent in character and judgement and that his performance continues to be effective and he demonstrates continued commitment to the role. In particular, the Board noted that Mr Grossart does not participate in the Company's cash bonus scheme, share option plans, long term incentive plan or pension scheme and is not dependent upon the fees received from the Company as his primary source of income. In addition, the Artemis compliance officer has confirmed in writing to the Company that Mr Grossart does not participate in any investment management decisions at Artemis. Mr Grossart has indicated that he is willing to stand for re-election as a director of the Company on an annual basis and a resolution will be proposed at the Annual General Meeting to be held on 3 June 2005 to this effect.

Mark Tyndall is the chief executive of Artemis Investment Management Limited, which as at 19 April 2005 held under management approximately 2.63% of the Company's issued share capital. The Board has reviewed the "chinese wall" arrangements in place between Mark Tyndall and Artemis and has concluded that they are sufficient to ensure Mr Tyndall's independence. No communication is made or sent by the Company to Mr Tyndall at Artemis; all communication is made to his home address. In addition, Artemis have confirmed in writing that Mr Tyndall does not participate in any investment management decisions at Artemis in respect of Cairn. The Board concluded, after rigorous review and without Mr Tyndall being present, that he is independent in character and judgement and that his performance is effective and that he demonstrates continued commitment to the role.

Corporate Governance Statement continued

Following the evaluation and review process, the Board believes that, in addition to Mr Grossart and Mr Tyndall, all of the other non-executive directors are independent in character and judgement.

Board Committees

The Board has established an audit committee, a remuneration committee and a nomination committee, each of which has formal terms of reference approved by the Board. The terms of reference for each of these committees are reviewed internally by the Board and have been updated to meet the provisions of the new Combined Code which was published by the Financial Reporting Council during 2003. Copies of the terms of reference are available for inspection on request and will be available for inspection before and during the Annual General Meeting to be held on 3 June 2005.

The committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to each of these committees. The minutes of all committee meetings are circulated to all directors.

Set out below are reports from each of the audit committee, remuneration committee and nomination committee.

1. Audit Committee Report

The audit committee comprises four non-executive directors, all of whom are considered by the Board to be independent. Currently, its members are Norman Murray (chairman), Hamish Grossart, Andrew Shilston and Ed Story. The Board is satisfied that three members of the committee have recent and relevant financial experience. Both Mr Murray and Mr Grossart serve on audit committees of other listed companies. Norman Murray is a Chartered Accountant and is currently a Vice-President of the Institute of Chartered Accountants of Scotland. Hamish Grossart trained as an investment banker. Andrew Shilston was the Finance Director of Enterprise Oil plc from 1993 to 2002 and is currently the Finance Director of Rolls-Royce plc.

Andrew Shilston was appointed as a non-executive director on 8 November 2004 and was appointed by the Board as a member of the audit committee at the same time on the recommendation of the nomination committee. It is intended that he will become chairman of the audit committee in place of Norman Murray following the conclusion of the Annual General Meeting to be held on 3 June 2005. Mr Murray will also stand down as a member of the committee at that time, although he may attend committee meetings as an observer, on being invited to do so by the committee.

The audit committee met six times in 2004. At the request of the audit committee, the Finance Director and senior members of the Finance Department attended five and six meetings respectively during the year. In addition, two of these meetings were attended by the external auditors and three meetings were attended by the internal auditors. For part of each of the meetings attended by the external auditors, the committee met with the auditors without any executives being present. The external auditors receive copies of all audit committee papers (including papers to be considered at meetings when they are not in attendance) and minutes of all committee meetings. In addition, the chairman of the committee is in regular contact with the external audit partner to discuss matters relevant to the Company.

The role of the committee includes:

- monitoring the integrity of the financial statements of the Company and formal announcements relating to the Company's financial performance and reviewing any significant financial reporting judgements contained in them;
- reviewing accounting policies, accounting treatments and disclosures in financial reports;
- reviewing the Company's internal financial controls and internal control and risk management systems;
- monitoring and reviewing the effectiveness of the Company's internal audit function;
- overseeing the Company's relationship with the external auditors, including making recommendations to the Board as to the appointment or reappointment of the external auditors, reviewing their terms of engagement and monitoring the external auditors' independence, objectivity and effectiveness; and
- reviewing the Company's whistleblowing procedures and ensuring that arrangements are in place for the proportionate and independent investigation of possible improprieties in respect of financial reporting and other matters and for appropriate follow up action.

The audit committee has established a policy in relation to the supply of non-audit services by the external auditors and other third parties. The Company will engage an external adviser to provide non-audit services on the basis of the skills and experience required for the work, whether benefit will be derived as a result of the third party's knowledge of the Company and cost. These advisers may

Corporate Governance Statement continued

include the Company's external auditors for a restricted list of non-audit services, although, before the engagement commences, the audit committee must be satisfied that the auditors' objectivity and independence would not be compromised in any way as a result of being instructed to carry out these services. If the cumulative fees to be paid to an external adviser for the provision of non-audit services are below a certain level, the adviser may be engaged in accordance with the Company's financial delegations of authority after a quotation has been received. If the fees payable are expected to exceed that level on a cumulative basis, the engagement must be approved by the audit committee in advance after following a tender process.

KPMG LLP has been appointed by the audit committee to supervise and co-ordinate the Company's internal audit function, using a combination of the Company's own internal resources and external third party resources. The audit committee receives updates on the internal audit workplan on an ongoing basis.

The Company undertook an audit tender process in 2003, as a result of which Ernst & Young LLP were re-engaged as the Company's auditors. The Company monitors its auditors' performance on an ongoing basis although it has no current plans to carry out another tender process in the near future.

2. Remuneration Committee Report

The remuneration committee comprises four non-executive directors, all of whom are considered by the Board to be independent. Currently, its members are Hamish Grossart (chairman), Norman Murray, Ed Story and Mark Tyndall. Following the conclusion of the Annual General Meeting to be held on 3 June 2005, it is intended that Norman Murray will stand down as a member of the committee and that Todd Hunt will be appointed as a member of the committee.

The Chief Executive, at the request of the committee, attends its meetings. In addition, he is consulted by the committee on its proposals, but does not participate in any meetings or any discussions relating to his own remuneration.

The role of the committee includes:

- determining and agreeing with the Board the remuneration policy for all the executive directors, the Chairman and the members of the GMB;
- within the terms of the agreed policy, determining the total individual remuneration package for each executive director;
- determining the level of awards made under the Company's share option plans and long term incentive plan and the performance conditions which are to apply;
- determining bonuses payable under the Company's cash bonus scheme;
- determining the vesting of awards under the Company's long term incentive plan and exercise of share options; and
- determining the policy for pension arrangements, service agreements and termination payments for executive directors.

The committee met seven times in 2004.

Details of the Company's policies on remuneration, service contracts and compensation payments are given in the Directors' Remuneration Report on pages 38 to 46.

3. Nomination Committee Report

The nomination committee comprises Norman Murray (chairman), two independent non-executive directors, Hamish Grossart and Ed Story and, to ensure input from the executive, one executive director, Bill Gammell (Chief Executive).

The role of the nomination committee includes considering the composition, balance and skills of the Board and making recommendations to the Board on these matters, on the appointment of new directors and on the re-appointment and orderly succession of existing directors. Details of the procedures followed for the appointments of Phil Tracy and Andrew Shilston, who were appointed as directors of the Company during the year, are set out below.

The committee met four times in 2004.

Organisational Planning

During 2004 the Company commenced working with Ashridge Consulting Limited on an organisational development project. This initiative focused on developing a set of core competencies which reflect the values important to the Company. These competencies will link into many of the Company's human resources processes including recruitment and selection, performance management, training and development and succession planning. This project is ongoing and is expected to be completed during 2005.

Appointment of new directors in 2004

During the year, Phil Tracy and Andrew Shilston were appointed as directors of the Company. The following procedures were followed:

● Appointment of Phil Tracy

The nomination committee evaluated the balance of skills, knowledge and experience on the Board and recommended, following the discovery of the Mangala field in Rajasthan, that the Company appoint a new executive director to the

Corporate Governance Statement *continued*

position of Engineering & Operations Director. After discussions with all the other members of the Board, the committee recommended to the Board that it meet formally to consider its recommendation that Phil Tracy, an internal candidate and a former executive director of the Company, with over 30 years' experience as an engineer in the oil and gas industry be appointed to the position. Mr Tracy was appointed as an executive director in February 2004.

● Appointment of Andrew Shilston

Following a review of the membership of the Board committees, the nomination committee recommended to the Board that it appoint a new non-executive director who would initially be a member of the audit committee and would then be appointed to chair the committee. The Company instructed Spencer Stuart, independent search consultants, to conduct a search for a new non-executive director with recent and relevant financial experience to fulfil this role. Following consideration by the committee of

a short-list produced by Spencer Stuart, the chairman of the committee arranged for Andrew Shilston to attend meetings on an individual basis with all of the other members of the committee, a number of other executive and non-executive directors and senior management. In addition to these meetings, Mr Shilston discussed the Company's financial position and other matters with the Company's external auditors. After assessing the matter, *both parties confirmed that they wished to proceed with the appointment and, after taking into account Mr Shilston's other commitments, the nomination committee recommended to the Board that Mr Shilston be appointed as a non-executive director of the Company. The appointment took effect on 8 November 2004.*

Directors' attendance at Board and Board Committee Meetings

The table below sets out the attendance record of each director at scheduled Board and Board committee meetings during 2004:

	Board 7	Audit Committee 6	Remuneration Committee 7	Nomination Committee 4
	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Meetings held during 2004				
Executive Directors				
Bill Gammell	7	n/a ⁽¹⁾	n/a ⁽²⁾	4
Mike Watts	7	n/a	n/a	n/a
Kevin Hart	7	n/a ⁽²⁾	n/a	n/a
Malcolm Thoms	7	n/a	n/a	n/a
Phil Tracy	5 ⁽³⁾	n/a	n/a	n/a
Non-Executive Directors				
Norman Murray	7	6	7	4
Hamish Grossart	7	5	7	4
Ed Story	6	3 ⁽⁵⁾	4 ⁽⁵⁾	0 ⁽⁵⁾
Todd Hunt	7	n/a	n/a	n/a
Mark Tyndall	7	n/a	6	n/a
Andrew Shilston	0 ⁽⁴⁾	1 ⁽⁴⁾	n/a	n/a

Notes:

- (1) n/a = not applicable (where a director is not a member of the committee).
- (2) During 2004, certain directors who were not committee members attended meetings of the audit committee and remuneration committee by invitation. These details have not been included in the table.
- (3) Phil Tracy was appointed as a director on 6 February 2004. The number of Board meetings attended is stated with effect from that date.
- (4) Andrew Shilston was appointed as a director on 8 November 2004. The number of Board meetings and audit committee meetings attended is stated with effect from that date.
- (5) Where Ed Story was unable to attend meetings of Board committees, he reviewed the relevant papers for the meetings and provided his comments to the committees in advance of such meetings.

Corporate Governance Statement continued

Relations with Shareholders

Communications with shareholders are given high priority by the Board. Cairn sends both its annual report and accounts and interim report and accounts to all shareholders. In order to ensure that the members of the Board develop an understanding of the views of major shareholders there is regular dialogue with institutional shareholders, including meetings after the announcement of the year end and interim results. The Chairman attends a number of these meetings.

At the Board meeting immediately following these meetings, a detailed report is given to all directors who were not in attendance at those meetings. In addition, the Company maintains an external relations database which details all meetings attended by the directors with third party stakeholders. All analysts' and brokers' reports on the Company are also distributed to all directors. Cairn responds to all correspondence from shareholders and also has a website which contains a range of information, including a dedicated investor relations section.

Mr Grossart, the senior independent non-executive director, is available to shareholders if they have concerns which contact through the normal channels of the Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

Each of the non-executive directors is available to attend meetings with major shareholders (without the executive directors present), if requested by such major shareholders.

Annual General Meeting

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the chairmen of the audit, remuneration and nomination committees are available at Annual General Meetings to answer questions.

Details of resolutions to be proposed at the Annual General Meeting on 3 June 2005 can be found in the Notice of Annual General Meeting on pages 82 to 85. The Company arranges for the Notice of Annual General Meeting and related documents to be sent to shareholders a minimum of 20 working days before the meeting.

Directors' Responsibility Statement

The following statement, which should be read in conjunction with the auditors' statement of responsibilities in their report on page 47, is made with a view to distinguishing for shareholders the respective responsibilities of the Board and of the auditors in relation to the financial statements.

Under the Companies Act 1985 ("the Act"), the directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial period, and of the profit or loss of the Group for that period. The financial statements have been prepared on a going concern basis. The directors consider that applicable accounting standards have been followed, appropriate accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made. The directors have responsibility for ensuring that accounting records are kept which disclose with reasonable accuracy the financial position of the Group, and which enable them to ensure that the financial statements comply with the Act. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Going Concern

The directors have considered the factors relevant to support a statement on going concern. They have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

Internal Control

The Board acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

As an oil and gas exploration and production company with current operations concentrated in South Asia, Cairn is, by virtue of the nature of its business and the countries in which it operates, subject to a variety of business risks. The Board believes however, that Cairn derives its competitive edge by focusing activities in this core geographical area. Operations in any country are only possible when values are shared, and the directors believe that Cairn's values of integrity, social and environmental responsibility, teamwork and nurturing of individuals, creativity, risk management and alliancing with key partners are ingredients that are central to Cairn's success. The ability to recognise the value of working as a partnership with host governments, both nationally and regionally, has also been a critical ingredient in Cairn's approach and success.

The Group's system of internal control plays a critical role in managing the risks towards the achievement of Cairn's corporate vision and objectives, and is also central to safeguarding shareholders' interests and the Group's assets.

Corporate Governance Statement continued

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group and is in accordance with the guidance of the Turnbull Committee on internal control. The process has been in place in respect of the Group for the 2004 accounting period and up to the date of approval of the report and accounts.

In late 2003, KPMG LLP were engaged by the Board to conduct a strategic level review of Cairn's system of internal control. KPMG LLP presented their findings to the Board in January 2004 and steps have been taken during 2004 to implement the agreed changes, which have included:

- organisational changes to strengthen the clarity, roles and responsibilities within the corporate governance structure;
- strengthening the business risk management strategy, organisation and processes so that they are more performance focused and embedded within the Group's operations; and
- establishing a more robust assurance framework which recognises the Group's operational growth and external developments which impact upon it.

In addition to its consideration of the KPMG report, the Board has carried out regular reviews of the effectiveness of the Group's system of internal controls and risk management during 2004, and will ensure that such reviews are performed on a regular basis in 2005. The Board is satisfied that effective control is in place and that risks have been mitigated to an acceptable level. The key elements of the internal control system and the processes used by the Board to review the effectiveness of the system include the following:

1. Strategic Direction

The Cairn business model is conventional in that Group strategy is set by the directors and approved by the Board, and its implementation is delegated to the GMB.

2. Operating Management

Cairn operates several business units in three different countries and with various partners. Work programmes and budgets are prepared annually to meet the Group strategy, starting at the asset level before being consolidated at both country and Group levels. After an iterative process, the country budgets are presented as part of the Group budget for approval to the GMB and the Board.

Each country then prepares a detailed business plan to meet the agreed annual work programme and budget. This sets out detailed objectives and key performance indicators ("KPIs") for each asset and supporting functional department, and is consolidated into the country business

plan. The country business plans are firstly approved by the in-country management teams and are then submitted to the GMB and the Board for approval.

The in-country management teams then have the required authority to implement the business plans and to deliver the agreed work programmes within the approved budget and delegation of authorities. This must be done in accordance with the internal control framework set by the Board.

The remit of the GMB is to oversee the delivery of the Group strategy through the annual work programmes and budgets and the country business plans. The directors have also appointed Group Functional Heads whose role includes providing input and 'challenge' to the work programmes, budgets and business plans, supplying the relevant director with full and accurate information and making statements on the adequacy of internal controls.

3. Risk Management

The Risk Management Committee ("RMC"), established by the Board in 1999, continues to be responsible for the development of risk management strategy and processes within the Group and for overseeing the implementation of this strategy. It does this by ensuring the Group's framework for the identification, assessment, mitigation, documentation and reporting on all areas of risk is 'fit for purpose' and that appropriate assurance arrangements are in place in relation to these risks.

The RMC is chaired by the Finance Director and comprises executive directors, senior country and Group functional management. In order to improve transparency of key business risks, the committee meetings are also attended by certain non-executive directors. During 2004, Norman Murray and Mark Tyndall attended RMC meetings. The Board intends to periodically change the chairman of the committee and RMC membership in order to maintain a robust and challenging approach to risk management.

The Group has a set of Business Risk Management Guidelines ("BRMG"), that define the processes through which Cairn seeks to systematically identify, analyse, assess, treat and monitor the business risks faced by the Group. These were updated during 2004. The BRMG also identify the risk management organisational structure through which business risks are managed and regularly reviewed at operating, asset and country levels. These business risks, together with the identified mitigating measures and responsibilities, are then recorded in risk registers, which, following endorsement by the in-country management teams and the GMB, are reported to the Group Risk Register.

These risk registers are regularly reviewed by the RMC to ensure that the business understands the key risks it faces

Corporate Governance Statement *continued*

and that there is an embedded risk management approach in place. It also seeks continuous improvement in the management of risk by sharing best practice throughout the Group.

KPMG LLP were appointed in August 2004 to manage the internal audit process and steps have been taken to ensure integration with risk management. The RMC reports on the Group's risk profile to both the audit committee and the Board. Additionally, the Board receives internal reviews of the effectiveness of internal controls relative to the key risks on a regular basis. The conclusion of the Board following these reviews during 2004 is that the internal controls in respect of key risks are appropriate.

