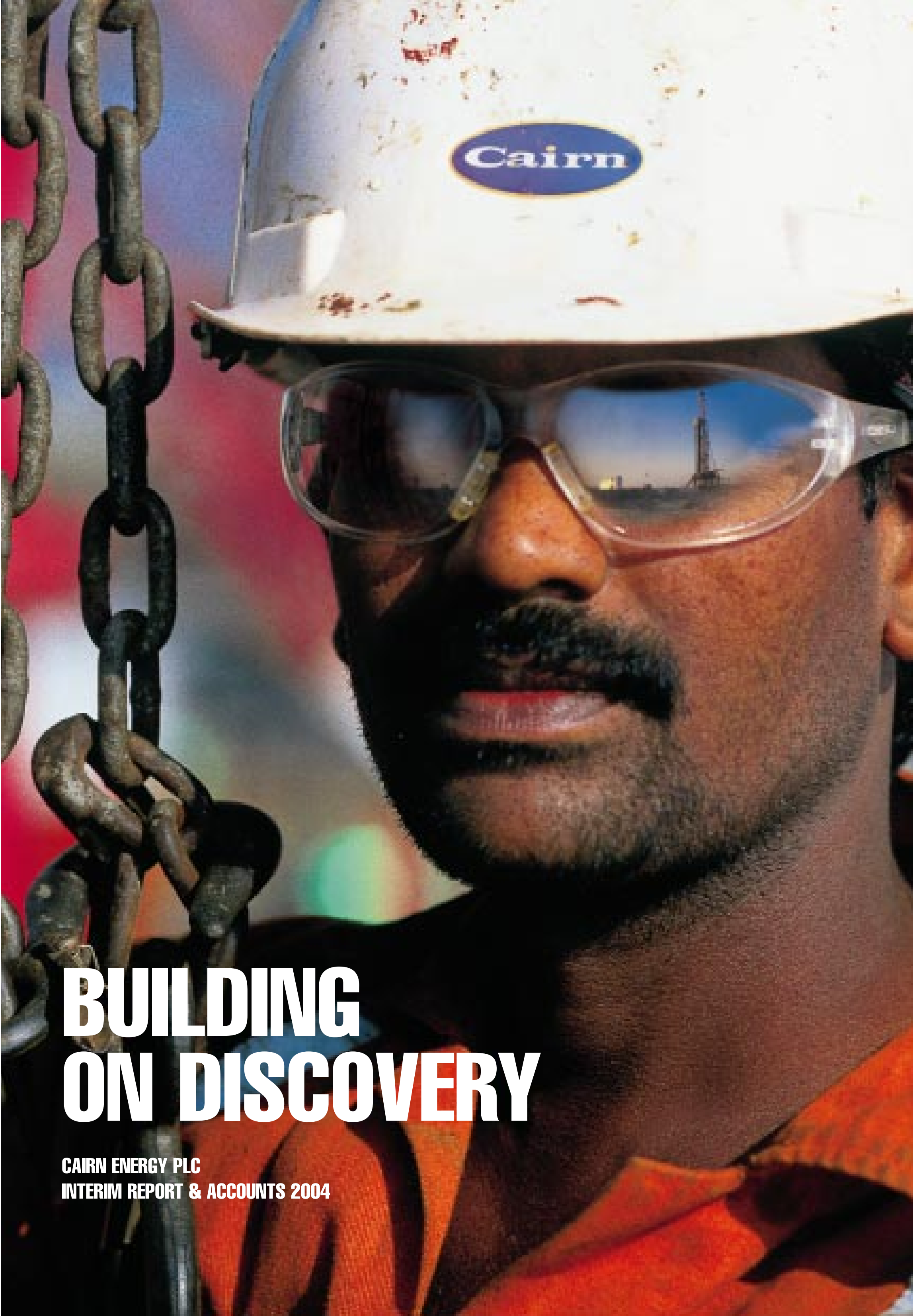

BUILDING ON DISCOVERY

CAIRN ENERGY PLC
INTERIM REPORT & ACCOUNTS 2004



Contents


HIGHLIGHTS

Operational

Five oil discoveries (Mangala, N-A, N-C, N-V and N-R) onshore northern Rajasthan

Appraisal drilling of the Mangala and N-A fields successfully completed

Independent determination of one billion barrels of oil in place at Mangala

Mangala and N-A fields target 60,000 to 100,000 bopd commencing Q4 2007

Northern extension of Rajasthan block granted

Successful Raageshwari gas appraisal well

Completion of acquisition of Shell's upstream assets in Bangladesh

Agreements signed for five new exploration blocks in Nepal

Financial

Average production of 24,799 boepd (H1 2003: 30,625 boepd)

Average price received per boe $24.61 (H1 2003: $22.44 per boe)

Profit before tax of £22.9 million (H1 2003: £38.3 million)

Earnings per share of 10.23 pence (H1 2003: 17.89 pence)

Operating cash flow of £47.1 million (H1 2003: £63.2 million)

5% placing raised £102 million to provide operational flexibility

Bill Gammell, Chief Executive, commented:

"During 2004 Cairn's fortunes and prospects have been transformed through major exploration success in Rajasthan. An extremely active exploration, appraisal and development campaign is continuing with the potential to add further significant value.

Cairn's track record of successful exploration and project delivery in South Asia leaves it ideally placed to meet the challenges offered by the Rajasthan developments."

Chairman's Statement

VISION

OVERVIEW

Cairn's focus is on the energy markets of South Asia, where the Group's history of successful exploration and subsequent development has consistently created and delivered value. Cairn sees significant growth potential for its activities in South Asia, particularly within Rajasthan.