4. Assurance

The integrated assurance framework adopted by the Board provides for three levels of assurance against the risks facing the Group: firstly at the operational level; secondly through overview by Group functional management and the RMC; and thirdly through internal, external or joint venture audits.

During 2004 the directors regularly reviewed the effectiveness of the Group's system of financial and non-financial controls, including operational and compliance controls, risk management and the Group's high level internal control arrangements. The directors derive assurance from the following internal and external controls:

- a regularly updated schedule of matters specifically reserved for a decision of the Board;
- policies and procedures for key business activities;
- an appropriate organisational structure;
- control over non-operated joint venture activities through delegated Cairn representatives;
- specific delegations of authority for all financial and other transactions;
- segregation of duties where appropriate and cost effective;
- business and financial reporting, including KPIs;
- functional management reviews;
- annual 'letters of assurance' process, through which country managers confirm the adequacy of internal financial and non-financial controls, their compliance with Group policies and report any control weaknesses identified in the past year;
- internal audits to assess compliance – the internal auditor implements a number of audits during the year in line with the annual internal audit plan approved by the audit committee and Board;
- reports from the audit committee and RMC;
- reports from the external auditor on matters identified during its statutory audit;
- reports from audits by governments and co-venturers; and
- independent third party reviews commissioned by Cairn.

Corporate Governance Statement continued

Compliance With Combined Code

Throughout 2004 the Company complied with the provisions of the new Combined Code, except in the following areas:

Provision of the Combined Code	Company Position	Explanation
A.3.2 - at least half the Board, excluding the chairman, should comprise non-executive directors determined by the Board to be independent.	The Company complied with this provision from the start of 2004 until 5 February 2004 and from 8 November 2004 until 31 December 2004. During the period 6 February 2004 to 7 November 2004 it did not comply with this provision.	At the start of 2004, the Board comprised four executive directors and five non-executive directors (including the Chairman). The Board determined that the four non-executive directors were independent (in terms of the Combined Code, the Chairman is automatically considered not to be independent for the purposes of this provision) and the Company therefore complied with this provision at this time. On 6 February 2004, the Company appointed Phil Tracy as an executive director for the reasons set out on pages 26 and 27, resulting in the Board comprising five executive directors and four non-executive directors (excluding the Chairman). On this basis, less than half of the Board comprised independent non-executive directors. The Company complied with this provision again with effect from 8 November 2004 as a result of Andrew Shilston being appointed as a non-executive director.
A.4.1 - a majority of members of the nomination committee should be independent non-executive directors.	Throughout 2004 the nomination committee comprised two independent non-executive directors, the Chairman and one executive director.	The Board believes that the membership of the committee is appropriate and effective.
B.2.1 - the Board should establish a remuneration committee of at least three members who should all be independent non-executive directors.	Throughout 2004 the remuneration committee comprised three independent non-executive directors and the Chairman.	Following the conclusion of the Annual General Meeting to be held on 3 June 2005, it is intended that the Chairman will stand down as a member of the committee and that Todd Hunt will be appointed as a member of the committee. The Company will then be in compliance with this provision of the Combined Code.
C.3.1 - the Board should establish an audit committee of at least three members, who should all be independent non-executive directors.	During the period 1 January 2004 to 7 November 2004, the audit committee comprised two independent non-executive directors and the Chairman. On 8 November 2004, Andrew Shilston was appointed as a non-executive director and was appointed as a member of the audit committee with effect from that date.	The Chairman intends to stand down as chairman and a member of the audit committee following the conclusion of the Annual General Meeting on 3 June 2005. The Company will then be in compliance with this provision of the Combined Code.

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Directors' Report

The directors of Cairn Energy PLC present their annual report for the year ended 31 December 2004 together with the financial statements of the Group for the year. These will be laid before the shareholders at the Annual General Meeting to be held on Friday 3 June 2005.

Results and Dividend

The Group made a profit after tax and exceptionals of £10.8m which has been transferred to reserves.

The directors do not recommend the payment of a dividend for the year ended 31 December 2004, preferring that the Group's profits are reinvested in the business.

Principal Activities

The principal activity of the Company and its subsidiary undertakings is the exploration for and development and production of oil and gas in India, Bangladesh and Nepal. A review of the business, including details of Cairn's exploration, development and production activities during the year and its position at the year end is given in the Chairman's Statement and in the Operational Review and Financial Review on pages 4 to 19. Details of Cairn's offices and advisers are given on page 81.

Post Balance Sheet Event

In March 2005, the transaction completed with ONGC whereby Cairn farmed-out interests in Blocks KG-DWN-98/2 (90%) and CB/OS-2 (15% exploration interest and 10% interest in the Lakshmi and Gauri Development Areas) and farmed-in interests in Blocks GV-ONN-97/1 (30%) and CB-ONN-2001/1 (30%). On completion, Cairn received pre tax proceeds of \$135m.

Charitable and Political Donations

The Company has a Charities Committee which is responsible for distributing the Company's charitable donations to selected charities within an overall annual budget. During the year the Group made various charitable contributions in the UK totalling £61,750 (2003: £46,030). In addition, during the year the Group made various charitable contributions in India and Bangladesh totalling £232,000 and announced that it would make a donation of \$200,000 to the Tsunami appeal. No political donations were made and no political expenditure was incurred during the year.

Directors

The names and biographical details of the current directors of the Company are given on page 21. The beneficial interests of the directors in the ordinary shares of the Company are shown below:

	As at 31 December 2003 (or, if later, date of appointment)	As at 31 December 2004	As at 19 April 2005
Bill Gammell*	880,000	1,095,000	1,095,000
Mike Watts	152,041	250,000	250,000
Kevin Hart	221,811	290,000	290,000
Malcolm Thoms	260,000	315,002	315,002
Phil Tracy	-	5,000	5,000
Norman Murray	60,000	100,000	100,000
Hamish Grossart	50,000	100,000	100,000
Ed Story	50,000	50,000	50,000
Todd Hunt	30,000	35,000	35,000
Mark Tyndall	-	5,000	5,000
Andrew Shilston	-	5,000	5,000

* Bill Gammell's interest includes 138,548 shares which are held in discretionary trusts, where Mr Gammell's children are potential beneficiaries.

At 31 December 2004, none of the directors (or any members of their families) holds an interest in options over ordinary shares in the Company. Details of the share options exercised by certain of the directors during the year are set out in the Directors' Remuneration Report on page 45. None of the directors has a material interest in any contract, other than a service contract, with the Company or any of its subsidiary undertakings. Details of the directors' service contracts are set out on page 42.

Directors' Report *continued*

Major Interests in Share Capital

The Company has been notified, in accordance with sections 198 to 202 of the Act, of the under-noted interests in its ordinary shares as at 19 April 2005.

	Number of Shares	% of Share Capital
Fidelity Investments	23,848,637	14.97
Merrill Lynch Investment Managers	21,087,228	13.24
Lazard Asset Management	7,673,716	4.82
Legal & General Investment Management	6,670,922	4.19
F&C Asset Management	6,439,668	4.04
Deutsche Asset Management	6,025,190	3.78
Baillie Gifford	5,425,041	3.41
Aegon Asset Management	5,230,251	3.28

Creditor Payment Policy and Practice

It is Cairn'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. Trade creditors of the Company at 31 December 2004 were equivalent to 3 days' purchases, based on the average daily amount invoiced by suppliers to the Company during the year.

Election/Re-election of Directors

Andrew Shilston joined the Board on 8 November 2004 and is due to retire at the Annual General Meeting to be held on 3 June 2005 (being the first Annual General Meeting following his appointment) and, being eligible, offers himself for election as a director. Mr Shilston is a chartered accountant and has been the Finance Director of Rolls-Royce plc since 2003. Prior to that he was the Finance Director of Enterprise Oil plc from 1993 to 2002. He has agreed to become the chairman of the audit committee following the conclusion of the Annual General Meeting to be held on 3 June 2005.

Norman Murray, Ed Story and Bill Gammell retire by rotation at the Annual General Meeting to be held on 3 June 2005 in accordance with the Company's articles of association and, being eligible, offer themselves for re-election as directors. Hamish Grossart has served on the Board for more than nine years and in accordance with the Combined Code requires to be re-elected as a director on an annual basis.

The Board has carried out a formal performance evaluation and confirms that, after rigorous review, it has determined that the performance of each of the directors who are subject to re-election continues to be effective and that each demonstrates commitment to the role. An explanation of the performance evaluation procedure carried out by the Company is contained in the Corporate Governance Statement on pages 23 to 31. The directors' biographies are on page 21.

Share Capital Authorities

Resolution 9 in the Notice of Annual General Meeting seeks to give the directors authority to allot up to 53,098,788 unissued ordinary shares, being up to an aggregate nominal amount of £5,309,878.80. This maximum amount represents one third of the nominal value of the Company's total issued share capital as at 19 April 2005. As at 19 April 2005 the Company holds no shares in treasury, representing 0% of the total ordinary share capital (calculated exclusive of treasury shares). The authority conferred by this resolution will expire on 2 June 2010. The directors consider that the authority proposed to be given pursuant to resolution 9 is desirable to allow the Company to retain flexibility, although they have no present intention of exercising this authority.

Resolution 11 in the Notice of Annual General Meeting seeks to give the directors power to allot unissued ordinary share capital and to sell ordinary shares held in treasury for cash up to an aggregate nominal amount of £796,481.80 in aggregate without first being required to offer such shares to existing shareholders but this authority is limited to:

- (i) the allotment of ordinary shares and sale of treasury shares avoiding legal or practical problems should there be an offer of shares or other securities to shareholders pro rata in the future; and
- (ii) the allotment and sale of up to 7,964,818 ordinary shares and treasury shares for cash (for any purpose) representing 5% of the issued ordinary share capital of the Company as at 19 April 2005.

The authority conferred by this resolution will expire on 2 June 2010.

Directors' Report continued

Purchase of Own Shares

Resolution 12 in the Notice of Annual General Meeting will be proposed to authorise the Company to make market purchases of its own ordinary shares. Shares repurchased by the Company pursuant to such authority may be cancelled or held in treasury and then either sold (in whole or in part) for cash or cancelled (in whole or in part).

The directors intend to take advantage of the flexibility afforded by this resolution as they deem appropriate. No dividends will be paid on treasury shares and no voting rights attach to them.

The maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued ordinary share capital of the Company as at 3 June 2005. The maximum price which may be paid for an ordinary share pursuant to this resolution (exclusive of expenses) shall be an amount equal to 105% of the average of the middle market quotations for the Company's ordinary shares for the five business days immediately preceding the date of purchase. The minimum price which may be paid for an ordinary share pursuant to this resolution (exclusive of expenses) shall be ten pence.

In accordance with the Listing Rules, the Company will not repurchase shares in the period of two months immediately preceding the preliminary announcement of its annual or interim results or, if shorter, the period from the end of the financial period concerned up to and including the time of a relevant announcement or except in accordance with the Listing Rules, at any other time when, in terms of the Model Code, the directors would be prohibited from dealing in shares.

This authority, if conferred, will only be exercised if to do so would be in the best interests of shareholders generally.

This authority will expire on the earlier of 2 December 2006 or the conclusion of the Annual General Meeting of the Company to be held in 2006 (unless previously revoked, varied or renewed by the Company in general meeting).

As at 19 April 2005, options to subscribe for shares were outstanding over an aggregate of 1,661,087 ordinary shares (representing 1.04% of the issued share capital of the Company as at 19 April 2005). If the outstanding amount of the existing buy-back authority granted at the 2004 Annual General Meeting is utilised in full prior to the 2005 Annual General Meeting and the new authority is granted at the Annual General Meeting to be held on 3 June 2005 and is then utilised in full, the options outstanding at 19 April 2005 would represent 1.43% of the issued share capital of the Company.

Reduction of Authorised Share Capital – Cancellation of Unissued Redeemable Preference Shares

In connection with a scheme of arrangement (the "Scheme") under section 425 of the Act, which became effective on 19 February 2003, 49,999 non-voting redeemable preference shares of £1 each in the capital of the Company (the "Redeemable Shares") were issued by the Company to Cairn Energy Bangladesh Limited (formerly the ultimate holding company of the Group). The issue of the Redeemable Shares enabled the Company to re-register as a public limited company prior to the Scheme becoming effective. On 24 June 2003 the 49,999 Redeemable Shares were redeemed by the Company at par, in accordance with the Company's articles of association.

Since then, the Redeemable Shares have remained part of the authorised share capital of the Company. The directors do not anticipate that the Company will have any future requirement to issue any or all of the Redeemable Shares and accordingly, in order to simplify the share capital of the Company, it is proposed to reduce the authorised share capital by cancellation of the Redeemable Shares by paragraph (a) of resolution 10 in the Notice of Annual General Meeting. This resolution is to be proposed as a special resolution, as it also incorporates the adoption of new articles of association, as explained below.

If this resolution is passed, it will result in a reduction of the authorised share capital of the Company by £49,999, such that the Company's remaining authorised share capital will be £22,500,000, divided into 225,000,000 ordinary shares. This reduction in the authorised share capital is not a reduction in, or a repayment of, all or any part of the issued share capital of the Company and will not affect the underlying financial position of the Company in any manner.

Adoption of new articles of association

The current articles of association (the "Existing Articles") were adopted by the Company in November 2002, prior to the Scheme becoming effective. Since then, the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Treasury Shares Regulations") have come into force, allowing UK listed companies to hold their own shares "in treasury" after being repurchased from shareholders. In addition, there have been developments in the practice of UK listed companies in relation to uncertificated securities, electronic communications to and from such companies and their shareholders and the administration of general meetings. The directors believe that it is desirable to make a number of amendments to the Existing Articles to reflect such developments in UK listed company practice and the introduction of the Treasury Shares Regulations. Rather than making extensive amendments to the Existing Articles, it is proposed that new articles of association (the "New

Directors' Report continued

Articles") be adopted in place of the Existing Articles. A summary of the principal differences between the Existing Articles and the New Articles is set out below.

The adoption of the New Articles is proposed as paragraph (b) of resolution 10 in the Notice of Annual General Meeting. As stated above, this resolution will be proposed as a special resolution.

Although it would be possible to propose the cancellation of the Redeemable Shares and the adoption of the New Articles as separate resolutions, in view of the references to the Redeemable Shares in the Existing Articles it is considered by the directors to be simpler to deal with the cancellation as part of the resolution proposing the adoption of the New Articles.

Copies of the New Articles and of the Existing Articles will be available for inspection by shareholders at the Company's registered office at 50 Lothian Road, Edinburgh EH3 9BY between 9.00 a.m. and 5.00 p.m., Monday to Friday (other than public holidays) from the date of the Notice of Annual General Meeting to the conclusion of the Annual General Meeting to be held on 3 June 2005.

Principal differences between the Existing Articles and the New Articles

Set out below is a summary of the principal differences between the Existing Articles and the New Articles. The references to "articles" below corresponds to the numbering of the Existing Articles unless otherwise specified.

Capital

The cancellation of the 49,999 Redeemable Shares which currently form part of the authorised share capital of the Company is proposed as paragraph (a) of resolution 10 in the Notice of Annual General Meeting. Accordingly, references to the Redeemable Shares have been removed from article 6 (Share capital). Article 7A (Redeemable shares) of the Existing Articles, which sets out the rights attaching to the Redeemable Shares, has been deleted from the New Articles. In addition, article 7 (Redeemable shares and shares with special rights) has been amended to provide for the possibility that the shareholders may authorise the directors to determine the rights attached to any preference, deferred or other shares with special rights.

Alteration of capital

Article 13.2 (Fractions arising) has been amended to provide for the possibility that fractional entitlements could arise on either a consolidation or a consolidation followed by a sub-division. The wording in the Existing Articles only addresses the latter. Article 13.2 also gives express authority to the directors to effect the sale of fractional entitlements to third

parties, whether the shares representing such fractional entitlements are in certificated or uncertificated form.

Shares

Article 16.1 (Unissued shares and treasury shares at the disposal of the directors) has been amended to clarify that the directors have authority, subject to shareholders' statutory pre-emption rights, to resell or cancel shares repurchased by the Company and held in treasury. The inclusion of this wording is a matter of 'best practice' for listed companies; the necessary authority is contained within the amendments to the Act made by the Treasury Shares Regulations.

Certificates

Article 22.1 (Authentication and form of certificates) has been amended given that it is no longer a requirement under the Act for share certificates or other certificates to be issued under seal. In addition, article 22.1 has been updated to permit the Company to issue automated share certificates, by expressly authorising the directors to determine how share certificates may be authenticated or executed on behalf of the Company.

The following articles have, subsequently, been amended to take account of the possibility that shares may be in either certificated or uncertificated form: article 39 (Sale or cancellation of forfeited or surrendered shares), article 40 (Arrears to be paid notwithstanding forfeiture or surrender), article 47 (Refusal to register), article 48 (Requirements for registration of transfer), article 53.2 (Registration or transfer on death, bankruptcy, etc) and article 55.3 (Sale procedure and application of proceeds).

Disclosure of interests in shares

Article 54.2 (Disenfranchisement) has been amended to exclude shares held in treasury from the calculation of the 0.25% threshold, beyond which the Company may withhold dividend payments and other rights from a disenfranchised shareholder.

Location of general meetings

The provisions in respect of the location of general meetings and related matters (article 63) have been revised and supplemented to reflect current UK listed company practice. The principal changes are that:

- (i) the directors will be able to permit persons entitled to attend a general meeting to do so by simultaneous attendance and participation at other locations (a "satellite meeting place"), subject to the chairman being satisfied with the communication and other facilities at the satellite meeting places. Such persons will be entitled to vote, speak, appoint a proxy and have access to all documents as if they were at the principal meeting place;

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Directors' Report continued

- (ii) the chairman will be able to interrupt or adjourn a general meeting if he is not satisfied with the facilities at the principal meeting place or any satellite meeting place;
- (iii) the directors have the discretion to make arrangements for persons to listen to and/or watch the proceedings at any general meeting, if they are not present at the principal meeting place or a satellite meeting place. Such persons will not, however, be deemed to be present at such a meeting and will therefore not be entitled to vote. This may be used to control attendance numbers at the official venues;
- (iv) the directors will be permitted to postpone or change the location of a general meeting at short notice (and without serving a new notice of meeting) if they consider it unreasonable or impracticable to hold it at the location(s) specified in the notice of meeting. If practicable, the directors must advertise the change of arrangements in national newspapers; and
- (v) the Board and the chairman of a general meeting will have the power to take appropriate steps to ensure security at a general meeting, including the exclusion of any person who refuses to comply with these steps.

Notice of general meetings

Article 64 (Period and omission or non-receipt of notice) has been expanded to provide that the directors are entitled to specify a record date for entitlement to receive notice of a general meeting (subject to a maximum of 21 days prior to the sending of the notice) in accordance with the Uncertificated Securities Regulations 2001.

Article 65.4 (Contents of notice) is a new article that clarifies the position under the Uncertificated Securities Regulations 2001, in terms of which the directors may set a record date for entitlement to attend and vote at a general meeting at any time in the 48 hours prior to the commencement of the meeting.

Article 66 (Routine business) has been amended to expressly include the approval of the directors' remuneration report as routine business at an Annual General Meeting.

Proceedings at general meetings

The provisions in respect of proceedings at general meetings have been revised and supplemented to reflect current UK listed company practice.

Article 72 (Time and place of adjourned meetings) has been expanded to provide for the possibility of a general meeting being held at a principal meeting place and satellite meeting place(s) and permits shareholders who cannot attend an adjourned meeting reconvened at short notice to appoint a proxy for that meeting. In addition, it empowers the directors to determine a record date in respect of members' entitlement to attend and vote at an adjourned meeting in the same manner as in respect of the original meeting pursuant to article 64 (Period and omission or non-receipt of notice) and article 65 (Contents of notice).

Article 73 (Amendments to resolutions) has been amended to, firstly, provide that proposed amendments to resolutions may be lodged by electronic communication, and, secondly, provide the chairman with discretion to permit amendments to be considered and voted upon at short notice.

Article 78 (Continuance of meeting) has been amended to clarify that where a demand for a poll has been withdrawn, the chairman is not obliged to proceed with the poll.

Directors

Article 92 (Limits on number of directors) has been amended to set the limit of the maximum number of directors (other than alternate directors) at no more than 14 (as compared to the present limit of 12). Article 94 (Directors' fees) permits the payment of fees to directors in an aggregate amount not exceeding £600,000 per annum (as compared to the present figure of £250,000). Since the Existing Articles were adopted by the Company in November 2002, three new non-executive directors have been appointed in order to address the requirements of the new Combined Code on composition of the Board. The increase in the aggregate limit of fees also reflects the increase in fees payable to the non-executive directors recommended in the remuneration review carried out by New Bridge Street Consultants. See page 38 of the Directors' Remuneration Report for further details.

Directors' Report continued

Article 99.2 (When termination of appointment automatic) and article 99.3 (When termination of appointment not automatic) have been amended to clarify that when a director retires by rotation and is re-elected in the normal course of business, he does not lose his executive office.

Appointment, disqualification and retirement of directors

Article 104 (Identity of directors to retire) has been amended to clarify that any director who is disqualified from acting under section 293 of the Act (relating to the age limit for directors) may not be counted in the number of directors who are due to retire by rotation.

Proceedings of directors

Article 118 (Resolutions in writing) has been amended to permit a directors' written resolution to be executed by an alternate director who has been appointed by a director who is unable to act through ill health or disability. Previously, all directors, regardless of health, were required to execute a directors' written resolution in order for it to have effect. This amendment would also apply in respect of written resolutions of a committee with appropriate delegated authority.

Authentication of documents

Article 132 (Authentication of documents) has been amended to provide for the possibility that documents requiring authentication may be in electronic form.

Dividends

Article 136 (Interim dividends) and article 144 (Procedure for payment) have been amended to enable the directors to pay interim dividends in specie.

Article 144.1.2 (Procedure for payment) is a new article that empowers the directors to determine a specific mechanism for a member to elect not to receive payment of dividends in respect of uncertificated shares through CREST.

Winding up

Article 163 (Distribution of assets other than in cash) has been amended to provide that any division in specie of assets among the members by a liquidator may be other than in accordance with the existing rights of the members, but if any division is resolved otherwise than in accordance with

such rights, the members shall have the same rights of dissent and consequential rights as if such action was taken pursuant to a special resolution under section 110 of the Insolvency Act 1986.

Auditors

Ernst & Young LLP have expressed their willingness to continue as auditors and their re-appointment at the Annual General Meeting to be held on 3 June 2005 will be proposed in accordance with section 385 of the Act.

Annual General Meeting 2005

The resolutions to be proposed at the Annual General Meeting to be held on 3 June 2005 are set out in the Notice of Annual General Meeting on pages 82 to 85. Please note that this Annual Report and Accounts (which includes the Notice of Annual General Meeting) is an important document and requires your immediate attention. If you are in any doubt as to what action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your shares in Cairn Energy PLC please send this document and the accompanying Form of Proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

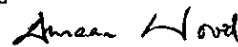
Recommendation

The directors consider that all of the resolutions set out in the Notice of Annual General Meeting are in the best interests of the Company and its shareholders as a whole and recommend that shareholders vote in favour of each of them.

By order of the Board

Duncan Wood
Company Secretary

19 April 2005



Directors' Remuneration Report

Remuneration Committee and Advisers

Reference is made to page 26 of the Corporate Governance Statement, where there is a summary of the role of the remuneration committee.

Cairn's remuneration committee operates within terms of reference set by the Board. These are reviewed periodically to ensure that the remuneration committee remains up to date with best practices appropriate to Cairn, its strategy and the business environment in which it operates.

The deliberations and decisions of the remuneration committee are governed by the provisions in the Listing Rules and the Combined Code (appended to the Listing Rules) and the remuneration committee has followed these provisions and those of the Act, as amended by the Directors' Remuneration Report Regulations 2002, in preparing this report.

As and when the remuneration committee deems appropriate, it takes external advice from the Company's legal advisers, Shepherd+ Wedderburn, auditors, Ernst & Young LLP and, in respect of the Company's share option plans and long term incentive plan ("LTIP"), BDO Stoy Hayward LLP. During the year, the remuneration committee also instructed New Bridge Street Consultants to carry out a review of the executive directors' remuneration packages and the non-executive directors' fees.

The current members of the remuneration committee are Hamish Grossart (chairman), Norman Murray, Ed Story and Mark Tyndall. The Chief Executive is not a member of the remuneration committee but may attend its meetings by invitation and is consulted in respect of certain of its proposals (although he is not consulted or involved in any discussions in respect of his own remuneration). Following the conclusion of the Annual General Meeting to be held on 3 June 2005, it is intended that Norman Murray will stand down as a member of the remuneration committee and that Todd Hunt will be appointed as a member of the remuneration committee. Norman Murray may still attend remuneration committee meetings on being invited to do so by the committee.

The remuneration committee determines and agrees with the Board the overall remuneration policy for the executive directors, the Chairman and the members of the GMB. The remuneration committee also determines, within the terms of the agreed policy and having consulted with the Chairman and the Chief Executive about their proposals, specific remuneration packages for each of the executive directors, including pension rights and any compensation payments to be paid on termination.

Remuneration Policy

Cairn's policy on executive directors' remuneration for the current year and subsequent financial years is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality individuals capable of achieving the Group's objectives and thereby enhance shareholder value. The package is generally weighted more towards variable pay and, in relation to the variable pay element, the package is weighted more towards long-term performance.

Each executive director's remuneration package currently consists of basic salary, benefits, annual performance related bonuses, a long term incentive plan, defined contribution pension and life assurance of four times basic annual salary.

The package is designed to support the Group's business strategy and to provide an appropriate incentive to maximise individual and corporate performance, whilst ensuring that overall rewards are market competitive. Details of the individual components of the package and of contracts are given below.

The remuneration of the non-executive directors takes the form solely of fees, which are agreed by the Board, having taken independent advice on appropriate levels, within an overall limit determined by shareholders. The fees are designed to attract experienced individuals and reflect the responsibilities of the role. The fees stated are in respect of all responsibilities undertaken by the non-executive directors, including membership of Board committees.

Basic Salary and Benefits

Basic salary is reviewed annually by the remuneration committee. Any changes take effect from 1 January each year. The salary increases awarded to directors for the year 2004 retained basic salary levels at below the median level identified in the previous review which was carried out by New Bridge Street Consultants in 2002.

In September 2004, the remuneration committee instructed New Bridge Street Consultants to carry out a comprehensive review of the executive directors' remuneration packages and the non-executive directors' fees for implementation in January 2005. The remuneration packages and fees were benchmarked against three comparator groups: (i) a group of broadly similar sized international oil and gas companies with median market capitalisation at approximately the same level as the Company's market capitalisation, (ii) a group of Scottish companies with a market capitalisation of between £530 million and £7.9 billion (median £1.1 billion) and (iii) a group of similar sized UK companies across all sectors with median market capitalisation at approximately the same level as the Company's market capitalisation.

As a result of the benchmarking, the basic salaries of the executive directors were increased (retaining the basic level at below an averaged median level to retain an element of caution in the review) from 2004 levels to £425,000 for Bill Gammell, to £290,000 for Mike Watts, to £265,000 for Kevin Hart, to £265,000 for Malcolm Thoms and to £250,000 for Phil Tracy. The non-executive directors' fees were increased from 2004 levels to £120,000 for Norman Murray, to £80,000 for Hamish Grossart and to £45,000 for each of Ed Story, Todd Hunt, Mark Tyndall and Andrew Shilston. These increases have taken effect for the year 2005.

Benefits available to the executive directors comprise a company car, permanent health insurance, private health insurance and death in service benefit.

Directors' Remuneration Report continued

Other than the instruction to carry out the review of remuneration and a separate review of the Company's incentive arrangements, New Bridge Street Consultants has no connection with the Company.

Share Options

The Group currently operates three share option plans, as follows:

1. 1996 Second Share Option Scheme ("1996 Scheme")
2. 2002 Unapproved Share Option Plan ("2002 Plan")
3. 2003 Approved Share Option Plan ("2003 Plan")

The 1996 Scheme was adopted in 1996. The approval of the *Inland Revenue* was not sought for the 1996 Scheme. The date of grant of the first award of options under the 1996 Scheme was 29 May 1996.

The 1996 Scheme has now been superseded by two new share option plans - the 2002 Plan and the 2003 Plan. As such, no further awards of options will be made under the 1996 Scheme. The date of grant of the last award of options under the 1996 Scheme was 1 October 2002.

The principal difference between the 2002 Plan and the 2003 Plan is that the approval of the *Inland Revenue* was not sought for the 2002 Plan. The 2003 Plan was approved by shareholders at the 2003 Annual General Meeting and subsequently by the *Inland Revenue*. The date of grant of the first award of options under the 2002 Plan was 18 March 2003. The date of grant of the first award of options under the 2003 Plan was 30 June 2003.

Options granted under the 1996 Scheme, 2002 Plan and 2003 Plan are exercisable three to ten years following the date of grant and are subject to performance conditions on exercise. At present, the option holder may only exercise options if Cairn's share price has increased by 5% on a compound basis over the period from the date of grant of options up to the date they are exercised. In addition, the percentage increase in Cairn's share price over the period must be at least equal to or greater than the percentage movement in the FTSE Oil & Gas Index.

The Company has formerly awarded share options under an *Inland Revenue* approved 1988 Executive Share Option Scheme. There are no outstanding share options under this scheme, with all outstanding share options having been exercised during the year.

Share options are awarded in order to provide employees with a long term performance incentive and to align their interests with those of shareholders. As such, the remuneration committee is satisfied that the current share price related performance conditions are appropriate. Confirmation of whether the applicable performance conditions have been met is subject to independent verification by Ernst & Young LLP. Ernst & Young LLP is also Cairn's external auditor.

Up to 5% of Cairn's issued ordinary share capital from time to time may be placed under option under the 1996 Scheme and the 2002 Plan in any rolling ten year period. Up to 10% of Cairn's issued ordinary share capital from time to time may be placed under option under the 1996 Scheme, the 2002 Plan and the 2003 Plan in any rolling ten year period.

Details of directors' interests in share options are given on pages 44 and 45 of this report. Since 1999, the long term incentives for executive directors and certain senior executives have been made through the Company's LTIP and no subsequent grants of options have been made to these individuals under the share option plans since that time.

LTIP

Details of directors' awards pursuant to the LTIP are given on pages 45 and 46.

The purpose of the LTIP is to align the interests of executive directors and senior executives with the interests of shareholders by providing a share based incentive. The LTIP is designed to reward participants based on company performance and benefits are only delivered if challenging conditions are met. Participants are required to hold 50% of any shares awarded pursuant to vesting for a minimum of one year and are not entitled to receive additional grants of options under any of the Company's share option plans.

The executive directors and senior executives eligible to receive awards are determined by the remuneration committee each year. Participants may be granted Tier One and Tier Two awards under the LTIP. Performance conditions for each are determined by the remuneration committee and the calculation of shares vesting based on these conditions is subject to independent verification by Ernst & Young LLP.

Performance Conditions - Tier One

A Tier One award is an award of Cairn shares with the vesting and release of all/part of those shares being dependent upon the executive remaining an employee and achievement of performance conditions over a performance period of three years. In any one year, the market value of Cairn shares comprised in a Tier One award at the date of grant will not exceed one and a half times a participant's annual gross remuneration.

Vesting of the Tier One award is currently subject to a total shareholder return ("TSR") target which is calculated in two steps, each of which must be satisfied.

Step One

First, the TSR of a Cairn share during the performance period is compared to the average TSR performance of the companies comprising the FTSE 250 ("the Index") at the beginning and at the end of the performance period. If Cairn's TSR performance exceeds the average TSR performance of the Index, then the step one test has been passed. The step two test will then be

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Directors' Remuneration Report continued

used to calculate how many (if any) Cairn shares the subject of the award will vest.

Step Two

Under step two, the TSR of Cairn shares will be compared to the TSR of a share in each company in a comparator group comprising exploration, production and integrated oil companies over the performance period (details of the comparator group are set out on this page and page 41). Each company will then be ranked in order of TSR performance. Cairn's position in the comparator group list will determine how many (if any) Cairn shares the subject of the award will vest, as follows:

- all the Cairn shares comprised in the award will vest if Cairn's position in the comparator group is at the upper quartile or above;
- 20% of the Cairn shares comprised in the award will vest if Cairn reaches the median in the comparator group;
- between the median and upper quartile the number of Cairn shares vesting will be calculated on a straight line basis; and
- no shares comprised in the award will vest if the TSR of Cairn shares does not place it at the median or above in the comparator group.

In addition, no Tier One award will vest unless the remuneration committee is satisfied that there has been a satisfactory and sustained improvement in Cairn's underlying financial position and performance over the performance period.

Performance Conditions – Tier Two

A Tier Two award is a TSR appreciation right over a number of notional Cairn shares. The maximum potential benefit a participant may receive under a Tier Two award is calculated by comparing the percentage change in Cairn's TSR over the performance period with the percentage change in the average TSR of the comparator group over the same period. The relative performance in Cairn's TSR (if any) over the performance period, is multiplied by the number of notional shares the subject of the award. This gives rise to a monetary figure which is then converted into an actual number of Cairn shares using the market value as at the date of vesting. Where there has been a fall in Cairn's TSR, no Tier Two award will vest.

Vesting of the Tier Two award is then subject to a further TSR target which is calculated in two steps, each of which must be satisfied.

Step One

This step is the same as step one of the performance conditions in respect of Tier One.

Step Two

Under step two, the TSR of Cairn shares will be compared to the TSR of a share in each company comprised in the comparator group over the performance period. As with Tier

One awards, each company will then be ranked in order of TSR performance. Cairn's position in the comparator group list will determine how many (if any) shares the subject of the award will vest, as follows:

- all of the benefit will vest if Cairn achieves position number one in the comparator group;
- 40% of the benefit will vest if Cairn reaches the upper quartile in the comparator group;
- between the upper quartile and number one position, the level of benefit vesting will be calculated on a straight line basis; and
- no benefit will vest under this target if the TSR of Cairn shares does not place it at the upper quartile or above in the comparator group.

In addition, no Tier Two award will vest unless the remuneration committee is satisfied that there has been a satisfactory and sustained improvement in Cairn's underlying financial position and performance over the performance period. At the end of the performance period, 50% of vested shares under both Tier One and Tier Two awards will be transferred to participants immediately, and the remaining shares will be transferred at the end of one year.

Vesting of the award will be dependent upon the executive remaining an employee, and upon the achievement of performance conditions over the performance period. In any three year period, the market value of the notional shares comprised in all outstanding Tier Two awards at the date of grant will not exceed four times a participant's annual gross remuneration.

The LTIP is designed to provide the executive directors and other senior executives with a long term incentive based on company performance. As such, the performance conditions described above are deemed appropriate by the remuneration committee.

The remuneration committee reviews performance conditions on a regular basis. For the first step of the TSR target described on page 39, for 2004 awards, the Company's performance is currently measured against the FTSE 250 Index. For awards in earlier years, the Company's performance was measured against the FTSE Small Cap Index (excluding investment trusts). The remuneration committee is currently reviewing the performance conditions for 2005.