The Group's fortunes and prospects have been transformed during 2004 with major exploration success in Rajasthan. A series of oil discoveries (Mangala, N-A, N-C, N-V and N-R) have been made in the northern portion of Cairn's acreage, with the Mangala and N-A fields set to form the core of the future development. To date Cairn has drilled 40 wells in Rajasthan comprising 22 exploration wells and 18 appraisal wells, which has led to ten discoveries. This success has resulted in a substantial increase in operational activity and confirms Rajasthan as the major area of focus for the Group going forward.

In general, evaluation of oil in place and recoverable reserves across the various fields in Rajasthan is at an early stage. Cairn currently estimates that, to date, the total oil initially in place it has discovered in the basin is in excess of two billion barrels. The amount of reserves ultimately recovered from each field will depend on numerous factors, including in particular secondary recovery by waterflooding. In parts of the basin saline aquifers have been discovered at depth, which are capable of being used as a water source for such secondary recovery. Pilot water injectivity tests are planned at Mangala later in 2004.

Appraisal of the Mangala oil field has been completed, and the final appraisal well on the N-A field is being tested. The Mangala oil field has been independently assessed by DeGolyer and MacNaughton to have oil in place of one billion barrels, and recoverable reserves in the range of 100 to 320 million barrels. The Mangala and N-A fields are currently planned to come on stream at between 60,000 and 100,000 bopd toward the end of 2007.

Following the N-C discovery, agreement was reached with the Indian Government to extend the northern boundary of the Rajasthan block to cover the area of the currently mapped N-C reservoir. The subsequent N-V discovery close to the north western boundary has resulted in submission of a further extension application to cover the N-V reservoir. The present contract area covers 5,831 square kilometres and an extremely active exploration, appraisal and development programme is ongoing.

Key Statistics	**H1 2004**	H1 2003 (restated)	**% Increase/ (Decrease)**
Production (boepd)	**24,799**	30,625	**(19)**
Average price per boe ($)	**24.61**	22.44	**10**
Turnover (£ million)	**61.1**	78.6	**(22)**
Average production costs per boe (£)	**3.07**	2.49	**23**
Profit before tax (£ million)	**22.9**	38.3	**(40)**
Profit after tax (£ million)	**15.2**	26.2	**(42)**
Earnings per share (pence)	**10.23**	17.89	**(43)**
Operating cash flow (£ million)	**47.1**	63.2	**(25)**
Gearing (%)	**N/A**	4	**N/A**

Cairn is ideally placed to deliver maximum value and cash flow from Rajasthan and the Group will continue its extensive exploration programme while at the same time focusing on the fast-track development of the Mangala and N-A fields. Appraisal of the N-C extension area has also commenced with a planned programme of up to nine wells.

Cairn has been actively reviewing and re-shaping its business to ensure that the Rajasthan project is appropriately resourced to meet the challenges arising from the intensive forward programme.

In addition to the exploration and appraisal successes achieved in Rajasthan during the year to date, Cairn has also commenced production from the Gauri gas field in Gujarat, completed the acquisition of Shell's upstream interests in Bangladesh, signed agreements for five new exploration blocks in Nepal and disposed of its remaining UK North Sea interests. The proposed transaction and strategic alliance with ONGC announced in October 2003 has now received Indian Government approval and is expected to be completed by the end of 2004.

Strong operating cash flows coupled with available debt facilities and recent share placing proceeds provide maximum flexibility to move forward with our growth opportunities.

A detailed update in respect of each of the Group's assets is given in the operations section of this report.

RESULTS AND FINANCIAL PERFORMANCE

Cairn's success continues to be underpinned by a robust financial position leaving the Group well placed to pursue the exciting opportunities in its growing asset portfolio.

Profit and Loss Account

Average daily production was 24,799 boepd (H1 2003: 30,625 boepd). Government share of production from both the Ravva and Sangu fields has increased, as a result of which Cairn's net entitlement share has decreased. Also, production acquired pursuant to the acquisition of Shell's interests in Bangladesh is not included in the production figure for H1 2004.

The average oil price realised for the first half of 2004 was $24.61 per boe compared with $22.44 per boe for the equivalent period in 2003. Turnover, which has been impacted by the weakening of the US$ against Sterling during the period, has reduced by 22% to £61.1 million (H1 2003: £78.6 million).

Average cost of sales per barrel for the first half of 2004 remain relatively unchanged from the

Chairman's Statement continued

equivalent period last year at £6.32 (H1 2003: £6.11). However this comprises an 11% reduction in depletion costs per barrel from £3.50 to £3.11 following the recognition of additional reserves associated with the Bangladesh acquisition in the South Asia cost pool as at 30 June 2004. This has been offset by a 23% increase in production costs, which averaged £3.07 per barrel during the first half (H1 2003: £2.49). Production costs include amounts in respect of litigation, arbitration and stock adjustments.

Cairn also completed the disposal of its 10% interest in the Gryphon field in the UK North Sea (the Group's only remaining interest in its UK 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 £2.1 million pre-tax gain has been recognised in the profit and loss account in respect of discontinued activities.

Administrative expenses for the period were £10.2 million (H1 2003: £5.4 million). This includes a charge of £3.2 million in respect of the amortisation of Cairn's LTIP (H1 2003: £0.5 million). Net interest payable was £1.5 million (H1 2003: £1.0 million),including a foreign currency exchange loss of £0.7 million (H1 2003: £0.2 million).

The Group generated a profit before tax of £22.9 million (H1 2003: £38.3 million). The majority of the £7.7 million tax charge (H1 2003: £12.1 million) arises on profits in India but also includes a charge of £1.0 million in respect of the Gryphon disposal. Profit after tax for the period was £15.2 million (H1 2003: £26.2 million).