Comparator Group

The comparator group of companies used in the second step of the TSR target described on this page is currently as follows:

BG Group p.l.c.
Chevron Texaco Corporation
Dana Petroleum plc
First Calgary Petroleum Limited
Fortune Oil PLC
John Wood Group PLC

Directors' Remuneration Report continued

Melrose Resources PLC
Occidental Petroleum Corporation
Paladin Resources plc
Premier Oil plc
Ramco Energy plc
SOCO International plc
Tullow Oil plc
Venture Production plc

Save for a different comparator group of companies used in the second step of the TSR target, the performance conditions applicable to awards made pursuant to the LTIP on 2 January 2001 and which vested on 10 March 2004 (details of which are on page 46) were the same as those set out above.

The comparator group of companies used in the second step of the TSR target for awards made on 2 January 2001 was as follows:

BP Amoco PLC
Chevron Corporation
Enterprise Oil PLC
Exxon Mobil Corporation
Fortune Oil PLC
LASMO PLC
Melrose Resources PLC
Occidental Petroleum Corporation
Paladin Resources PLC
Premier Oil PLC
Ramco Energy PLC
Royal Dutch Petroleum Company
Shell Transport and Trading Company
Tullow Oil PLC

Annual Cash Bonus Scheme

Cairn's annual cash bonus scheme has been in place since 1999 and applies to all employees and executive directors. Bonuses under the scheme are based on individual and Company performance measures. Individual performance is measured through the Company's performance management system. Company performance measures are based on annually defined key performance indicators ("KPIs"). The KPIs for 2004 encompassed various budgetary, portfolio growth and procedural compliance targets, the substantial majority of which were met. For employees other than executive directors, only the individual and company performance measures determine the overall bonus award.

For the executive directors, the 2004 bonus award was subject to two additional performance measures, being performance against annually defined corporate objectives and reserve replacement performance. This resulted in one quarter of the award being determined by individual performance, one quarter by Company performance, one quarter by performance against corporate objectives and one quarter by reserve replacement performance. These additional performance measures will also apply to executive directors in 2005. The corporate objectives for 2004 included reserve replacement targets, production targets, completion of the disposal of a substantial part of the Group's deep water acreage in India

and securing the transfer of operatorship of the interests in Bangladesh. Certain of the 2004 corporate objectives are commercially sensitive and are therefore excluded from this report, as are the 2005 corporate objectives.

The maximum level of bonus award for the executive directors for 2004 was 66.6% of salary for the Chief Executive and 50% of salary for the other executive directors. The bonuses awarded to the executive directors for performance in 2004 are shown in the table on page 44. The maximum level of bonus award for certain other employees for 2004 was 40% of salary. The maximum level of bonus award for the executive directors for 2005 will remain unchanged from 2004.

The remuneration committee has the discretion to award bonuses in addition to those payable under the annual cash bonus scheme in recognition of particular efforts or achievements by employees, including executive directors. In June 2004, in recognition of the exploration successes in Rajasthan (in particular the Mangala discovery) and their impact on the Group, the remuneration committee awarded a bonus to Mike Watts of an amount equal to his annual salary.

Pension Scheme

The Company is the principal employer for a defined contribution pension scheme in the UK: the Cairn Energy PLC Retirement Benefits Scheme. This scheme is non-contributory and all UK employees aged 18 and over are eligible to participate in the scheme. The Company contributes 10% of basic annual salary (15% in respect of senior executives) to the pension scheme on behalf of all qualifying employees.

Bill Gammell, Mike Watts and Kevin Hart are members of the Cairn Energy PLC Retirement Benefits Scheme and are entitled to a contribution to the scheme equal to 15% of their respective annual basic salary. Malcolm Thoms and Phil Tracy each have a personal pension plan and receive a contribution from the Company equal to 15% of their respective annual basic salary. Further details of the contribution made by the Company in respect of each executive director are set out on page 44.

The Company is also the principal employer for a Small Self-Administered Scheme. Bill Gammell is the sole member of this scheme. In June 2004 the Company made a contribution of £100,000 into the Company's Small Self-Administered Scheme on behalf of Bill Gammell. This contribution has been deducted from the 2004 bonus paid to Bill Gammell under the Company's annual cash bonus scheme. The Company is not contractually obliged to make any contributions into this scheme on behalf of Bill Gammell.

Changes to Pension Scheme Regulations

Due to the major changes to pension scheme regulations which will take effect from 1 April 2006, the remuneration committee intends to review the provision of pensions for senior executives during 2005 and make such arrangements as it considers appropriate.

Directors' Remuneration Report *continued***Service Contracts**

The Company's policy is for all executive directors to have contracts of service which can be terminated by either the director concerned or the Company on giving 12 months' notice of termination. On a change of control of the Company resulting in the termination of a director's employment, each of the directors is entitled to compensation of a sum equal to their annual basic salary and benefits as at the date of termination of employment.

Each of the non-executive directors has a letter of appointment in terms of which he is appointed for a fixed three year period, subject to the Company's articles of association, which provide for retirement by rotation at least once every three years. The letters of appointment set out the time commitment expected by the Company and can be terminated with immediate effect by either the director

concerned or the Company. The Board is satisfied that each of the non-executive directors commits sufficient time to fulfil his duties as a director of the Company. The external commitments of the Chairman have reduced during 2004 and those of the Deputy Chairman are being reduced in 2005. None of the non-executive directors has any conflict of interest which has not been disclosed to the Board in accordance with the Company's articles of association.

The terms and conditions for the appointment of the non-executive directors of the Company are available for inspection on request and will be available for inspection before and during the Annual General Meeting to be held on 3 June 2005.

Details of the service contracts and letters of appointment of the current directors of the Company are given in the table below:

	Effective Date	Unexpired Term	Notice Period
Executive service contracts			
Bill Gammell	19.02.03	N/A	12 months
Mike Watts	19.02.03	N/A	12 months
Kevin Hart	19.02.03	N/A	12 months
Malcolm Thoms	19.02.03	N/A	12 months
Phil Tracy	06.02.04	N/A	12 months
Non-executive letters of appointment			
Norman Murray	19.02.03	10 months	None
Hamish Grossart	19.02.03	10 months	None
Ed Story	19.02.03	10 months	None
Todd Hunt	14.05.03	13 months	None
Mark Tyndall	10.10.03	18 months	None
Andrew Shilston	08.11.04	31 months	None

Certain of the Company's executive directors serve as non-executive directors on the boards of other companies and are permitted to retain the fees relating to those positions. Details of the positions held and the fees receivable are set out in the table below.

Executive Director	Position Held	Fees (2004)
Bill Gammell	Non-executive director, Artemis AIM VCT plc	£10,000
Kevin Hart	Non-executive director, Glasgow Income Trust PLC	£10,000
Malcolm Thoms	Non-executive director, Revus Energy AS	£20,400
Phil Tracy	Non-executive director, Vienco Oil & Gas Limited	£16,000 (payable partly in cash and partly in shares)

Directors' Remuneration Report continued

The Board believes, in principle, in the benefits of executive directors accepting positions as non-executive directors of other companies in order to widen their skills and knowledge for the benefit of the Company, provided that the time commitments are not unduly onerous.

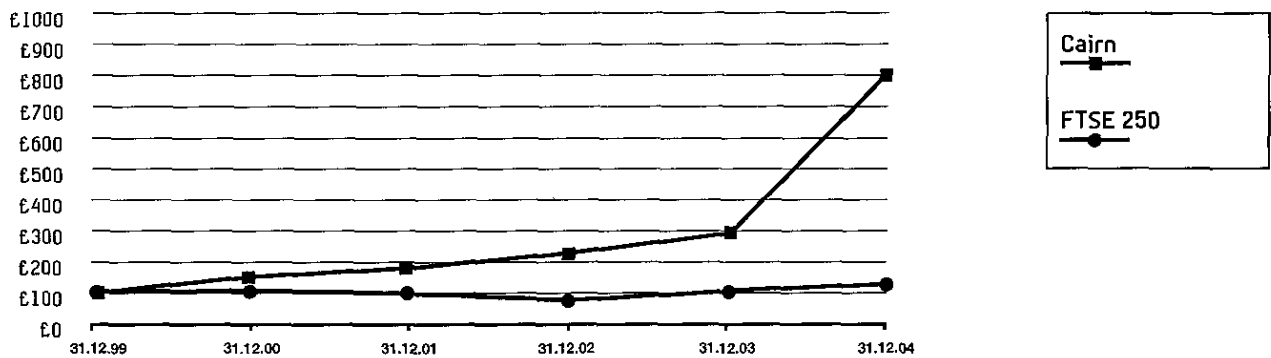
The appointment of any executive director to a non-executive position with another company requires to be approved by the Board. In the case of a proposed appointment to a company within the oil and gas industry, permission will only be given if the two companies do not compete in the same geographical area.

Performance Graphs

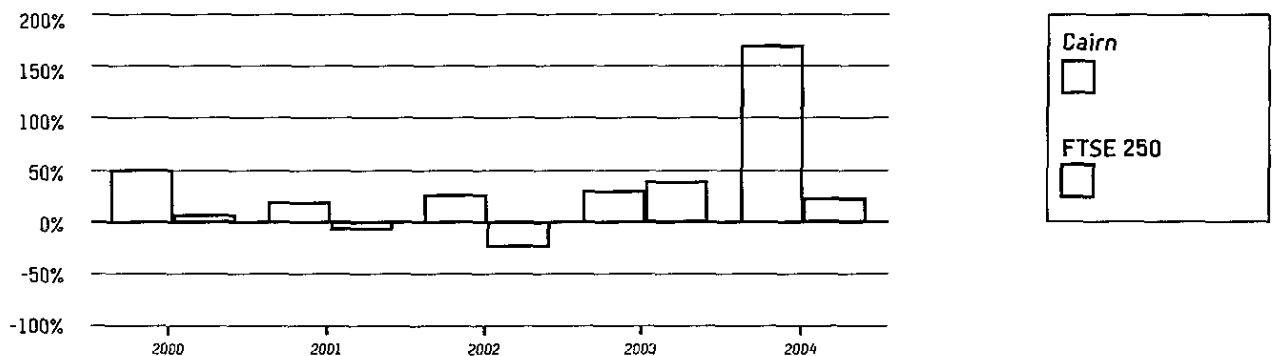
The FTSE 250 Index was selected as an appropriate comparator index for the two performance graphs shown below as it represents a broad equity market index in which Cairn was a constituent member for approximately three quarters of the year (from 1 January 2004 to 22 September 2004). For the remainder of the year, Cairn was a member of the FTSE 100 Index.

The graphs compare Cairn's TSR with that of the chosen index. The bar chart is presented as additional information to that required by the Act, as amended by the Directors' Remuneration Report Regulations 2002.

Comparison of Five Year Cumulative TSR on an investment of £100



Comparison of Annual Percentage Change in TSR



Directors' Remuneration Report *continued*

INFORMATION SUBJECT TO AUDIT

Directors' Remuneration

The remuneration of the directors for the year ended 31 December 2004 was as follows:

	Salary £	Benefits ¹ £	Annual Bonus ² £	Fees £	Total 2004 £	Total 2003 £	Pension 2004 £	Pension 2003 £
Executive								
Bill Gammell	372,600	23,705	148,375 ³	-	544,680	583,337	155,890 ³	54,000
Mike Watts	248,400	15,344	358,628 ⁴	-	622,372	358,126	37,260	36,000
Kevin Hart	227,700	14,719	99,619	-	342,038	328,152	34,155	33,000
Malcolm Thoms	227,700	25,635	102,465	-	355,800	345,291	34,155	33,000
Phil Tracy ⁵	180,256	2,592	79,063	-	261,911	-	27,038	-
Non-executive								
Norman Murray	-	-	-	82,800	82,800	80,000	-	-
Hamish Grossart	-	-	-	61,479	61,479	59,400	-	-
Ed Story	-	-	-	31,878	31,878	30,800	-	-
Todd Hunt	-	-	-	31,878	31,878	19,250 ⁶	-	-
Mark Tyndall	-	-	-	31,878	31,878	7,003 ⁷	-	-
Andrew Shilston ⁸	-	-	-	4,782	4,782	-	-	-

Notes:

- 1 Benefits comprise a company car, permanent health insurance, private health insurance and death in service benefit.
- 2 The annual bonus for 2004 is payable in the subsequent financial year.
- 3 In June 2004, a contribution of £100,000 was paid into the Company's Small Self-Administered Scheme on behalf of Bill Gammell. This contribution has been deducted from the bonus paid to Bill Gammell under the Company's cash bonus scheme and included in the figure for the pension contribution made by the Company in respect of Bill Gammell.
- 4 In June 2004, in recognition of the exploration successes in Rajasthan and their impact on the Group, Mike Watts was awarded a bonus of £248,400 (equal to his annual salary). This was in addition to his annual bonus.
- 5 Phil Tracy was appointed a director on 6 February 2004. The figures stated are in respect of the period from that date to 31 December 2004.
- 6 Todd Hunt was appointed a director on 14 May 2003. The fees stated are in respect of the period from that date to 31 December 2003.
- 7 Mark Tyndall was appointed a director on 10 October 2003. The fees stated are in respect of the period from that date to 31 December 2003.
- 8 Andrew Shilston was appointed a director on 8 November 2004. The fees stated are in respect of the period from that date to 31 December 2004.

Directors' Interests in Share Options

The total number of share options held by the executive directors is as follows:

	At 01.01.04	Exercised in year	At 31.12.04	At 19.04.05
Bill Gammell	205,000	(205,000)	-	-
Mike Watts	80,000	(80,000)	-	-
Kevin Hart	100,000	(100,000)	-	-
Malcolm Thoms	60,000	(60,000)	-	-
Phil Tracy	-	-	-	-

Directors' Remuneration Report *continued*

An analysis of options held by directors under each scheme during 2004 is as follows:

Scheme	Date of Grant	Exercise Price £	Bill Gammell	Mike Watts	Kevin Hart	Malcolm Thoms	Phil Tracy
1988 Scheme	31.08.94	0.78	(55,000)	-	-	-	-
1996 Scheme	29.05.96	2.34	(150,000)	(80,000)	-	(60,000)	-
1996 Scheme	15.04.98	3.51	-	-	(100,000)	-	-

Bill Gammell exercised the options under the 1988 Scheme shown in brackets on 24 June 2004 and purchased all 55,000 shares at a price of £0.78 per share. The closing market value on the date of exercise was £13.85 per share.

In respect of the 1996 Scheme, each of the directors exercised the options shown in brackets below their respective names on 19 May 2004 at a price of £2.34 per share in the case of Bill Gammell, Mike Watts and Malcolm Thoms and at a price of £3.51 per share in the case of Kevin Hart. Immediately after exercising these options, Bill Gammell sold 150,000 shares, Mike Watts sold 80,000 shares, Kevin Hart sold 100,000 shares and Malcolm Thoms sold 60,000 shares, in each case at a price of £9.98 per share. The closing market value on the date of exercise was £9.84 per share.

The total aggregate gain made by the directors pursuant to the exercise of share options during the year was £3,581,450 (2003 total aggregate gain: £nil).

None of the directors hold any options under any of the Company's share option plans.

The market value of one Cairn share on 31 December 2004 was £10.90. During 2004, the range of the high and low market value of Cairn shares was £15.70 to £3.65. A summary of the performance conditions that require to be satisfied prior to any exercise of share options is set out on page 39.

LTIP Awards

The total number of combined Tier One and Tier Two awards held by the executive directors pursuant to the LTIP is as follows:

	At 01.01.04	Awarded in year	Vested in year	At 31.12.04
Bill Gammell	841,000	113,000	205,069	663,000
Mike Watts	642,000	38,000	125,907	516,000
Kevin Hart	625,000	38,000	125,907	499,000
Malcolm Thoms	615,000	38,000	125,907	489,000
Phil Tracy	148,000	64,000	-	212,000

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Directors' Remuneration Report continued

An analysis of the Tier One and Tier Two awards held by directors pursuant to the LTIP during 2004 is as follows:

Tier One Awards

Performance Period	Market Value*	Bill Gammell	Mike Watts	Kevin Hart	Malcolm Thoms	Phil Tracy
02.01.01 - 01.01.04	£2.055	194,000	121,000	121,000	121,000	-
11.03.02 - 10.03.05	£2.675	40,000	50,000	50,000	40,000	-
01.09.02 - 31.08.05	£2.98	-	-	-	-	50,000
18.03.03 - 17.03.06	£3.055	130,000	98,000	81,000	81,000	49,000
10.03.04 - 09.03.07	£8.735	63,000	38,000	38,000	38,000	32,000

Tier Two Awards

Performance Period	Market Value*	Bill Gammell	Mike Watts	Kevin Hart	Malcolm Thoms	Phil Tracy
02.01.01 - 01.01.04	£2.055	97,000	43,000	43,000	43,000	-
11.03.02 - 10.03.05	£2.675	250,000	200,000	200,000	200,000	-
18.03.03 - 17.03.06	£3.055	130,000	130,000	130,000	130,000	49,000
10.03.04 - 09.03.07	£8.735	50,000	-	-	-	32,000

* The prices shown in the tables above represent the market value of a Cairn share on the date of commencement of the performance period.

Vested Awards

Details of awards which vested during 2004 are given in the table below. Calculations to determine the number of shares vesting, based on the performance conditions described on pages 39 and 40 were carried out by Cairn and independently verified by Ernst & Young LLP.