Balance Sheet, Cash Flow & Financing

The Group's operating cash flow over the period was £47.1 million (H1 2003: £63.2 million). Net cash outflow from capital expenditure during the first half totalled £63.1 million (H1 2003: £39.5 million), comprising £24.9 million exploration expenditure, £11.5 million development expenditure, £0.5 million other fixed assets and £9.3 million purchase of own shares. The net cash outflow also includes a £24.2 million outflow pursuant to the Bangladesh acquisition and a £7.3 million inflow pursuant to the Gryphon disposal.

The Group had net funds of £3.2 million and no gearing at the balance sheet date (H1 2003: net debt £12.8 million; gearing 4%). As at 30 June 2004, the Group had drawn $24 million (£13.2 million) of its available $240 million unsecured committed revolving credit facilities (comprising the $200 million three year and $40 million seven year facilities put in place in January 2004). The Group's financing position has since been further enhanced by the £102 million raised pursuant to the placing of 7.5 million new shares in July 2004.

Transactions

As both the Bangladesh acquisition and the Gryphon disposal had completed by 30 June 2004 they have been reflected in the interim accounts. The transaction with ONGC has not yet completed and is therefore not recognised in the financial statements.

OPERATIONS

WESTERN INDIA - RAJASTHAN

Block RJ-ON-90/1, Rajasthan Basin (Cairn 100% and Operator)

Cairn operates Block RJ-ON-90/1 under a PSC signed on 15 May 1995. The original seven year exploration period of the PSC has been extended by three years and will expire in May 2005. At the end of the exploration period any areas converted to Development Areas are valid for the full 25 year term of the PSC which expires in May 2020. The PSC does however provide for an extension of the 25 year term by five or more years, subject to mutual agreement of the Government and Contractor.

Cairn commenced drilling operations with one heavy duty land rig in 2002 and initial drilling activity focused on the deeper targets in the central and southern parts of the block. Following the discovery of hydrocarbons at shallow depths at Raageshwari in February 2003, Cairn brought in two additional light weight drilling rigs later in the year to accelerate the exploration of the shallower objectives across the basin. In early 2004, exploration for shallow objectives in the northern part of the basin met with immediate success. Present exploration activity is largely focused on prospects in the northern portion of the block where the Mangala, N-A, N-C, N-V and N-R oil discoveries have been made.

Cairn currently has five drilling rigs and one work-over rig operating on the block. Exploration, appraisal and development activities are being conducted in parallel with a view to minimising regret volumes and securing extensive Development Areas covering multiple discoveries prior to expiry of the exploration period of the block in May 2005.

A pilot test programme of fracture stimulations on three wells in the southern fields has been undertaken to improve understanding of the flow potential. Initial results have been encouraging, with a significant increase in productivity.

Cairn has submitted a Declaration of Commerciality covering a single extensive Development Area of 1,858 square kilometres for several of its existing discoveries (including Mangala, N-A, Saraswati and Raageshwari). This area (known as the eastern Development Area) also incorporates the unappraised GR-F and Kameshwari discoveries and the recent N-R discovery.

Cairn has also received Indian Government approval of an acreage extension of 852 square kilometres to the north of the N-C discovery and has recently commenced appraisal drilling in this area. A second extension application has been submitted requesting Indian Government approval of a further extension area to the north-west of the N-V discovery.

In re-shaping its business to ensure appropriate resourcing for the Rajasthan asset going forward, Cairn has established a new asset management structure and recruited a number of high calibre industry professionals with specialist large onshore field development expertise to form a dedicated project team. The in-field organisation has been strengthened, communications have been upgraded and work is underway to construct a warehouse and logistics base in the north of the block close to the large discoveries.

Chairman's Statement continued

1. NORTHERN DISCOVERIES

Mangala Field

Cairn discovered the Mangala oil field with the N-B-1 exploration well in January 2004. The well intersected a gross oil column of 157 metres in excellent quality Fatehgarh sands and flowed at a cumulative rate of 6,000 bopd from three selected sands in a subsequent open hole drill stem test programme.

In carrying out a comprehensive Mangala appraisal programme, Cairn has drilled six successful appraisal wells and taken extensive cores which confirm the excellent Fatehgarh reservoir quality across the field. A series of reservoir interference tests have confirmed reservoir continuity and connectivity in selected sands. Cairn has also acquired and processed an extensive 2D seismic programme and initiated a 3D seismic survey for completion by the end of 2004.

An ongoing water resource study has identified substantial saline aquifers to the south and north of the field capable of providing sufficient volumes of saline water to support secondary recovery by water flooding. A series of water injection tests into the main Fatehgarh aquifer reservoir at Mangala are planned for later this year.

Following successful completion of the appraisal drilling programme in July 2004, Cairn currently estimates that oil in place volumes for the Fatehgarh reservoir range from 770 to 1,150 million barrels, with a recoverable reserve estimate in the 120 to 335 million barrel range depending on recovery factors (assuming secondary recovery by waterflood). Cairn will also be investigating enhanced recovery techniques to raise the recovery factor over and above that achievable by waterflood alone.

Additional in place volumes of oil are contained in the siltstones of the Barmer Hill formation, the current mean oil in place estimate for which is around 500 million barrels. Currently, recovery factors in the Barmer Hill at Mangala are anticipated to be very low, even with stimulation, and further work is required to determine whether or not the formation will be capable of commercial production.

Independent Reserves Report

An independent reserves report on the Mangala Field Fatehgarh reservoir has been prepared by DeGolyer and MacNaughton ("D&M") following completion of the appraisal programme. This report assesses the Proved oil in place estimate to be 905 million barrels and the Proved plus Probable oil in place estimate to be 1,005 million barrels[1].

The main statements within D&M's report are as follows:-

"For the Mangala Field, the volumetric method was used to estimate the OOIP...

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP...

For the estimation of proved reserves, natural depletion of the reservoir, either in the form of solution-gas drive, natural water influx, or a combination of the two drive mechanisms, was used as the basis for estimating a recovery factor... A recovery factor of 11 percent was used for the estimation of proved reserves... Proved reserve estimates were limited to those volumes produced to May 2020. Recovery factors for probable and possible reserves estimated in this report considered waterflooding operations in the field... Recovery factors derived using these methods ranged from 15 to 35 percent. A recovery factor of 21 percent was applied for estimating probable reserves and a recovery factor of 31 percent was applied for estimating possible reserves... Probable reserves estimates were limited to the volumes expected to be produced to May 2020. Estimates of possible reserves considered a producing life to May 2025, which assumes a five year extension to the PSC term...

	Gross Oil Reserves		
Mangala Field	Proved	Probable	Possible
Gross Ultimate Recovery[2] (in million bbls)	99.505	111.484	110.518"

For the avoidance of doubt, the following notes are not in D&M's report but are included in this report for clarification purposes:-

[1] D&M did not quote a Possible oil in place number but do quote a Possible reserves number which is accounted for by a recovery factor of 31% applied to the Proven plus Probable oil in place number.

[2] In effect meaning that Proved is 99.5 million bbls, Proved plus Probable is 210.989 million bbls and Proved plus Probable plus Possible is 321.502 million bbls.

N-A Field

Cairn made a second significant oil discovery with the N-A-1 exploration well in March 2004. The well encountered a gross oil column of 120 metres in excellent quality sands of the Fatehgarh formation and flowed at a cumulative rate of 2,100 bopd from two zones in an open hole test. Cairn has since drilled four appraisal wells on the field, operations on the last of which (N-A-5) are still ongoing. N-A-5 is located in the north of the field and has encountered the best reservoir section seen in the field to date. The Fatehgarh has been extensively cored during the appraisal programme.

Initial estimates of oil in place for the N-A field at the time of the discovery ranged from 130 to 470 million barrels, with preliminary recoverable reserves estimated to be in the 20 to 80 million barrels range. The appraisal programme on N-A is almost complete and it is currently envisaged that the post-appraisal reserve estimates will remain within the initial ranges. Cairn plans to develop the N-A field in combination with Mangala.

Additional in place volumes of oil are contained in the siltstones of the Barmer Hill formation, the current mean oil in place estimate for which is in excess of 250 million barrels. Recovery factors in the Barmer Hill at N-A are anticipated to be very low, even with stimulation, although further work is required to determine these. The N-A-4 appraisal well did however flow oil to surface from two open hole tests in the Barmer Hill without stimulation.

As with Mangala, a post-appraisal independent reserves report on the N-A field will be undertaken by DeGolyer and MacNaughton and this is scheduled to be completed by the end of 2004.

Mangala and N-A Conceptual Field Development

Conceptual development work for the Mangala and N-A fields is ongoing and work on the full Field Development Plan ("FDP") will commence following approval of the Declaration of Commerciality. It is planned to submit the final FDP to the Indian Government during the first half of 2005.

Chairman's Statement continued

Currently, the conceptual development targets production start-up in Q4 2007. Development options will be generated in the coming months and the best solution selected through a FEED study to be undertaken by Cairn in conjunction with a suitable third party engineering contractor.

N-C Discovery

In April 2004, Cairn made a third oil discovery in the northern part of the block with the N-C-1 exploration well. The well encountered a 274 metre gross Fatehgarh section, with 165 metres of excellent high quality sands and a gross 18 metre oil column. Initial in field evaluation of oil samples recovered to surface indicated an API gravity of 15 degrees. However, subsequent laboratory analyses have established an API of 20 degrees with an anomalously low pour point (wax content) relative to other Cairn tested crudes in the area.

The N-C-1 well was located only 300 metres from the then northern boundary of the block. However, in an unrisked maximum case, mapping showed the Fatehgarh reservoir potentially extending northwards across a series of faults for some considerable distance. This series of faults breaks the N-C extension area into a series of sub-compartments.

There are significant risks associated with appraisal of the N-C extension area. These risks include migration and charge, reservoir presence, fault seal, up-dip sealing capacity and oil quality at shallow depths. Each of the sub-compartments across the area, exhibits an independent structural closure that may or may not be oil bearing. Consequently there is a broad spectrum of possible technical outcomes for the potential oil in place of the N-C extension area.

Cairn has already commenced 2D seismic acquisition in the northern extension area. It has also commenced operations on the first two wells of a planned nine well appraisal programme. The first appraisal well encountered a Fatehgarh section just below the N-C-1 OWC in a structural saddle area. The second appraisal well encountered a 50 metre gross oil column in the Fatehgarh in a sub-compartment with the same pressure regime as N-C-1 but a separate OWC. This second appraisal well is currently being tested.

N-V Discovery

In August 2004, Cairn made a fourth significant oil discovery with the N-V-1 exploration well. The well, which is located 19 kilometres from the N-C discovery in close proximity to the existing north-western boundary of the block, encountered a 240 metre gross Fatehgarh section, with 130 metres of excellent high quality sands and a gross oil column of approximately 60 metres.

An open hole test taken from a reservoir sand just above the OWC flowed 21 degree API oil to surface over a six hour period with an anomalously low pour point (wax content). A second open hole test conducted across reservoir sands some 40 to 45 metres above the OWC flowed at 800 bopd of 26 degree API oil with a pour point (wax content) equivalent to Mangala and N-A. A sidetracked appraisal well has cored a significant proportion of the entire reservoir interval, analysis of which is underway.