Director	Performance Period	Market value of a Cairn Share on 02.01.01	Vesting Date	Market value of a Cairn Share on Vesting Date	Tier One Shares	Tier Two Shares
Bill Gammell	02.01.01-01.01.04	£2.055	10.03.04	£8.70	194,000	11,069
Mike Watts	02.01.01-01.01.04	£2.055	10.03.04	£8.70	121,000	4,907
Kevin Hart	02.01.01-01.01.04	£2.055	10.03.04	£8.70	121,000	4,907
Malcolm Thoms	02.01.01-01.01.04	£2.055	10.03.04	£8.70	121,000	4,907
Phil Tracy	-	-	-	-	-	-

The total aggregate gain made by the executive directors on vesting, based on the market value at the date of vesting multiplied by the total number of shares vesting, was £5,070,000 (2003 total aggregate gain: £1,891,000).

By order of the Board
Duncan Wood
Company Secretary
19 April 2005

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Independent Auditors' Report

to the Members of Cairn Energy PLC

We have audited the Group's financial statements for the year ended 31 December 2004 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement and the related notes 1 to 31. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Directors' Responsibility Statement in relation to the financial statements included in the Corporate Governance Statement on page 28. The directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or

form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Highlights, Overview, Chairman's Statement, Operational Review, Financial Review, Board of Directors, Environmental & Social Review, Corporate Governance Statement, Directors' Report, unaudited part of the Director's Remuneration Report, Reserves, Principle Licence Interests, Five Year Summary, Company Information, Notice of Annual General Meeting, Glossary and the accompanying Form of Proxy. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Ernst & Young LLP
Registered Auditor, Edinburgh
19 April 2005

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Principal Licence Interests

South Asia

Country	Block	Operator	Working Interest (%)
India	Block PKGM-1 (Ravva)	Cairn	22.50
	Block KG-DWN-98/2	ONGC	10.00*
	Block CB/OS-2, Exploration	Cairn	60.00*
	Block CB/OS-2, Development Areas	Cairn	40.00*
	Block RJ-ON-90/1 Exploration	Cairn	100.00
	Block RJ-ON-90/1 Development Area	Cairn	70.00**
	Block CB/ONN-2001/1	ONGC	30.00*
	Block CB/ONN-2002/1	ONGC	30.00
Bangladesh	Block 5	Cairn	90.00
	Block 10	Cairn	90.00
	Block 16 - (Sangu Development Area)	Cairn	75.00
Nepal	Blocks 1 & 2	Cairn	100.00
	Blocks 4, 6 & 7	Cairn	100.00

Notes:

* Post completion of DNGC transaction (March 2005)

** Post DNGC back-in (January 2005)

Reserves

	Direct working interest basis	Direct entitlement basis
Group proved plus probable oil reserves	mbbls	mbbls
At 1 January 2004	28,286	18,369
Revisions of previous estimates	3,848	886
Sale of reserves in place	(1,422)	(1,422)
Production	(4,538)	(2,293)
At 31 December 2004	26,174	15,540
Group proved plus probable gas reserves	mmscf	mmscf
At 1 January 2004	510,592	349,724
Revisions of previous estimates	(225,650)	(130,655)
Acquisition of reserves in place	349,353	212,584
Production	(48,040)	(36,289)
At 31 December 2004	586,255	395,364
Group proved plus probable oil and gas reserves	mboe	mboe
At 31 December 2004	123,883	81,434
At 31 December 2003	113,385	76,656
Reserves by region are as follows:	mboe	mboe
North Sea	-	-
South Asia	123,883	81,434
At 31 December 2004	123,883	81,434
Production by region during the year was as follows:	mboe	mboe
North Sea	113	113
South Asia	12,432	8,228
	12,545	8,341

For the purposes of this table, 6 mscf of gas has been converted to 1 boe.

In India and Bangladesh absolute title to any hydrocarbon reserves is vested in the host government. However, under the terms of the PSCs, Cairn is entitled to receive a share of the hydrocarbon production and associated revenues.

Group reserves have therefore been presented both on a direct entitlement basis and a direct working interest basis. The direct entitlement basis takes into account projections of government share of production calculated in accordance with certain price and expenditure assumptions. Entitlement interest reserves are utilised for unit of production basis calculations in the financial statements.

Direct working interest basis is Cairn's share of production calculated by reference to our joint venture participating interest as shown in the Principal Licence Interests on page 48.

Sales of reserves in place relate to the disposal of the Group's UK asset (10% interest in Gryphon) during the year.

Acquisition of reserves in place relates to the purchase of Shell's upstream interests in Bangladesh.

The development plans for Mangala and Aishwariya have yet to be finalised and so the associated Rajasthan reserves have been disclosed but not been booked in the year end financial statements.

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Group Profit and Loss Account

For the year ended 31 December 2004

	Notes	Continuing operations £'000	Continuing operations exceptional items £'000	Discontinued operations £'000	Total 2004 £'000	Total 2003 (Restated) £'000
Turnover	3/4	108,269	(14,730)	1,910	95,449	155,814
Cost of sales						
Production costs		(27,210)	-	(479)	(27,689)	(26,498)
Depletion		(30,913)	-	(695)	(31,608)	(42,731)
Decommissioning charge		(1,102)	-	(81)	(1,183)	(1,231)
Gross profit/(loss)		49,044	(14,730)	655	34,969	85,354
Administrative expenses		(18,200)	-	-	(18,200)	(12,268)
Operating profit/(loss)	3/4	30,844	(14,730)	655	16,769	73,086
Exceptional gain on sale of oil and gas assets	4	-	-	2,206	2,206	-
Profit/(loss) on ordinary activities before interest		30,844	(14,730)	2,861	18,975	73,086
Interest receivable and similar income	7	1,811	-	-	1,811	475
Interest payable and similar charges	4/8	(3,872)	(1,017)	-	(4,889)	(4,548)
Profit/(loss) on ordinary activities before taxation		28,783	(15,747)	2,861	15,897	69,013
Taxation on profit on ordinary activities						
- current	9	(825)	-	(1,421)	(2,246)	(5,583)
- deferred	9/20	(8,981)	6,172	-	(2,809)	(17,201)
		(9,806)	6,172	(1,421)	(5,055)	(22,784)
Profit/(loss) for the year	10	18,977	(9,575)	1,440	10,842	46,229
Earnings per ordinary share – basic	11				7.11p	31.47p
Earnings per ordinary share – diluted	11				7.05p	31.38p

Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	2004 £'000	2003 (Restated) £'000
Profit for the year	10,842	46,229
Unrealised foreign exchange differences	(19,555)	(32,854)
Total recognised gains and losses relating to the year	(8,713)	13,375
Prior year adjustment*	(83)	
Total gains and losses recognised since last annual report	(8,796)	

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2004

	Notes	2004 £'000	2003 (Restated) £'000
Total recognised gains and losses for the year		(8,713)	13,375
Redemption of non-equity shares		-	(50)
New shares issued for cash		101,889	-
New shares issued in respect of employee share options		4,559	1,840
Cost of shares purchased by ESOP Trust	24	(9,329)	-
LTIP charge	26	4,956	864
Net additions to shareholders' funds		93,362	16,029
Opening shareholders' funds (after prior year adjustment)*		337,778	321,749
Closing shareholders' funds		431,140	337,778

Note:

* The prior year adjustment relates to the change in accounting policy arising from the implementation of UITF 38 Accounting for ESOP Trusts. The opening shareholders' funds at 1 January 2004, before deducting Own Shares held of £4,293,000 (cost less amortisation under previous UK GAAP) were £342,071,000. Further detail is provided in the Notes to the Accounts on page 77.

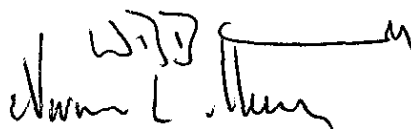
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Balance Sheets

As at 31 December 2004

	Notes	Group 2004 £'000	Group 2003 (Restated) £'000	Company 2004 £'000	Company 2003 (Restated) £'000
Fixed assets					
Exploration assets	12	235,503	155,046	-	-
Development/producing assets	13	232,415	236,749	-	-
Other fixed assets	14	1,628	1,546	815	703
Investments	15	50	54	15,437	14,891
		469,596	393,395	16,252	15,594
Current assets					
Debtors	16	69,934	56,866	110,553	54,934
Cash at bank	17	72,042	17,766	34,409	917
		141,976	74,632	144,962	55,851
Creditors: amounts falling due within one year	18	81,656	42,396	3,811	2,209
Net current assets		60,320	32,236	141,151	53,642
Total assets less current liabilities		529,916	425,631	157,403	69,236
Provisions for liabilities and charges	20	30,628	16,082	-	-
Deferred taxation	20	68,148	71,771	-	-
Net assets		431,140	337,778	157,403	69,236
Capital and reserves					
Called-up share capital - equity	21	15,901	15,010	15,901	15,010
Share premium	22	107,278	1,721	107,278	1,721
Other reserves	23	24,256	24,256	-	-
Shares held by ESOP Trust	24	(14,031)	(4,702)	(14,031)	(4,702)
Capital reserves - non distributable	25	26,281	26,281	50	50
Capital reserves - distributable	25	109,635	109,635	-	-
Profit and loss account	26	161,820	165,577	48,205	57,157
Shareholders' funds		431,140	337,778	157,403	69,236

N L Murray, Chairman
W B B Gammell, Chief Executive
19 April 2005



Group Statement of Cash Flows

For the year ended 31 December 2004

	Notes	2004 €'000	2003 €'000
Net cash inflow from operating activities	4(b)	77,549	122,177
Returns on investments and servicing of finance			
Interest received		1,711	475
Interest paid		(1,220)	(1,027)
		491	(552)
Taxation		(4,678)	(4,425)
Capital expenditure and financial investment			
Expenditure on exploration assets		(76,492)	(55,902)
Expenditure on development/producing assets		(18,252)	(18,670)
Acquisition of Bangladesh assets		(23,843)	-
Purchase of other fixed assets		(1,459)	(1,192)
Sale of development/producing assets	4(d)	7,305	10,368
Sale of other fixed assets		44	73
		(112,697)	(65,323)
Equity dividends paid		-	-
Net cash (outflow)/inflow before use of liquid resources and financing		(39,335)	51,877
Management of liquid resources*			
Cash on short term deposit		(55,392)	(9,755)
Financing			
Issue of shares - equity share options		4,559	1,840
- equity share placing		101,889	-
- non equity		-	37
Redemption of non equity shares		-	(50)
Purchase of own shares		(9,329)	-
Repayment of debt		-	(47,918)
		97,119	(46,091)
Increase/(decrease) in cash in the year	17(b)	2,392	(3,969)

* Short term deposits of less than one year are disclosed as liquid resources.

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Notes to the Accounts

For the year ended 31 December 2004

1 Accounting Policies

a) Accounting convention

Cairn prepares its accounts under the historical cost convention.

b) Accounting standards

Cairn prepares its accounts in accordance with applicable accounting standards.

Cairn's accounts fall within the scope of the Statement of Recommended Practice ("SORP") issued by the Oil Industry Accounting Committee, "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" and have been prepared in accordance with the provisions thereof.

c) Basis of consolidation

The consolidated accounts include the results of the Company and its subsidiary undertakings to 31 December. The consolidated profit and loss account and cash flow statement include the results and cash flows of subsidiary undertakings acquired during the year, using the acquisition method of accounting. The consolidated profit and loss account and cash flow statement include the results and cash flows of subsidiary undertakings disposed of during the year, up to the date of disposal.

Cairn allocates the purchase consideration of any acquisition to assets and liabilities on the basis of fair values at the date of acquisition. In accordance with FRS 10, goodwill arising on acquisitions since 1 January 1998 is capitalised, classified as an asset and amortised on a straight line basis over its useful economic life, subject to review for impairment in periods where events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill previously eliminated against reserves at 31 December 1997 has not been reinstated on implementation of FRS 10. The goodwill that was not reinstated will be charged to the profit and loss account on subsequent disposal of the business to which it relates.

No Company profit and loss account is presented, as provided by section 230 of the Companies Act 1985.

d) Turnover

Turnover represents Cairn's share of oil, gas and condensate production and tariff income, recognised on a direct entitlement basis.

e) Fixed assets

Cairn follows the full cost method of accounting for oil and gas assets. Under this method, all expenditure incurred in connection with and directly attributable to the acquisition, exploration, appraisal and development of oil and gas assets, including interest payable and exchange differences incurred on borrowings directly attributable to development projects, is capitalised in two geographical cost pools: South Asia and North Sea. On disposing of the Group's last remaining North Sea interest during the year only one cost pool remains at the year end.

The capitalisation of expenditure under each phase of the project ends on completion of that phase. Acquisition, exploration and appraisal expenditure is capitalised as 'exploration assets' within the balance sheet. Exploration assets expenditure is transferred to 'development/producing assets' when the commercial reserves attributable to the underlying asset have been established.

Further expenditure on fixed assets in the production phase is capitalised where future economic benefit is enhanced.

Net proceeds from any disposal of oil and gas assets are credited against the previously capitalised costs. In the case of disposal of an asset holding subsidiary, net proceeds represents the net book value of the assets sold together with the gain or loss arising on disposal of that subsidiary.

f) Depletion, impairment and depreciation

Depletion

Cairn depletes expenditure on oil and gas production and development on a unit of production basis, based on proved and probable reserves.

Impairment

Exploration assets are reviewed regularly for indications of impairment and costs are written off where circumstances indicate that the carrying value might not be recoverable. In such circumstances if the exploration asset has a corresponding development/producing cost pool, then the exploration costs are transferred to that cost pool and are written off on a unit of production basis through the depletion charge. Where there is no such development/producing cost pool, the exploration costs are charged immediately to the profit and loss account.

Notes to the Accounts continued

For the year ended 31 December 2004

Impairment reviews on development/producing oil and gas assets are carried out from a geographical pool perspective, in accordance with FRS 11.

Each year, the net book value of the pool is compared with the associated discounted future net cash flows. If the net book value is higher, then the difference is written off to the profit and loss account as impairment. Discounted future net cash flows for FRS 11 purposes are calculated using an estimated oil price of \$20/bbl (2003: \$15/bbl), escalation prices and costs of 3% and a discount rate of 10%.

Where there has been a charge for impairment in an earlier year, that charge can be reversed in a later period to the extent that the discounted cash flows are higher than the net book value at the time.

Depreciation

Fixed assets, other than oil and gas assets, are depreciated over their expected useful economic lives as follows:

	Annual Rate (%)	Depreciation Method
Tenants' improvements	10 - 33	straight line
Vehicles, fixtures and equipment	25 - 50	straight line

g) Decommissioning

At the end of the producing life of a field, costs are incurred in removing and decommissioning production facilities. Cairn recognises the full discounted cost of decommissioning as an asset and liability when the obligation to rectify environmental damage arises. The decommissioning asset is included within fixed assets with the cost of the related installation. The liability is included within provisions. Revisions to the estimated costs of decommissioning which alter the level of the provisions required are also reflected in adjustments to the decommissioning asset. The amortisation of the asset, calculated on a unit of production basis based on proved and probable reserves, is shown as the "decommissioning charge" in the profit and loss account, and the unwinding of discount is included within "other finance costs - unwinding of discount" in note 8.

h) Foreign currencies

In the accounts of individual Group companies, Cairn translates foreign currency transactions into local currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into local currency at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are taken to the profit and loss account except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

Cairn maintains the accounts of all overseas subsidiary undertakings and branches in US\$, with the exception of certain Dutch companies which are recorded in Euros. Cairn translates overseas subsidiary accounts using the closing rate method, whereby assets and liabilities are translated into sterling at the rate of exchange prevailing at the balance sheet date and profit and loss items are translated into sterling at average rates for the year. Cairn takes exchange differences arising on the translation of net assets and associated long term borrowings of overseas subsidiary undertakings and branches directly to reserves.

Rates of exchange to £1 were as follows:

	31 December 2004	Average 2004	31 December 2003
US\$	1.920	1.832	1.790
EUR	1.413	1.473	1.419

Notes to the Accounts *continued*

For the year ended 31 December 2004

1 Accounting Policies (*continued*)

i) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where *transactions or events have occurred at that date that will result in an obligation to pay more (or a right to pay less or to receive more) tax*, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, *there is a binding agreement to dispose of the assets concerned. However, no provision is made where on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;*
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, *dividends have been accrued as receivable;*
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

j) Pension schemes

Cairn operates defined contribution pension schemes in the UK and India. The assets of the schemes are held separately from those of Cairn and its subsidiaries. *The pension cost charge represents contributions payable in the year in accordance with the rules of the schemes.*

As required under Indian legislation, the Group also operates a defined benefit scheme for certain Indian employees. Contributions are assessed annually for any surplus/deficit in funding based on the annual actuarial valuation. The scheme is funded to the required level at least annually. *On the grounds of materiality, contributions have been charged to the profit and loss account as incurred.* Pension charges are detailed in note 5.

k) Leasing commitments

Cairn charges rental payable under operating leases to the profit and loss account on a straight line basis over the lease term.

l) Share schemes

The costs of awards to employees, in the form of shares or the rights to shares, under the long term incentive plan (LTIP) are recognised over the period to which the employees' performance relates. The amount recognised is based on the fair value of the shares at the date of the award and on a reasonable expectation of the extent to which the performance criteria will be met.

m) Change in Accounting Policies

UITF 38 Accounting for ESOP Trusts became effective for accounting periods ending on or after 22 June 2004. Amendments to UITF 17 following the introduction of UITF 38 requires the recognition of the charge in the profit and loss account for shares held in trust to satisfy awards made under the LTIP to be on the basis of the fair value of the awards at the time they were made. Previously, UK Accounting Standards required the release to be made on the basis of the cost of any shares purchased by the ESOP Trust.

In addition, following the implementation of UITF 38, shares in the ESOP Trust have been reclassified from "Investments" to "Shares held by ESOP Trust" within shareholders' funds.