It is thought that bacterial activity close to the OWC in the N-C and N-V discovery wells is biodegrading the crude and removing the wax content (some signs of this are also seen in the Mangala field close to the OWC from detailed fluid and core studies). If this is the case, the second

N-V test result has significantly upgraded the potential for intermediate rather than heavy crudes in the N-C and proposed N-V extension areas if oil columns greater than approximately 20 metres are found.

As with the N-C discovery, Indian Government approval will be required for an extension area to cover the extent of the N-V reservoir as presently mapped prior to commencement of appraisal drilling. The appraisal risks associated with the proposed N-V extension area are similar to those associated with the N-C extension area.

N-R Discovery

The recently drilled N-R-1 exploration well targeting a stratigraphic closure 20 kilometres south-east of Mangala, encountered a net 27 metres of oil pay in a relatively sandy facies of the Barmer Hill formation. An open hole test was carried out over a 22 metre interval in the well and flowed oil of 34 degree API oil to surface before experiencing mechanical problems. A cased hole test is now to be carried out and further appraisal will be required before assessing potential reserves.

Importantly, N-R-1 also encountered a significant saline water aquifer at the Thumbli and Dharvi Dungar levels which may be applicable to a Mangala waterflood scheme.

2. SOUTHERN & CENTRAL DISCOVERIES

To the south of the Mangala and N-A fields a number of oil discoveries have been made in a variety of play types and at different stratigraphic levels. Of these, the Saraswati, Raageshwari and GR-F fields are at various stages of appraisal. Currently, these three fields are estimated to have a combined mean oil in place volume of at least 150 million barrels although further appraisal and evaluation will be required to establish volumes and recovery factors. Recoveries in these fields are expected to be significantly less than those seen in the excellent quality Fatehgarh reservoirs of the northern fields.

In addition to the small southern oil fields and discoveries, a potentially significant deep gas field has been discovered in non-conventional reservoirs at Raageshwari. The recently drilled Raageshwari-4 appraisal well has encountered a gas column of more than 800 metres in a mixed volcanic sequence. An open hole test on the well is being carried out. The current GIIP estimate for this deep gas field ranges between 100 bcf and 600 bcf.

Raageshwari-4 will be placed on a long term test to assess the sustainability of flow rates of gas from the field. If viable, this gas could be piped north to be used as a fuel source for generating the power required for the northern oil developments.

3. FORWARD DRILLING PROGRAMME

The five rig exploration and appraisal drilling programme in Rajasthan is planned to continue at least until the end of the year and probably beyond. It is anticipated that, on a trouble free basis, an average of between three and five wells will be drilled per month. The drilling programme includes at least a further 12 exploration wells, many in the north but some on the western basin margin and in the south outside of the proposed eastern Development Area. In addition, four to nine wells are planned in the N-C extension area, two of which (N-C-2 and N-C-3) are currently operating.

Chairman's Statement continued

BANGLADESH

The Sangu gas field, which has so far generated almost $500 million of gross revenue, is the producing field at the core of Cairn's Bangladesh exploration and production position. Cairn has also built a significant and prospective exploration acreage position across southern Bangladesh. Cairn is however conscious that investment plans for its exploration activities need to be considered in the context of actual and forecast demand in the domestic market.

Production

Sangu Development Area, Block 16 (Cairn 75% and Operator)

During the first half of 2003, gross daily offtake from the Sangu gas field averaged 140 mmscfd (H1 2003: 136 mmscfd). The average realised gas price for the period was $2.90/mcf (H1 2003: $2.92/mcf).

A well intervention programme on the field was carried out in December 2003 and January 2004 following which deliverability was substantially increased. As at 31 August 2004, deliverability was reduced to approximately 130 mmscfd as a result of plugging of perforations in the main upper producing horizons.

The Sangu Field Development Plan ("FDP") envisaged up to 13 wells over the life of the field although investment in Sangu since first production has been minimal. Having resumed operatorship of the field, Cairn plans to undertake further well intervention on the existing wells and to drill two to three infill wells. This programme will commence later in 2004 with the aim of restoring production capacity to over 180 mmscfd. Cairn is also undertaking further sub-surface work with a view to updating the FDP and reassessing the reserves for the field.

Exploration

Blocks 5 and 10 (Cairn 90% and Operator)

PSCs for Blocks 5 and 10 in southern Bangladesh were signed in 2001 at which time it was agreed with the Government of Bangladesh that, in the absence of a demonstrable market for any gas that may be discovered, commitment exploration wells would not have to be drilled on the blocks during the first five years following signature.

A seismic acquisition programme over both blocks is currently underway and as at 31 August 2004, 593 kilometres had been acquired, representing almost half of the total planned programme of 1,200 kilometres.

EASTERN INDIA

Production - Ravva (Cairn 22.5% and Operator)

The Ravva oil and gas field remains on plateau and average gross daily production for the first half of 2004 was 55,862 bopd and 84 mmscfd (H1 2003: 51,391 bopd and 66 mmscfd). Average production for the first half of 2004 was 9,532 boepd net to Cairn (H1 2003: 10,075 boepd). In April 2004, the Indian Government's share of profit petroleum pursuant to the PSC increased from 35% to 60%.

The Ravva field has been developed by means of seven platforms, with onshore processing and offshore loading via a single point mooring buoy. Production is achieved by 14 oil producers, five gas producers and six water injectors. Five infill development wells are planned to be drilled on Ravva in late 2004 and early 2005.

Exploration

Cairn's exploration efforts in deep water acreage in the Krishna-Godavari basin resulted in a succession of oil and gas discoveries on Block KG-DWN-98/2 in 2000 and 2001. In view of the large capital required for deep water appraisal and development, a strategic decision was taken to farm out a 90% interest in this block as part of the transaction with ONGC. Cairn will retain a 10% interest following completion of this transaction and will redeploy the proceeds in exploration investment opportunities elsewhere in its South Asian portfolio.

Cairn has relinquished its interest in Block KG-OS/6.

WESTERN INDIA - GUJARAT

Block CB/OS-2, Cambay Basin

Cairn's exploration success on Block CB/OS-2 offshore Gujarat has resulted in the discovery and fast-track development of the Lakshmi and Gauri gas fields. There is also potential to tie back additional gas discoveries and to produce oil discovered on the block from the existing onshore production facilities at Suvali.

Cairn agreed to farm out a 15% exploration interest in Block CB/OS-2 and a 10% development interest in Lakshmi and Gauri as part of the transaction with ONGC. As this has not yet completed, the percentage interests stated below reflect Cairn's interests prior to completion of the transaction.

Production

Lakshmi & Gauri (Cairn 50% and Operator)

The Lakshmi gas field commenced production in November 2002 and the neighbouring satellite Gauri gas field commenced production in April 2004. Average gross daily production for the first half of 2004 was 97 mmscfd (H1 2003: 106 mmscfd).

Production from the Lakshmi field is currently constrained due to production problems on three wells (production from Gauri is unaffected). In order to restore deliverability Cairn plans to carry out a remedial intervention programme and to drill three Phase II infill development wells in the coming months. It is also planned to install onshore booster compression in 2005.

Chairman's Statement continued

A phased oil development for Gauri and Lakshmi is expected to commence in early 2005 with commencement of production from the GA-3 oil well.

Exploration

(Cairn 75% and Operator)

During the first half 2004 Cairn drilled an onshore exploration well (CB-X-1) close to the Suvali processing plant. The well discovered and tested modest quantities of dry gas and is expected to be connected via a direct pipeline to Suvali and to commence production in 2005.

Negotiations are ongoing with Shell for Cairn to drill a proposed onshore well to appraise the Gauri north structure close to the Shell Hazira LNG terminal.

Blocks CB-ONN-2002/1 and CB-ONN-2001/1, Cambay Basin (Cairn 30%, ONGC Operator)

Cairn has increased its exploration position in the Cambay basin by signing a PSC for a 30% interest in Block CB-ONN-2002/1 (awarded to ONGC and Cairn pursuant to the NELP-IV bid round) and agreeing to acquire a 30% interest in Block CB-ONN-2001/1 as part of the ONGC transaction.

NORTHERN INDIA AND NEPAL

In line with its focus on the South Asian energy markets, Cairn has added to its portfolio by acquiring frontier exploration acreage in northern India and Nepal.

In northern India, Cairn has signed a PSC for a 100% interest in Block GV-ONN-2002/1 (awarded pursuant to the NELP-IV bid round) and has agreed to acquire a 30% interest in Block GV-ONN-97/1 as part of the ONGC transaction. Both blocks are located onshore northern India adjacent to the border with Nepal.

In July 2004, Cairn signed Petroleum Agreements for five new exploration blocks (1, 2, 4, 6 and 7) in Nepal. These blocks cover a combined area of approximately 21,800 square kilometres. As announced at the time of signature, Cairn, in consultation with the Nepalese authorities, has relinquished those parts of the acreage designated as national parks and wildlife areas. It is Cairn's policy not to conduct exploration or production operations in UNESCO designated World Heritage Sites or those areas assessed by Cairn, in conjunction with the relevant Governments, as environmentally sensitive.

Cairn intends to commence reconnaissance seismic operations in Nepal during the second half of 2005.

RESERVES

The table below shows reserves information on an entitlement basis for the Group. It is Cairn's intention to commission a comprehensive third party independent review of reserves for all of its producing interests prior to announcing its full year results for 2004. As at 30 June 2004, no reserves had been booked in respect of the Rajasthan discoveries.

	Reserves at 31.12.03	Produced in H1 2004	Acquisitions/ Disposals in H1 2004	Revisions in H1 2004	**Reserves at 30.06.04**
	mmboe	mmboe	mmboe	mmboe	**mmboe**
North Sea	1.5	(0.1)	(1.4)	—	**—**
South Asia	75.1	(4.4)	35.5	(1.3)	**104.9**
Total	76.6	(4.5)	(34.1)	(1.3)	**104.9**

On a direct working interest basis, reserves as at 30 June 2004 totalled 163.9 mmboe (H1 2003: 127.6 mmboe).

OUTLOOK

Notwithstanding the significant transformation of Cairn's value which has already occurred during the first half of 2004 we remain excited about the Group's future prospects, as we are still at the embryonic stage of exploring and understanding the potential of the basin in Rajasthan.

Our continuing financial flexibility and balance sheet strength mean that we remain ideally placed to further accelerate our drilling programme in Rajasthan whilst also pursuing the other growth opportunities in our South Asian portfolio.