The effect of reclassifying the shares from investment in own shares to shareholders' funds is to reduce the Group's net assets by £4.3m at 31 December 2003.

A prior year adjustment to the profit and loss account of £83,000 (2003: £74,000; 2002: £9,000) has arisen from this change in accounting policy and prior year comparatives have been restated to reflect the changes required pursuant to UITF 38. As a result of the change to accounting treatment, the profit for the period under review is £2.3m greater than had there been no revision to policies.

Notes to the Accounts *continued*

For the year ended 31 December 2004

2 Acquisition of Bangladesh assets

The transaction to acquire Shell's upstream interests in Bangladesh, including a further 37.5% interest in the producing Sangu gas field, completed on 30 June 2004. From an accounting perspective, revenue and expenditure associated with the Sangu interest acquired has been recognised in the profit and loss account from this date. Cairn's entitlement to operating profits between the economic effective date of the transaction (1 July 2003) and the date of completion have not been recognised in the profit and loss account but have instead been adjusted against the US\$50m capitalised consideration. Also adjusted against consideration is the US\$0.24/mscf payment due to Shell on entitlement production from the acquired interest due for the interim period. The £23.8m (\$42.5m) paid on completion includes the acquisition of circa £7.2m (\$12.5m) of net working capital recoverable at 30 June 2004. Reserves associated with the acquisition were also booked on the completion date.

3 Turnover and Segmental Analysis

		North Sea £'000	South Asia £'000	Other International £'000	Common Costs £'000	Group 2004 £'000
Turnover by origin:						
Continuing operations	- sales	-	99,501	-	-	99,501
Continuing operations	- acquisitions	-	8,768	-	-	8,768
Continuing operations	- exceptional	-	(14,730)	-	-	(14,730)
		-	93,539	-	-	93,539
<hr/>						
Discontinued operations	- sales	1,817	-	-	-	1,817
Discontinued operations	- tariff income	93	-	-	-	93
		1,910	-	-	-	1,910
		1,910	93,539	-	-	95,449
<hr/>						
Operating profit/(loss):						
Continuing operations		-	35,122	(100)	(12,276)	22,746
Continuing operations	- acquisitions	-	8,098	-	-	8,098
Continuing operations	- exceptional	-	(14,730)	-	-	(14,730)
		-	28,490	(100)	(12,276)	16,114
<hr/>						
Discontinued operations		655	-	-	-	655
		655	28,490	(100)	(12,276)	16,769
<hr/>						
		North Sea (Restated) £'000	South Asia (Restated) £'000	Other International (Restated) £'000	Common Costs (Restated) £'000	Group 2003 (Restated) £'000
Turnover by origin:						
Sales		9,753	144,836	-	-	154,589
Tariff income		1,225	-	-	-	1,225
		10,978	144,836	-	-	155,814
<hr/>						
Operating profit/(loss):		2,762	76,858	(170)	(6,364)	73,086

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Notes to the Accounts *continued*

For the year ended 31 December 2004

3 Turnover and Segmental Analysis (*continued*)

Common costs relate to administrative expenses of Cairn's head office in Edinburgh.

Turnover arises from oil, gas and condensate sales and tariff income. Turnover by destination does not differ materially from turnover by origin.

Exceptional items relate to provisions made in respect of additional profit petroleum payable that may fall due. See note 4 (e) for further details.

Discontinued operations relate to the sale of the Group's last remaining interest in the North Sea pool (Gryphon). See note 4 (d) for further details.

Interest receivable, interest payable and foreign exchange differences cannot be allocated specifically to the above geographic areas. Oil and gas assets are analysed in notes 12 and 13. The directors consider that the segmentation of other net operating assets into geographic areas is not practicable.

4 Operating Profit

a) Operating profit is stated after charging:

		2004 £'000	2003 (Restated) £'000
Depreciation		1,363	1,420
Operating lease costs	- land and buildings	628	573
	- other	15	756
Auditors' remuneration			
Statutory audit services			
- statutory audit	- UK	78	68
- statutory audit	- Overseas	54	84
- audit related regulatory reporting	- UK	11	21
- audit related regulatory reporting	- Overseas	5	56
Further assurance services		16	11
Tax advisory services			
- compliance services		-	5
- advisory services		7	12
Other non audit services			
- project work		14	12
- other work		12	5
Other advisors' fees in respect of taxation work		80	102
Other advisors' fees in respect of other work		69	25

Further assurance, tax advisory and other non-audit services include £38,000 (2003: £38,000) payable to the UK auditors.

No fees (2003: £43,000) paid to the auditors during the year relating to project work has been capitalised.

Notes to the Accounts continued

For the year ended 31 December 2004

b) Reconciliation of operating profit to operating cash flows

	2004 £'000	2003 (Restated) £'000
Operating profit	16,769	73,086
Depletion and depreciation	32,971	44,151
Decommissioning charge	1,183	1,231
Amortisation of LTIP/provision against investment	4,956	948
Debtors movement	8,122	2,871
Creditors movement	145	2,665
Other provisions	16,234	1,339
Gain on sale of other fixed assets	(41)	(4)
Foreign exchange differences	(2,790)	(4,110)
Net cash inflow from operating activities	77,549	122,177

c) Analysis of 2003 profit

	Continuing operations £'000	Discontinued operations £'000	Total 2003 £'000
Turnover	144,836	10,978	155,814
Cost of sales			
Production costs	(22,715)	(3,783)	(26,498)
Depletion	(40,081)	(2,650)	(42,731)
Decommissioning charge	(1,005)	(226)	(1,231)
Gross profit	81,035	4,319	85,354
Administrative expenses	(10,711)	(1,557)	(12,268)
Operating profit	70,324	2,762	73,086

d) Exceptional gain on sale of oil and gas assets

On 26 May 2004, Cairn completed the disposal of its 10% interest in the Gryphon field, the Group's last remaining interest in its North Sea pool. Following completion of this transaction and the Group's exit from the North Sea a pre tax gain of £2.2m has been recognised in the profit and loss account. The £7.3m cash received represents the consideration adjusted for working capital movements arising between the effective date and the completion date. The net assets relating to the disposal amounted to £5.1m. Tax on the gain of £1.4m has also been recognised in the profit and loss account.

e) Other exceptional items

During the year a provision of £14.7m (\$28.4m) has been made in respect of additional profit petroleum payments that may fall due in respect of Ravva (see note 20(a) and note 30). A deferred tax credit of £6.2m (\$11.9m) has been credited to the profit and loss account in respect of this provision. Exceptional interest of £1.0m (\$2.0m) has also been charged to the profit and loss account as interest on the exceptional provision.

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Notes to the Accounts continued

For the year ended 31 December 2004

5 Staff Costs

	2004 £'000	2003 £'000
Wages and salaries	25,134	18,295
Social security costs	2,257	995
Other pension costs – defined contribution	1,161	808
Indian pension costs – defined benefit	38	37
	28,590	20,135

Staff costs are shown gross before amounts recharged to joint ventures and include the amortisation charge in respect of the LTIP and associated national insurance contributions thereon.

The weighted average monthly number of employees, including executive directors and individuals employed by the Group working on joint venture operations, was:

	Number of employees	
	2004	2003
UK – Head Office	77	55
India	452	431
Bangladesh	32	9
The Netherlands	–	4
Group	561	499

On 30 June 2004 on completion of the acquisition of Shell's interests in Bangladesh, joint venture operatorship in Bangladesh transferred to Cairn.

6 Directors' Emoluments

Details of each director's remuneration, pension entitlements, share options and awards pursuant to the LTIP are set out in the Directors' Remuneration Report on pages 38 to 46.

7 Interest Receivable and Similar Income

	2004 £'000	2003 £'000
Bank interest	1,194	137
Other interest	617	338
	1,811	475

8 Interest Payable and Similar Charges

	Notes	2004 £'000	2003 £'000
Bank loan and overdraft interest		34	595
Other finance charges		1,190	432
Other finance costs – unwinding of discount	20	629	774
Realised exchange loss		2,019	2,747
Total – pre exceptional items		3,872	4,548
Exceptional item	4(e)	1,017	–
Total		4,889	4,548

Notes to the Accounts continued

For the year ended 31 December 2004

9 Taxation**a) Analysis of taxation charge in year**

	2004 £'000	2003 £'000
Current tax charge/(credit):		
UK Tax		
Tax on profits for the year at 40% (2003: 40%)	1,421	–
Tax on profits for the year at 30% (2003: 30%)	–	2,875
Adjustments in respect of prior periods	(2,104)	–
Withholding tax at 15% (2003: 15%)	134	272
	(549)	3,147
Foreign Tax		
<i>India</i>		
Tax on profits for the year at 41.62 % (2003: 41.25%)	2,523	1,106
Minimum Alternate Tax on profits for the year at 7.8028% (2003: 7.7343%)	272	939
<i>Netherlands</i>		
Tax on profits for the year at 34.5% (2003: 34.5%)	–	391
	2,795	2,436
Total current tax charge	2,246	5,583
Deferred tax charge/(credit):		
Origination and reversal of timing differences:		
UK	(423)	2,035
India	8,311	16,220
	7,888	18,255
Effect of increased/(decreased) rate on opening liability	1,093	(1,054)
Exceptional deferred tax credit	(6,172)	–
Total deferred tax charge	2,809	17,201
Tax on profit on ordinary activities	5,055	22,784

The tax on UK profits relates to the sale of the Group's last remaining North Sea asset (Gryphon) disclosed as discontinued operations.

The exceptional deferred tax credit is the deferred tax due at 41.82% on the exceptional provision (see note 4(e) for further details).

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Notes to the Accounts continued

For the year ended 31 December 2004

9 Taxation (continued)

b) Factors affecting tax charge for year

The tax charged for the year is higher than the weighted average rate for the year. The difference is explained below:

	Notes	2004 £'000	2003 (Restated) £'000
Profit on ordinary activities before taxation		15,897	69,013
Tax at weighted average rate of corporation tax of 10.04% (2003: 20.59%)		1,596	14,210
Effects of:			
Permanent differences (including tax holiday)		(2,571)	(1,359)
Capital allowances for period in excess of depreciation		(27,746)	(13,477)
Other timing differences		9,382	(1,981)
Unrealised losses arising in the year not relievable against current tax		2,962	5,092
Creation of current year losses	9(c)	21,114	3,724
Utilisation of losses		(127)	(2,208)
Adjustments in respect of prior periods		(2,104)	-
Payment of Minimum Alternate Tax	9(c)	(260)	1,582
Total current tax charge		2,246	5,583

c) Factors that may affect future corporate tax charges

At 31 December 2004, Cairn had losses of approximately £57.6m (2003: £11.3m) available for offset against future trading profits chargeable to UK Corporation Tax and surplus management expenses of £11.3m (2003: £1.1m) available for offset against future investment income chargeable to UK Corporation Tax.

At 31 December 2004, Cairn had losses of approximately £4.5m (2003: £9.1m) available for offset against future trading profits chargeable to Netherlands Corporate Income Tax but there are restrictions on the use of these losses.

At 31 December 2004, Cairn had losses of approximately £12.6m (2003: £nil) available for offset against future trading profits chargeable to Indian Corporate Income Tax.

Tax losses incurred in one jurisdiction cannot usually be offset against profits arising in another jurisdiction. Where losses arising in the year are not relievable against current tax, deferred tax assets have not been recognised.

Cairn operates in countries where the tax rate is different to the UK corporation tax rate, e.g. India (41.82%). In India, Minimum Alternate Tax (MAT) is payable instead of Corporate Income Tax (CIT) where MAT on accounting profits results in a higher tax liability than CIT on taxable profits. In India, tax is calculated on a fiscal year basis so where MAT is due for one fiscal year and CIT for the next, the consolidated accounts will show both CIT and MAT in the same calendar year. Cairn has several group companies with Indian tax liabilities.

Cairn operates in countries where relief from tax on profits is available for a set period of time, known as a tax holiday. In India, there is a tax holiday of seven years on profits from certain assets but the relief is restricted if, in the same company, there are losses from other assets in the same year.

Based on current expenditure plans, the Group anticipates that tax allowances will continue to exceed the accounting depletion charge each year. However the timing of related tax relief is uncertain.

Notes to the Accounts *continued*

For the year ended 31 December 2004

10 Profit Attributable to Members of the Holding Company

The loss dealt with in the accounts of Cairn Energy PLC is £13,908,000 (2003: restated profit £56,724,000).

11 Earnings per Ordinary Share

The earnings per ordinary share is calculated on a profit of £10,842,000 (2003: £46,229,000 restated) and on a weighted average of 152,522,282 ordinary shares (2003: 146,888,766). The weighted average of ordinary shares excludes shares held under the LTIP - the shares are held by the Cairn Energy PLC Employees' Share Trust.

The diluted earnings per ordinary share is calculated on a profit of £10,842,000 (2003: £46,229,000 restated) and on 153,713,739 ordinary shares (2003: 147,335,237) being the basic weighted average of 152,522,282 ordinary shares (2003: 146,888,766) and the dilutive potential ordinary shares of 1,191,457 ordinary shares (2003: 446,471) relating to share options.

12 Oil and Gas Exploration Assets

Group	North Sea £'000	South Asia £'000	Total £'000
Cost and net book value			
At 1 January 2004	381	154,665	155,046
Exchange difference arising	1	(10,392)	(10,391)
Additions	1	90,913	90,914
Acquisitions	-	317	317
Disposals	(383)	-	(383)
At 31 December 2004	-	235,503	235,503
At 31 December 2003	381	154,665	155,046

During the year the Group acquired Shell's interests in Bangladesh (including exploration). See note 2 for further details.

The Group's last remaining interest in the North Sea (Gryphon) was disposed of during the year as detailed in note 4(d).

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Notes to the Accounts continued

For the year ended 31 December 2004

13 Oil and Gas Development/Producing Assets

Group	North Sea £'000	South Asia £'000	Total £'000
Cost			
At 1 January 2004	90,562	322,670	413,232
Exchange difference arising	16	(22,850)	(22,834)
Additions	1,649	30,783	32,432
Acquisitions	-	16,632	16,632
Disposals	(92,227)	-	(92,227)
Decommissioning asset increase	-	1,321	1,321
At 31 December 2004	-	348,556	348,556
Depletion			
At 1 January 2004	83,079	93,404	176,483
Exchange difference arising	4	(9,278)	(9,274)
Depletion charge for the year	695	30,913	31,608
Disposals	(83,859)	-	(83,859)
Decommissioning charge for the year	81	1,102	1,183
At 31 December 2004	-	116,141	116,141
Net book value at 31 December 2004	-	232,415	232,415
<i>Net book value at 31 December 2003</i>	<i>7,483</i>	<i>229,266</i>	<i>236,749</i>

During the year the Group acquired Shell's Bangladesh interests. See note 2 for further details.

The Group's last remaining interest in the North Sea (Gryphon) was disposed of during the year as detailed in note 4 (d). No North Sea pool remains following the disposal. The disposal completed on 26 May 2004 with an effective date of 1 July 2003. The results of the subsidiary have been included within the Group results up to the completion date. The gross consideration for the sale has been offset by working capital adjustments and an interim period adjustment to result in net proceeds of £7.3m. Under full cost accounting the proceeds are credited to the cost pool. As no assets remain in the North Sea pool following disposal the remaining balance has been taken to the profit and loss account and is reflected as the exceptional gain on sale of oil and gas assets.

Notes to the Accounts continued

For the year ended 31 December 2004

14 Other Fixed Assets

Group	Tenants' improvements £'000	Vehicles and equipment £'000	Total £'000
Cost			
At 1 January 2004	1,907	5,340	7,247
Exchange difference arising	(19)	(63)	(82)
Additions	319	1,135	1,454
Disposals	-	(188)	(188)
At 31 December 2004	2,207	6,224	8,431
Depreciation			
At 1 January 2004	1,129	4,572	5,701
Exchange difference arising	(12)	(67)	(79)
Charge for the year	361	1,002	1,363
Disposals	-	(182)	(182)
At 31 December 2004	1,478	5,325	6,803
Net book value at 31 December 2004	729	899	1,628
Net book value at 31 December 2003	778	768	1,546
Company			
Cost			
At 1 January 2004	450	520	970
Additions	128	580	708
Disposals	-	(27)	(27)
At 31 December 2004	578	1,073	1,651
Depreciation			
At 1 January 2004	52	215	267
Charge for the year	113	477	590
Disposals	-	(21)	(21)
At 31 December 2004	165	671	836
Net book value at 31 December 2004	413	402	815
Net book value at 31 December 2003	398	305	703

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Notes to the Accounts *continued**For the year ended 31 December 2004*

15 Investments

Summary of investments

Group	Unlisted investment £'000	Associated undertaking £'000	Total investment (Restated) £'000
Cost			
At 1 January 2004	54	198	252
Exchange difference arising	(4)	–	(4)
At 31 December 2004	50	198	248
Provision and amortisation			
At 1 January and 31 December 2004	–	198	198
Net book value at 31 December 2004	50	–	50
Net book value at 31 December 2003	54	–	54

Following the implementation of UITF 38 and the subsequent amendments to UITF 17, shares held by the Cairn Energy PLC Employees' Share Trust, which were previously classified as Investments, have been reclassified as Shares held by ESOP Trust within shareholders' funds.

The associated undertaking represents Cairn's share in Energy Services Hub Limited. At the year end, Cairn held 38% (2003: 38%) of the ordinary share capital of the associate and 40% of the voting rights.