Norman Murray, Chairman
7 September 2004

Consolidated Profit and Loss Account (Unaudited)

For the six months to 30 June 2004

	Notes	Continuing operations £'000	Discontinued operations £'000	Six months to 30 June 2004 £'000	Six months to 30 June 2003 (restated) £'000	Year ended 31 December 2003 (restated) £'000
Turnover		59,145	1,910	61,055	78,586	155,814
Cost of sales						
Production costs		(13,329)	(537)	(13,866)	(13,797)	(26,498)
Depletion		(13,472)	(576)	(14,048)	(19,370)	(42,731)
Decommissioning charge		(573)	(81)	(654)	(683)	(1,231)
Gross profit		31,771	716	32,487	44,736	85,354
Exceptional gain on sale of oil and gas assets		—	2,147	2,147	—	—
Administrative expenses		(10,173)	—	(10,173)	(5,380)	(12,277)
Operating profit		21,598	2,863	24,461	39,356	73,077
Interest receivable and similar income		182	—	182	201	475
Interest payable and similar charges		(1,699)	—	(1,699)	(1,228)	(4,548)
Profit on ordinary activities before taxation		20,081	2,863	22,944	38,329	69,004
Taxation on profit on ordinary activities						
- current		(3,254)	(1,000)	(4,254)	(2,189)	(5,583)
- deferred		(3,461)	—	(3,461)	(9,940)	(17,201)
		(6,715)	(1,000)	(7,715)	(12,129)	(22,784)
Profit for the period		13,366	1,863	15,229	26,200	46,220
Earnings per ordinary share – basic	1			10.23p	17.89p	31.47p
Earnings per ordinary share – diluted	2			10.16p	17.82p	31.37p

Notes:

1. The basic earnings per ordinary share is calculated on a profit of £15,229,000 (H1 2003: £26,200,000) on a weighted average of 148,837,342 (H1 2003: 146,472,002) ordinary shares.
2. The diluted earnings per ordinary share is calculated on a profit of £15,229,000 (H1 2003: £26,200,000) on 149,867,522 (H1 2003: 146,988,039) ordinary shares, being the basic weighted average of 148,837,342 (H1 2003: 146,472,002) ordinary shares and the dilutive potential ordinary shares of 1,030,180 (H1 2003: 516,037) ordinary shares relating to share options.
3. No dividend has been declared.
4. Comparative figures have been adjusted as a result of the change in accounting policy arising from the implementation of UITF 38 Accounting for ESOP Trusts.

Consolidated Statement of Total Recognised Gains and Losses (Unaudited)

For the six months to 30 June 2004

	Notes	**Six months to 30 June 2004 £'000**	Six months to 30 June 2003 (restated) £'000	Year ended 31 December 2003 (restated) £'000
Profit for the period		**15,229**	26,200	46,220
Unrealised foreign exchange differences		**(1,664)**	(8,363)	(32,854)
Total recognised gains and losses relating to the period		**13,565**	17,837	13,366
Prior year adjustment	2	**(83)**		
Total gains and losses recognised since last annual report		**13,482**		

Reconciliation of Movements in Shareholders' Funds (Unaudited)

For the six months to 30 June 2004

	Notes	**Six months to 30 June 2004 £'000**	Six months to 30 June 2003 (restated) £'000	Year ended 31 December 2003 (restated) £'000
Total recognised gains and losses relating to the period		**13,565**	17,837	13,366
Redemption of non-equity shares		—	(50)	(50)
New shares issued in respect of employee share options		**4,349**	654	1,840
Movement in Other Reserves	1	**(6,154)**	510	873
Net additions to shareholders' funds		**11,760**	18,951	16,029
Opening shareholders' funds (after prior year adjustment)	2	**337,778**	321,749	321,749
Closing shareholders' funds		**349,538**	340,700	337,778

Notes:

1. £6,154,000 movement in "Other reserves" comprises £9,329,000 purchase of own shares in period offset by £3,175,000 LTIP amortisation charged to the profit and loss account.
2. The prior year adjustment in 2003 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 were £342,071,000. Further detail is provided in the Notes to the Accounts on page 19.

Consolidated Balance Sheet (Unaudited)

As at 30 June 2004

	As at 30 June 2004 £'000	As at 30 June 2003 (restated) £'000	As at 31 December 2003 (restated) £'000
Fixed assets			
Exploration assets	**186,660**	173,038	155,046
Development/producing assets	**238,092**	244,718	236,749
Other fixed assets	**1,540**	1,924	1,546
Investments	**53**	143	54
	426,345	419,823	393,395
Current assets			
Debtors	**59,349**	61,521	56,866
Cash at bank	**16,438**	15,989	17,766
	75,787	77,510	74,632
Creditors: amounts falling due within one year	**52,077**	49,183	42,396
Net current assets	**23,710**	28,327	32,236
Total assets less current liabilities	**450,055**	448,150	425,631
Creditors: amounts falling due after more than one year	**13,230**	19,697	—
Provisions for liabilities and charges	**15,170**	17,646	16,082
Deferred taxation	**72,117**	70,107	71,771
Net assets	**349,538**	340,700	337,778
Capital and reserves - equity interests			
Called-up share capital	**15,142**	14,942	15,010
Share premium	**5,938**	603	1,721
Other reserves	**13,892**	94,064	20,046
Capital reserves – non distributable	**26,281**	26,231	26,281
Capital reserves – distributable	**109,635**	35,254	109,635
Profit and loss account	**178,650**	169,606	165,085
Shareholders' funds	**349,538**	340,700	337,778

Notes:

1. The disclosed figures are not statutory accounts in terms of section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2003, on which the auditors gave an unqualified report, have been filed with the Registrar of Companies.

Consolidated Statement of Cash Flows (Unaudited)

For the six months to 30 June 2004

	Six months to 30 June 2004 £'000	Six months to 30 June 2003 £'000	Year ended 31 December 2003 £'000
Net cash inflow from operating activities	**47,056**	63,168	122,177
Returns on investments and servicing of finance			
Interest received	**182**	201	475
Interest paid	**(576)**	(602)	(1,027)
	(394)	(401)	(552)
Taxation	**(1,357)**	(2,913)	(4,425)
Capital expenditure and financial investment			
Expenditure on exploration assets	**(24,825)**	(18,961)	(55,902)
Expenditure on development/producing assets	**(11,517)**	(20,047)	(18,670)
Acquisition of Bangladesh assets	**(24,213)**	—	—
Purchase of other fixed assets	**(490)**	(477)	(1,192)
Purchase of own shares	**(9,329)**	—	—
Sale of North Sea oil and gas fixed assets	**7,277**	—	10,368
Sale of other fixed assets	**7**	6	73
	(63,090)	(39,479)	(65,323)
Equity dividends paid	**—**	—	—
Net cash (outflow)/inflow before use of liquid resources and financing	**(17,785)**	(20,375)	51,877
Management of liquid resources[1]			
Cash on short term deposit	**3,140**	(3,481)	(9,755)
Financing			
Issue of shares - equity	**4,349**	654	1,840
- non equity	**—**	—	37
Redemption of non-equity shares	**—**	—	(50)
Debt draw-downs	**13,088**	12,636	—
Repayment of debt	**—**	(31,130)	(47,918)
	17,437	(17,840)	(46,091)
Increase/(decrease) in cash in the period	**2,792**	(946)	(3,969)

Notes:

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

Reconciliation of Operating Profit to Operating Cash Flows (Unaudited)

For the six months to 30 June 2004

	Six months to 30 June 2004 £'000	Six months to 30 June 2003 (restated) £'000	Year ended 31 December 2003 (restated) £'000
Operating profit	**24,461**	39,356	73,077
Depletion and depreciation	**14,522**	19,847	44,151
Decommissioning charge	**654**	683	1,231
Amortisation of long term incentive plan	**3,175**	510	873
Provision against investment	**—**	—	84
Exceptional gain on sale of oil and gas assets	**(2,147)**	—	—
Working capital movement	**5,154**	3,230	5,536
Other provisions	**753**	355	1,339
Gain on sale of other fixed assets	**(6)**	(1)	(4)
Foreign exchange differences	**490**	(812)	(4,110)
Net cash inflow from operating activities	**47,056**	63,168	122,177

Net Funds/(Debt) (Unaudited)

As at 30 June 2004

	At 1 January 2004 £'000	Cash flow £'000	Exchange movements £'000	**At 30 June 2004 £'000**
Cash at bank	5,678	2,792	(522)	**7,948**
Short term deposits	12,088	(3,140)	(458)	**8,490**
	17,766	(348)	(980)	**16,438**
Debt due in more than one year	—	(13,088)	(142)	**(13,230)**
	17,766	**(13,436)**	**(1,122)**	3,208

Notes to the Accounts (Unaudited)

For the six months to 30 June 2004

1. Accounting Policies

Change of accounting policy

UITF 38 Accounting for ESOP Trusts became effective for accounting periods ending on or after 22 June 2004. Pursuant to UITF 38, the recognition of the charge in the profit and loss account for shares held in trust to satisfy awards made under the LTIP is 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. An additional charge of £83,000 arises in the year ended 31 December 2003 as a result of this change.

Following the implementation of UITF 38, shares in the ESOP Trust have been reclassified from “Investments” to “Other reserves” within Shareholders’ funds.

The effect of reclassifying the shares to Shareholders’ funds is to reduce the Group’s net assets by £4.3 million at 31 December 2003 (£4.6 million at 30 June 2003).

A prior year adjustment has arisen from this change in accounting policy and prior year comparatives have been restated to reflect the changes required pursuant to UITF 38.

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 will be recognised in the profit and loss account from this date. Cairn’s entitlement to operating profits in the interim period between completion and the economic effective date of the transaction (1 July 2003) have not been recognised in the interim profit and loss account but have instead been adjusted against the US$50 million capitalised consideration. Also adjusted against consideration is the US$0.24/mcf payment due to Shell on entitlement production from the acquired interest due for the interim period. The £24.2 million ($43.9 million) paid on completion includes the acquisition of £7.7 million ($13.9 million) of net working capital recoverable at 30 June 2004. Reserves associated with the acquisition were also booked on the completion date.

Independent Review Report to Cairn Energy PLC

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2004 which comprises Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Consolidated Balance Sheet, Consolidated Statement of Cash Flows, Reconciliation of Operating Profit to Operating Cash Flows and Net Funds/(Debt). We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information', issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as the test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

Ernst & Young LLP
London
7 September 2004

Glossary of Terms

The following are the main terms and abbreviations used in the Chairman's Statement:-

Corporate

Board	the Board of Directors of Cairn Energy PLC
Cairn	the Company and/or its subsidiaries as appropriate
Company	Cairn Energy PLC (as the context requires)
Group	the Company and/or its subsidiaries as appropriate
ONGC	Oil & Natural Gas Corporation Ltd. and/or its subsidiaries as appropriate
Shell	Royal Dutch Petroleum Company and/or Shell Transport and Trading Company and/or their subsidiaries as appropriate
UNESCO	United Nations Educational, Scientific and Cultural Organisation

Technical

API	American Petroleum Institute units as a measure of oil specific gravity
bbls	barrels of oil
bcf	billion cubic feet of gas
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
FEED	front end engineering and design
GIIP	gas initially in place
LTIP	long term incentive plan
/mcf	per thousand cubic feet of gas
mmscfd	million standard cubic feet of gas per day
OOIP	volumetric estimation of original oil in place
OWC	oil water contact
PSC(s)	Production Sharing Contract(s)
UITF	Urgent Issues Task Force
UK GAAP	Generally Accepted Accounting Practice in the United Kingdom

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