Notes to the Accounts continued

For the year ended 31 December 2004

Company	Shares in subsidiary undertakings £'000	Total investment (Restated) £'000
Cost		
At 1 January 2004	14,891	14,891
Additions	546	546
At 31 December 2004	15,437	15,437
Provision and amortisation		
At 1 January and 31 December 2004	-	-
Net book value at 31 December 2004	15,437	15,437
Net book value at 31 December 2003	14,891	14,891

The Company's principal subsidiaries are set out below:

Company	Principal activity	Country of incorporation and operation	Proportion of voting rights and ordinary shares
Direct holdings			
Cairn Energy Bangladesh Limited	Exploration & production	Scotland/Bangladesh	100%
Cairn Energy Sangu Field Limited	Exploration & production	Scotland/Bangladesh	100%
Cairn Energy Exploration (Bangladesh) Limited	Exploration	Scotland/Bangladesh	100%
Cairn Energy Nepal Holdings Limited	Holding company	Scotland/Nepal	100%
Cairn Energy Gujarat Block 1 Limited	Exploration & production	Scotland/India	100%
Indirect holdings			
Cairn Energy Asia Pty Limited	Exploration & production	Australia	100%
Cairn Energy India Pty Limited	Exploration & production	Australia/India	100%
Cairn Energy Australia Pty Limited	Holding company	Australia	100%
Cairn Energy Group Holdings B.V.	Holding company	The Netherlands	100%
Cairn Energy Netherlands Holdings B.V.	Holding company	The Netherlands	100%
Holland Sea Search Holdings N.V.	Holding company	The Netherlands	100%
Cairn Energy India Holdings B.V.	Holding company	The Netherlands/India	100%
Cairn Energy India West B.V.	Exploration & production	The Netherlands/India	100%
Cairn Energy Cambay B.V.	Exploration & production	The Netherlands/India	100%
Cairn Energy Gujarat B.V.	Exploration & production	The Netherlands/India	100%
Cairn Energy Holdings Limited	Holding company	Scotland	100%
Cairn Energy Hydrocarbons Limited	Exploration & production	Scotland/India	100%
Cairn Energy Dhangari Limited	Exploration & production	Scotland/Nepal	100%
Cairn Energy Karnali Limited	Exploration & production	Scotland/Nepal	100%
Cairn Energy Lumbini Limited	Exploration & production	Scotland/Nepal	100%
Cairn Energy Malangawa Limited	Exploration & production	Scotland/Nepal	100%
Cairn Energy Birganj Limited	Exploration & production	Scotland/Nepal	100%
Cairn Energy Search Limited	Exploration & production	Scotland/India	100%
Cairn Petroleum India Limited	Exploration & production	Scotland/India	100%
Cairn Energy Discovery Limited	Exploration & production	Scotland/India	100%
Cairn Energy Exploration and Production Company Limited	Exploration & production	Scotland/India	100%

Notes to the Accounts continued

For the year ended 31 December 2004

16 Debtors

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 (Restated) £'000
Trade debtors	27,294	36,520	-	-
Amounts owed by subsidiary undertakings	-	-	106,728	53,604
Other debtors	10,569	4,435	3,357	927
Prepayments and accrued income	32,071	15,911	468	403
	69,934	56,866	110,553	54,934

In accordance with FRS 5, Group prepayments and accrued income include £22.0m (2003: £9.1m) representing the gross up of joint venture balances and incorporation of balances due from joint venture partners to meet third party liabilities. Group prepayments and accrued income includes Cairn's share of cash balances held within the various joint ventures of £3.5m (2003: £3.0m).

17 Net Funds/(Debt)

a) Analysis of net funds/(debt)

	At 1 January 2004 £'000	Cash flow £'000	Exchange movements £'000	At 31 December 2004 £'000
Cash at bank	5,678	2,392	(91)	7,979
Short term deposits	12,088	55,392	(3,417)	64,063
	17,766	57,784	(3,508)	72,042

b) Reconciliation of net cash flow to movement in net funds/(debt)

	2004 £'000	2003 £'000
Increase/(decrease) in cash in the year	2,392	(3,969)
Cash outflow from repayment of debt financing	-	47,918
Cash movement arising from increase in liquid resources*	55,392	9,755
Change in net funds/(debt) resulting from cash flows	57,784	53,704
Exchange difference arising	(3,508)	(1,128)
Movement in net funds/(debt) in the year	54,276	52,576
Net funds/(debt) at 1 January	17,766	(34,810)
Net funds at 31 December 2004	72,042	17,766

* Short term deposits of less than one year are disclosed as liquid resources.

Notes to the Accounts continued

For the year ended 31 December 2004

18 Creditors - Amounts Falling Due Within One Year

	Group 2004 €'000	Group 2003 €'000	Company 2004 €'000	Company 2003 €'000
Trade creditors	63,866	25,647	38	214
Amounts owed to subsidiary undertakings	–	–	210	–
Other taxation and social security	222	202	194	269
Other creditors	4,584	3,501	–	1
Taxation	2,930	5,689	–	–
Accruals	10,054	7,357	3,369	1,725
	81,656	42,396	3,811	2,209

Trade creditors includes amounts in respect of joint venture accruals and creditors and incorporates, in accordance with FRS 5, £22.0m (2003: £9.1m) representing the gross up of joint venture balances and incorporation of balances due from joint venture partners to meet third party liabilities.

19 Derivatives and Other Financial Instruments

The Board reviews and agrees policies for managing financial risks.

Cairn's strategy is to finance its operations through a mixture of retained profits and bank borrowings. Equity finance, project finance and other alternatives are reviewed by the Board, when appropriate, to fund substantial acquisitions or oil and gas development projects.

Cairn's principal financial instruments comprise investments, cash and short term deposits. The main purpose of these financial instruments is to finance Cairn's operations. Cairn has taken advantage of the exemption under FRS 13 for short term debtors and creditors. They have, therefore, with the exception of the foreign currency risk disclosure, been excluded from the numerical disclosures.

Cairn'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 Cairn has adequate liquidity at all times in order to meet its cash requirements.

Cairn may from time to time, with the approval of the Board, 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. It is however, and has been throughout the period under review, Cairn's policy that no trading in financial instruments shall be undertaken.

Notes to the Accounts *continued*

For the year ended 31 December 2004

19 Derivatives and Other Financial Instruments (continued)

The main risks arising from Cairn's financial instruments are foreign currency risk, commodity price risk and liquidity risk. The current policy for managing these risks is detailed below:

Liquidity/interest rate risk

Cairn entered into new debt financing arrangements on 20 January 2004. As a result the Group has \$240m (\$40m seven year and \$200m three year) unsecured committed multicurrency revolving credit facilities available under corporate bilateral agreements to fund its activities. Revolving credit facilities give the Group flexibility to borrow and repay debt as and when appropriate.

When the Group has surplus cash it is placed on short term deposit, ensuring sufficient liquidity to enable the Group to meet its expenditure requirements.

Short/medium term borrowing arrangements are available at floating rates although there is no debt drawn at 31 December 2004. Short term deposits are currently at floating money market interest rates. Board approval is required for all new borrowing facilities over £5m. Short term deposits held at 31 December 2004 (£64.1m) are included within the floating rate financial assets (2003: £12.1m).

Commodity price risk

There are natural product price hedges in place through the pricing mechanisms applicable to Ravva gas GSC's, Sangu gas under the Sangu GSPA and Lakshmi gas under the Lakshmi GSCs. The requirement for hedging instruments is reviewed on an ongoing basis. No hedging contracts have been entered into during the year. No outstanding hedging was in place at the start of the year or at the year end.

Foreign currency risk

Although the Group reports in sterling, a large proportion of its business is conducted in US\$ with the majority of Cairn revenues being received in US\$ and a significant proportion of expenditure being incurred in US\$. Cairn manages this, and other 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. Although the Group's commercial currency risk exposure is minimised through currency matching, movements in US\$ against sterling can have an impact from a reporting perspective due to the underlying assets of the Group being US\$ denominated.

In order to minimise Cairn'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 \$240m facilities are multicurrency committed facilities, which allow drawdowns in US\$, sterling or any other currency that is freely convertible and transferable into US\$. At 31 December 2004 there was no debt drawn. Exchange rates are monitored in conjunction with forecast currency requirements. Currency exposures are shown in the table on page 73.

No forward foreign exchange contracts were entered into during the year. There were no outstanding foreign exchange contracts at the start of the year or at the end of the year.

a) Borrowing facilities

	Group 2004 £'000	Group 2003 £'000
Creditors due within one year:		
Bank loans and overdrafts	-	-
Creditors due after more than one year:		
Bank loans	-	-
Gross borrowings	-	-

Notes to the Accounts continued

For the year ended 31 December 2004

Following discussions with a number of commercial banks and International Finance Corporation (IFC), a member of the World Trade Bank who provides finance for projects in developing countries, \$240m of new facilities were entered into on 20 January 2004.

The new facilities are committed, unsecured, multicurrency revolving credit facilities. \$200m are three year bilateral facilities provided by four commercial banks with an expiry date 19 January 2007, and the balance of \$40m is a seven year bilateral facility provided by IFC with an expiry date 19 January 2011. No debt was drawn at 31 December 2004 under these facilities (2003: \$nil; £nil). A review is currently being undertaken by the Group of financing requirements and arrangements following the Rajasthan discoveries in 2004.

In addition, a \$17m facility is in place to cover the issue of bank guarantees. Fixed rates of interest apply to this facility.

\$5m (£2.6m) was unutilised at 31 December 2004 (2003: \$7.8m (£4.4m)).

b) Maturity of financial liabilities

The maturity of the financial liabilities at 31 December 2004 is as follows:

	<i>Group</i> 2004 £'000	<i>Group</i> 2003 £'000
In one year or less, or on demand	21,237	5,435
In more than two years but not more than five years	—	—
In more than five years	9,391	10,647
	30,628	16,082

Financial liabilities include bank borrowings (Nil at 31 December 2004), decommissioning and other provisions.

The Ravva profit petroleum provision per note 20 of £18.4m (\$35.3m)(2003: £3.9m, \$6.9m) has been included as maturing in "one year or less, or on demand" although its actual maturity will be dependent on the timing of the arbitration process.

c) Interest rate risk profile of financial liabilities

The interest rate risk profile of financial liabilities of the Group at 31 December 2004 is as follows:

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	<i>Financial</i> liabilities on which no interest is paid £'000	Total 2004 £'000
£	—	—	—	—
\$	—	18,386	12,242	30,628
EUR	—	—	—	—
	—	18,386	12,242	30,628

The provision of £18.4m under floating rate financial liabilities has been made in respect of Ravva profit petroleum. Floating interest liabilities are based on LIBOR.

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Notes to the Accounts continued

For the year ended 31 December 2004

19 Derivatives and Other Financial Instruments (continued)

c) Interest rate risk profile of financial liabilities (continued)

The interest rate risk profile of financial liabilities of the Group at 31 December 2003 was as follows:

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total 2003 £'000
£	–	–	2,512	2,512
\$	–	–	13,570	13,570
EUR	–	–	–	–
	–	–	16,082	16,082

No interest rate swaps were in place at the year end.

d) Interest rate risk profile of financial assets

The interest rate risk profile of financial assets of the Group at 31 December 2004 is as follows:

	Fixed rate financial assets £'000	Floating rate financial assets £'000	Financial assets on which no interest is earned £'000	Total 2004 £'000
£	–	18,981	–	18,981
\$	–	50,803	–	50,803
EUR	–	248	–	248
Other	–	2,010	50	2,060
	–	72,042	50	72,092

Financial assets include cash, deposits and investments. Floating interest receipts are based on LIBID.

The interest rate risk profile of financial assets of the Group at 31 December 2003 was as follows:

	Fixed rate financial assets £'000	Floating rate financial assets £'000	Financial assets on which no interest is earned £'000	Total 2003 £'000
£	–	1,048	–	1,048
\$	–	14,082	–	14,082
EUR	–	1,071	–	1,071
Other	–	1,565	54	1,619
	–	17,766	54	17,820

Notes to the Accounts continued

For the year ended 31 December 2004

e) Currency exposures

At 31 December 2004, currency exposures are as follows:

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)							Total 2004 £'000
	Indian Rupee £'000	Australian Dollar £'000	Sterling £'000	US Dollar £'000	Euro £'000	Bangladesh Taka £'000	Other £'000	
£	(17)	34	-	26,856	64	2,823	6	29,766
\$	5,856	(588)	238	-	(3)	-	4	5,507
EUR	-	-	24	13,578	-	-	-	13,602
	5,839	(554)	262	40,434	61	2,823	10	48,875

A foreign exchange loss of £2.0m (2003: loss £2.7m) has been recognised in the profit and loss account for the year.

At 31 December 2003, currency exposures were as follows:

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)							Total 2003 £'000
	Indian Rupee £'000	Australian Dollar £'000	Sterling £'000	US Dollar £'000	Euro £'000	Bangladesh Taka £'000	Other £'000	
£	-	27	-	16,437	(10)	3,315	9	19,778
\$	2,357	(624)	(180)	-	(3)	-	-	1,550
EUR	-	-	444	337	-	-	-	781
	2,357	(597)	264	16,774	(13)	3,315	9	22,109

f) Fair values of financial assets and financial liabilities

The following is a comparison by category of book values and fair values of Cairn's financial assets and liabilities (excluding short term debtors and creditors):

	Book value 2004 £'000	Book value 2003 £'000	Fair value 2004 £'000	Fair value 2003 £'000
Primary financial instruments:				
Other provisions (including decommissioning)	(30,628)	(16,082)	(30,628)	(16,082)
Fixed asset investments	50	54	50	54
Cash and short term deposits	72,042	17,766	72,042	17,766
	41,464	1,738	41,464	1,738

There were no forward contracts in place at the year end.

Notes to the Accounts *continued*

For the year ended 31 December 2004

20 Provisions

a) Provisions for liabilities and charges	Group £'000	Company £'000
Decommissioning		
At 1 January 2004	10,647	-
Exchange difference arising	(629)	-
Change in decommissioning estimates	1,321	-
Released on sale of asset	(2,577)	-
Discount unwound in the year	629	-
At 31 December 2004	9,391	-
Other provisions		
At 1 January 2004	5,435	-
Exchange difference arising	(432)	-
Charge for the year	16,234	-
At 31 December 2004	21,237	-
Total provisions for liabilities and charges at 31 December 2004	30,628	-
Total provisions for liabilities and charges at 31 December 2003	16,082	-

Decommissioning costs are expected to be incurred between 2013 and 2020. The provision has been estimated using existing technology at current prices and discounted using a discount rate of 7%.

During the year the Group sold its last remaining interest in the North Sea (Gryphon) resulting in the release of a decommissioning provision of £2.6m.

"Other provisions" principally comprise amounts in respect of additional profit petroleum payments which may fall due in relation to Ravva. The provision in respect of these payments has increased from £3.7m (\$6.9m) to £18.4m (\$35.3m) during the year. See note 4(e) for details on the treatment in the profit and loss account and note 30 for further details on the related contingent liability. The timing of payment is unknown.

"Other provisions" also includes accrued production payments payable to the GOI specified within the Ravva PSC. Payments become due upon certain cumulative production levels being met and will be made throughout the life of the field.

Notes to the Accounts continued

For the year ended 31 December 2004

b) Deferred taxation

	Group £'000	Company £'000
At 1 January 2004	71,771	-
Exchange difference arising	(6,432)	-
Charge for the year	8,981	-
Exceptional deferred tax credit	(6,172)	-
At 31 December 2004	68,148	-

i) Deferred taxation - UK

The estimated liability to UK corporation tax at 30% (2003: 30%) arising from timing differences is as follows:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Accelerated allowances	34,726	22,149	-	-
Other timing differences	(61)	(955)	-	-
Losses	(17,292)	(3,394)	-	-
	17,373	17,800	-	-

ii) Deferred taxation - India

The estimated liability to Indian taxation at 41.82% (2003: 41%) arising from timing differences is as follows:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Accelerated allowances	67,907	56,388	-	-
Other timing differences	(4,154)	(797)	-	-
	63,753	55,591	-	-
Losses	(5,270)	-	-	-
Exceptional deferred tax credit	(7,708)	(1,620)	-	-
	50,775	53,971	-	-

The exceptional deferred tax credit is the deferred tax due at 41.82% (2003: 41%) on exceptional provisions (see note 20(a)).

Notes to the Accounts *continued*

For the year ended 31 December 2004

21 Share Capital

	Number 10p Ordinary '000
Authorised ordinary shares	
At 1 January and 31 December 2004	225,000
<hr/>	
	Number £1 Redeemable '000
Authorised redeemable shares	
At 1 January and 31 December 2004	50
<hr/>	
	10p Ordinary £'000
Allotted, issued and fully paid ordinary shares	
At 1 January 2004	15,010
Issued in year for cash	751
Issued and allotted during the year for share options	140
<hr/>	
At 31 December 2004	15,901
<hr/>	
	£1 redeemable £'000
Allotted and issued redeemable shares	
At 1 January and 31 December 2004	~

Shares were allotted fully paid as follows:

On 2 July 2004, 7,512,850 ordinary shares of 10p each were issued, allotted and fully paid up at £13.70 each. Issue costs of £1.0m were netted off against proceeds. The shares were allotted to institutional investors. The placing was conditional upon the admission of the placing shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities which was obtained on 7 July 2004.

During the year, 1,396,089 ordinary shares were issued at prices between £0.78 and £8.735 to current and former employees pursuant to the exercise of share options.

Share options

Under the 1988 Scheme, at 1 January 2004, certain Executive Directors and employees had been granted options to subscribe for ordinary shares which are exercisable between 1994 and 2005, at prices between £0.78 and £0.92. At 31 December 2004, there were no options outstanding (options exercised in 2004: 71,000).

Under the 1996 Scheme, at 1 January 2004, certain Executive Directors and employees had been granted options to subscribe for ordinary shares which are exercisable between 2000 and 2012, at prices between £1.20 and £5.45. At 31 December 2004, there were 925,000 options outstanding (options exercised in 2004: 1,308,100).

Under the 2002 Plan, at 1 January 2004, employees had been granted options to subscribe for ordinary shares which are exercisable between 2006 and 2014, at prices between £2.096 and £3.72. At 31 December 2004, there were 719,518 options outstanding (options exercised in 2004: 9,842).

Under the 2003 Plan, at 1 January 2004, certain employees had been granted options to subscribe for ordinary shares which are exercisable between 2006 and 2014, at £3.095 per share. At 31 December 2004, there were 304,886 options outstanding (options exercised in 2004: 7,147).

Notes to the Accounts continued

For the year ended 31 December 2004

22 Share Premium

	Group and Company £'000
At 1 January 2004	1,721
Arising on shares issued for cash (net of issue costs of £1.0m)	101,138
Arising on shares issued for share options	4,419
At 31 December 2004	107,278

23 Other Reserves

	Group £'000	Company £'000
At 1 January and 31 December 2004	24,256	–

24 Shares held by ESOP Trust

	Group and Company £'000
At 1 January 2004	4,702
Purchase of own shares	9,329
At 31 December 2004	14,031

Following the implementation of UITF 38 Accounting for ESOP Trusts and the subsequent amendments to UITF 17, shares in Cairn Energy PLC's Employees' Share Trust were reclassified from Investments. This change in accounting policy has resulted in a prior year restatement of comparative information (see note 1(m)).

As at 31 December 2004, the total number of shares held by the Cairn Energy PLC Employees' Share Trust in respect of the LTIP was 2,513,607 (2003: 1,584,640) and the market value of these shares was £27,398,316 (2003: £6,354,406). During the year 928,967 shares were purchased by the ESOP Trust. No dividends were declared on these shares during the period.

The costs and expenses incurred by the ESOP Trust in purchasing shares to satisfy awards under the ESOP Trust are settled directly by Cairn and charged in the accounts as incurred.

25 Capital Reserves**a) Capital reserves - non distributable**

	Group £'000	Company £'000
At 1 January and 31 December 2004	26,281	50

The cumulative amount of goodwill written off at 31 December 2004 is £3,739,000 (2003: £3,739,000).

Capital reserves include a capital redemption reserve of £50,000 (2003: £50,000).

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Notes to the Accounts *continued*

For the year ended 31 December 2004

25 Capital Reserves (*continued*)

b) Capital reserves - distributable

	Group £'000	Company £'000
At 1 January and 31 December 2004	109,635	-

26 Profit and Loss Account

	Group £'000	Company £'000
At 1 January 2004 (as previously reported)	165,168	56,735
Prior year adjustment	409	422
At 1 January 2004 (as restated)	165,577	57,157
Profit for the year	10,842	(13,908)
LTIP charge	4,956	4,956
Unrealised foreign exchange differences	(19,555)	-
At 31 December 2004	161,820	48,205

As a result of the implementation of UITF 38 and the consequent amendments to UITF 17, a prior year adjustment has arisen. The accumulated amortisation as reported in the financial statements of the previous year has been reclassified to the profit and loss reserve. The LTIP charge in the year to 31 December 2003 following restatement was £864,000.

27 Capital Commitments

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Oil and gas expenditure:				
Contracted for	76,804	28,284	-	-

The above capital commitments represent Cairn's share of obligations under existing PSCs and JOAs.

28 Pension Commitments

Contributions to Cairn's pension schemes are included in note 5 under pension costs.

Notes to the Accounts continued

For the year ended 31 December 2004

29 Other Financial Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Land and buildings, expiring within:				
One year	49	-	-	-
Two to five years	61	-	-	-
After five years	1,182	568	1,182	568
	1,292	568	1,182	568
Other, expiring within:				
One year	4,666	2,372	-	-
	5,958	2,940	1,182	568

Other operating lease commitments represent Cairn's share of operating leases entered into by joint ventures and are also included in "capital commitments" disclosed in note 27 where appropriate.

30 Contingent Liabilities

a) Ravva Arbitration

The calculation of the GOI share of petroleum produced from the Ravva oil field has been a matter of disagreement for some years and the disputed issues were put to arbitration in 2002 with a view to binding all parties to the arbitration panel's decision.

The 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. Consequently a further provision has now been made in the financial statements per note 4(e) and note 20(a). The GOI however, has lodged an appeal in the Malaysian courts against one issue ("the ONGC carry") which the panel found in Cairn's favour. This one issue has the largest economic impact. Cairn has challenged both the GOI's right to appeal, and the grounds of that appeal. If the GOI were successful on both these points, it is unclear what process would then follow to resolve the original issue under dispute. Cairn will defend its right to continue to refer to the existing arbitration panel, whose composition and Terms of Reference were agreed by all parties at the outset.

In the event that the GOI's appeal succeeded and a process then ensued which concluded with the arbitration award on the ONGC carry being reversed in a manner and a forum which Cairn accepted as binding, then Cairn would be due to pay an additional \$63.9m.

As the GOI share of profit petroleum is now agreed by all to have reached maximum entitlement, there would be no additional impact on Cairn's reserves.

b) Texuna International Limited

Cairn is no longer in dispute with Texuna International Limited in connection with the unsuccessful joint bid for a number of blocks in Turkmenistan.

31 Post Balance Sheet Event

In March 2005, the transaction completed with ONGC whereby Cairn farmed-out interests in Blocks KG-DWN-98/2 (90%) and CB/OS-2 (15% exploration interest and 10% interest in the Lakshmi and Gauri Development Areas) and farmed-in interests in Blocks GV-ONN-97/1 (30%) and CB-ONN-2001/1 (30%). On completion, Cairn received pre tax proceeds of \$135m.

The operating profits from the farmed-out interests in the CB/OS-2 producing interest have been recognised in the profit and loss account up to the date of completion.

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Five Year Summary

For the year ended 31 December 2004

	2004 £'000	2003 (Restated) £'000	2002 (Restated) £'000	2001 (Restated) £'000	2000 (Restated) £'000
Consolidated profit and loss account					
Turnover	95,449	155,814	109,878	107,427	116,103
Operating profit	16,769	73,086	45,668	51,384	65,803
Profit on ordinary activities after taxation	10,842	46,229	26,475	29,750	35,373
Earnings per ordinary share – basic	7.11p	31.47p	18.25p	20.62p	23.97p
Earnings per ordinary share – diluted	7.05p	31.38p	18.15p	20.44p	23.83p
Consolidated balance sheet					
Fixed assets	469,596	393,395	402,721	401,059	289,468
Net current assets/(liabilities)	60,320	32,236	30,848	(16,830)	32,609
Total assets less current liabilities	529,916	425,631	433,569	384,229	322,077
Other liabilities	(98,776)	(87,853)	(111,820)	(61,047)	(35,561)
Net assets	431,140	337,778	321,749	323,182	286,516
Share capital	15,901	15,010	14,941	14,817	14,714
Reserves	415,239	322,768	306,808	308,365	271,802
Capital and reserves	431,140	337,778	321,749	323,182	286,516
Capital expenditure on oil and gas assets	123,346	81,580	57,274	124,450	46,510
Net assets per ordinary share	271.14p	225.04p	215.35p	218.12p	194.72p
Net assets/net debt					
Net funds/(debt)	72,042	17,766	(34,810)	(33,798)	13,653
Net assets	431,140	337,778	321,749	323,182	286,516
Gearing (net debt: net assets)	n/a	n/a	11%	10%	n/a

The financial information presented above is based on the audited consolidated accounts for each of the last five years, as amended by FRS 19 and UITF's 17 and 38.

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PR Advisors

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Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cairn Energy PLC will be held on the fourth floor at the Company's registered office at 50 Lothian Road, Edinburgh EH3 9BY on Friday 3 June 2005 at 12 noon for the following purposes:

As Routine Business

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 8 will be proposed as ordinary resolutions:

- 1 That the report and accounts for the year ended 31 December 2004 be received.
- 2 That the directors' remuneration report contained in the report and accounts be approved.
- 3 That Ernst & Young LLP be re-appointed as auditors and that the directors be authorised to fix their remuneration.
- 4 That Andrew Shilston, who retires at the first Annual General Meeting following his appointment, be elected as a director. Mr Shilston is a member of the audit committee.
- 5 That Norman Murray, who retires by rotation, be re-elected as a director. Mr Murray is currently a member of the audit, remuneration and nomination committees. Following the conclusion of the Annual General Meeting, Mr Murray will stand down as a member of the audit and remuneration committees.
- 6 That Hamish Grossart, who retires pursuant to the provisions of the Combined Code, be re-elected as a director. Mr Grossart is a member of the audit, remuneration and nomination committees.
- 7 That Ed Story, who retires by rotation, be re-elected as a director. Mr Story is a member of the audit, remuneration and nomination committees.
- 8 That Bill Gammell, who retires by rotation, be re-elected as a director. Mr Gammell is a member of the nomination committee.

As Special Business

To consider and, if thought fit, pass the following resolutions, of which resolution 9 will be proposed as an ordinary resolution and resolutions 10 to 12 will be proposed as special resolutions:

- 9 That, in substitution for any existing authority pursuant to section 80 of the Companies Act 1985 (the "Act") and in accordance with section 80 of the Act (and so that expressions used in this resolution shall bear the same meanings as in that section), but without prejudice to the exercise of any such authority prior to the date hereof, the directors of the Company be and are hereby generally and unconditionally authorised to allot relevant securities of the Company up to an aggregate nominal amount of £5,309,878.80, provided that this authority shall expire on 2 June 2010 (unless previously revoked, varied or extended by the Company in general meeting), but shall allow and enable the directors of the Company to make offers or agreements in relation to relevant securities before the expiry of this authority which would or might require relevant securities to be allotted in pursuance of such offers or agreements after the expiry of such period and to make allotments pursuant to such offers or agreements notwithstanding that such period has expired.
- 10 That
 - (a) the 49,999 non-voting redeemable preference shares of £1.00 each which currently form part of the authorised but unissued share capital of the Company be and are hereby cancelled and the share capital of the Company be modified accordingly; and
 - (b) the regulations contained in the document submitted to the Annual General Meeting and, for the purposes of identification, signed by the Chairman of the Company as relative to this resolution be and are hereby approved and adopted as the new articles of association of the Company and in substitution for and to the entire exclusion of the existing articles of association of the Company.
- 11 That, in substitution for any existing power under section 95 of the Companies Act 1985 (the "Act"), but without prejudice to the exercise of any such power prior to the date hereof, the directors of the Company be and they are hereby empowered, pursuant to section 95(1) of the Act, to:

Notice of Annual General Meeting *continued*

- (a) allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in resolution 9 above as if section 89(1) of the Act did not apply to any such allotment; and
- (b) sell relevant shares (as defined in section 94(5) of the Act) in the Company if, immediately before the sale, such shares are held by the Company as treasury shares (as defined in section 162A(3) of the Act) ("treasury shares") for cash (as defined in section 162D(2) of the Act), as if section 89(1) of the Act did not apply to any such sale,

up to an aggregate nominal amount of £5,309,878.80, such power to expire on 2 June 2010, unless previously revoked, varied or extended by the Company in general meeting, provided that such power shall be limited to the allotment of equity securities and the sale of treasury shares:

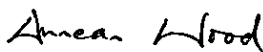
- (i) in connection with an offer of equity securities open for acceptance for a period fixed by the directors of the Company to the holders of ordinary shares in the share capital of the Company on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such ordinary shares (but subject to such exclusions or other arrangements as the directors of the Company may consider necessary or expedient to deal with legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and
- (ii) other than pursuant to sub-paragraph (i) of this resolution, up to an aggregate nominal amount of £796,481.80; save that the Company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted or treasury shares to be sold after the expiry of such power and the directors of the Company may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if such power had not expired.

12 That, in substitution for any existing authority pursuant to section 166 of the Companies Act 1985 (the "Act"), the Company be and is hereby generally authorised to make market purchases pursuant to and in accordance with section 166 of the Act of fully paid ordinary shares of 10 pence each in the capital of the Company (the "ordinary shares" and each an "ordinary share") upon and subject to the following conditions but otherwise unconditionally:

- (i) the maximum number of ordinary shares hereby authorised to be purchased is 14.99% of the ordinary share capital of the Company as at 3 June 2005;
- (ii) the maximum price (exclusive of expenses) which may be paid for each such ordinary share shall be an amount equal to 105% of the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary share is purchased and the minimum price which may be paid for each such ordinary share shall be 10 pence (exclusive of expenses); and
- (iii) unless previously varied, revoked or renewed, the authority conferred by this resolution shall expire on the earlier of 2 December 2006 or at the conclusion of the next Annual General Meeting of the Company after the date on which this resolution is passed, provided that the Company may before such expiry enter into a contract to purchase ordinary shares under this authority which will or may be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares in pursuance of such contract.

By order of the Board

Duncan Wood
Company Secretary
50 Lothian Road
Edinburgh EH3 9BY



4 May 2005

Notice of Annual General Meeting *continued*

Notes:

- 1 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. A form of proxy accompanies this Annual Report and must be lodged with the Company at the office of its registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZR (the "Registrars") or received via the Sharevote service (see Note 2 below) (a) not less than 48 hours before the time appointed for the meeting or any adjournment(s) thereof, or (b) lodged using the CREST proxy voting service (see Note 5 below). Only holders of ordinary shares are entitled to attend (in person or by proxy) and vote at the meeting. The appointment of a proxy will not preclude a member entitled to attend and vote at the meeting from doing so if he or she wishes.
- 2 Members may register their proxy appointments or voting directions electronically via the www.sharevote.co.uk website, where full details of the procedure are given. Members will need the Reference Number, Card ID and Account Number set out on the form of proxy which accompanies this Annual Report. If more than one proxy appointment per member is returned, either by paper or by electronic communication, those received last by the Registrars before the latest time for the receipt of proxies will take precedence. Members are advised to read the terms and conditions of use carefully. Electronic communication facilities are available to all shareholders and those who use them will not be disadvantaged. The Company will not accept any communication that is found to contain a computer virus.
- 3 There will be available for inspection at the registered office of the Company during normal business hours on any week day (excluding public holidays) from the date of this notice until the date of the meeting and at the place of the meeting for at least 15 minutes prior to the meeting and during the meeting, copies of the following documents:
 - (a) the register of directors' interests in ordinary shares of the Company;
 - (b) the executive directors' service contracts and non-executive directors' letters of appointment; and
 - (c) the Company's memorandum of association and articles of association and a revised draft of the articles of association marked to show the amendments that it is proposed be made pursuant to resolution 10.
- 4 The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, hereby specifies that only those shareholders registered on the register of members of the Company as at 6.00 pm on 1 June 2005 shall be entitled to attend or vote at the meeting in respect of shares registered in their name at that time. Changes to entries on the register of members after 6.00 pm on 1 June 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the Company or other instrument to the contrary.
- 5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 3 June 2005 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

Notice of Annual General Meeting *continued*

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the Registrars by no later than 6.00 pm on 1 June 2005. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the *Uncertificated Securities Regulations 2001*.

- 6 This Notice of Annual General Meeting should be read in conjunction with the sections of the Annual Report entitled "Board of Directors" on pages 20 and 21 and "Directors' Report" on pages 32 to 37.

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Glossary

The following are the main terms and abbreviations used in this document and the accompanying Form of Proxy:

Corporate

Board	the Board of Directors of Cairn Energy PLC
Cairn	the Company and/or its subsidiaries as appropriate
Company	Cairn Energy PLC
CREST	a relevant system in respect of which CRESTCo is the operator (as such terms are defined in the Uncertificated Securities Regulations 2001)
CRESTCo	CRESTCo Limited
D&M	DeGolyer & McNaughton
Group	the Company and/or its subsidiaries as appropriate
ONGC	Oil and Natural Gas Corporation Ltd and/or its subsidiaries as appropriate
Shell	Shell Bangladesh Exploration and Development B.V. and/or its subsidiaries as appropriate

Technical

2D / 3D	two dimensional / three dimensional
API	American Petroleum Institute units as a measure of oil specific gravity
bcf	billion cubic feet of gas
boe	barrels of oil equivalent
/boe	per barrel of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
GSC	Gas Sales Contract
GSPA	Gas Sales and Purchase Agreement
GDI	Government of India
JOA	Joint Operating Agreement
mbbls	thousand barrels of oil
mmbbls	million barrels of oil
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
/mcf	per thousand cubic feet of gas
mscf	thousand standard cubic feet of gas
mmscfd	million standard cubic feet of gas per day
mmscf	million standard cubic feet of gas
PSC	Production Sharing Contract
STOIIP	Stock Tank Oil in Place

Accounting

ESOP Trust	Employee Share Ownership Plan Trust
FRS 5	Financial Reporting Standard 5 Reporting the substance of transactions
FRS 10	Financial Reporting Standard 10 Goodwill and intangible assets
FRS 11	Financial Reporting Standard 11 Impairment of fixed assets and goodwill
FRS 13	Financial Reporting Standard 13 Derivatives and other financial instruments
FRS 19	Financial Reporting Standard 19 Deferred tax
IAS 21	International Accounting Standard number 21 "The effects of changes in Foreign Exchange Rates"
IFRS 2	International Financial Reporting Standard number 2 "Share based payment"
LIBID	London Inter-Bank Bid Rate
LIBOR	London Inter-Bank Offered Rate
LTIP	Long Term Incentive Plan
NIC	National Insurance Contributions
UITF38	Urgent Issues Task Force Abstract number 38 Accounting for ESOP Trusts
UK GAAP	Generally Accepted Accounting Practice in the United Kingdom

References in this document and the accompanying Form of Proxy to the Annual General Meeting to be held on 3 June 2005 shall apply equally to any adjournment(s) of such meeting.

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