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CAIRN ENERGY PLC ("Cairn")

Preliminary Results Announcement

Simon Thomson, Chief Executive, Cairn Energy PLC said:

"Cairn continues to deliver positive progress across its balanced portfolio.

2017 will see first oil from our North Sea developments and progression of an exciting ongoing exploration and appraisal drilling programme in Senegal, all against a backdrop of increased financial flexibility.

The company remains well-positioned to deliver further value for shareholders from multiple catalysts within the portfolio."

HIGHLIGHTS

Senegal Exploration & Appraisal

- Seven successful wells drilled to date in Senegal: two discoveries, four wells in 2016 and a further appraisal well just completed
- SNE-5 appraisal well operations safely and successfully completed ahead of schedule and under budget
- Stena DrillMAX drill ship is moving location to shortly commence operations on the Vega-Regulus (VR-1) well, ~5 km to the west of the SNE-1 discovery with the exploration target underlying the SNE field
- VR-1 will also provide further appraisal data on the SNE field and results will help narrow field volumes and allow the Joint Venture (JV) time to integrate the results of SNE-5 prior to moving to SNE-6 to complete the planned interference test
- Current 2C in place resources more than 2.7 billion barrels and the ongoing programme will further define the recovery potential of the field
- Multiple exploration prospects have been identified: Cairn estimates further block wide exploration potential of ~500 mmbbls gross mean risked resource
- Prospect inventory includes numerous material targets across four play types identified within a 30 kilometres (km) tie back radius to SNE field

Senegal Development

- Decision on development concept selection expected in 2017, current plans include a phased development to capture the potentially extensive resource base
- From 2018 onwards, Cairn and JV partners plan to submit the Exploitation Plan and proceed to a Final Investment Decision with first oil expected in the period 2021-2023

- Woodside Petroleum Ltd (Woodside) entered the JV in 2016 bringing extensive experience in developing and operating floating production, storage and offloading (FPSO) facilities

UK & Norway

- Catcher (Cairn 20% WI) and Kraken (Cairn 29.5% WI) developments in the UK North Sea on track for first oil from 2017; peak net production to Cairn of ~25,000 boepd
- Skarfjell (Cairn 20% WI) development in Norway, subsea tie-back to nearby Gjøa platform selected by JV as development concept
- Five new licences awarded in Norway in Q1 2016, including Cairn's first licence as Operator
- Entry to the Barents Sea, Norway with three new licences awarded in Q2 2016, including one as Operator; region believed to have high potential for commercial oil discoveries
- Seven new licences awarded in Norway in Q1 2017, including two as Operator and two existing licence extensions
- Participated in two unsuccessful non-operated exploration wells: Aurelia in the Barents Sea (Cairn 10% WI) and Laverda in the UK (Cairn 36% WI)
- Operated Licence application in the UK 29th Licensing Round, awards expected shortly

International

- Western Sahara: Boujdour Maritime new Petroleum Agreement (Cairn 20% WI) with Operator Kosmos Energy, 3D seismic acquisition commences in 2017
- Ireland - Cairn awarded Licence Option (LO) 16/18 in the Atlantic Ireland Licencing Round in H1 2016. Additional farm-in to a 70% WI and Operatorship in the adjacent LO 16/19 with Europa Oil & Gas with plans for 3D seismic in 2017. Cairn farm-in to a 30% WI in Frontier Exploration Licence (FEL) 2/14 in Southern Porcupine Basin with Providence Resources and Sosina; with one firm well in 2017

Financial

- US$335 million (m) Group net cash at 31 December 2016
- Norwegian tax receivable of US$26m at 31 December 2016
- Reserve Based Lending bank facility remains undrawn with peak availability expected to reach US$350m to US$400m
- Forecast development expenditure on Catcher and Kraken for 2017 is US$150m and committed drilling E&A expenditure for 2017 is estimated at US$170m, predominantly in Senegal. At 31 December 2016, remaining cash outflows in respect of activities undertaken in 2016 were expected to be US$37m

Subsequent to year end:

- US$75m funding from FlowStream Commodities Ltd (FlowStream) in exchange for the proceeds from 4.5% of Kraken production, stepping down to 1.35% after 10% return achieved
- NOK 500m (~US$60m) three year Norwegian Exploration Finance Facility, allowing the company to borrow against future Norwegian exploration tax refunds

Resources & Reserves

- A total of 51.5 mmboe booked as 2P reserves and 239 mmboe booked as 2C Contingent Resources on a net working interest basis at 31 December 2016

India Tax Dispute

- Confirmation received via the international arbitration that dividends of US$51m due from Cairn India Limited (CIL) are no longer restricted, Cairn has requested the immediate release of the sum from CIL
- International arbitration proceedings are progressing in respect of Cairn's claim under the UK-India Bilateral Treaty with the main Statement of Claim and the Statement of Defence now submitted

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Brunswick Group LLP

Webcast

There will be a live audio webcast of the results presentation available to view on the website (www.cairnenergy.com) at 9am GMT. This can be viewed on PC, Mac, iPad, iPhone and Android mobile devices.

An 'on demand' version of the webcast will be available on the website as soon as possible after the event. This can be viewed on PC, Mac, iPad, iPhone and Android mobile devices.

Presentation

The results presentation slides will be available on the website from 7:00am GMT.

Conference call

You can listen to the results presentation by dialling in to a listen only conference call at 9am GMT using the below dial-in details.

Dial-in details:

UK:	020 3059 8125
All other locations:	+44 20 3059 8125

A recording of the conference call will be available from 11am on Wednesday 8 March 2017 until Wednesday 15 March 2017.

Recording dial-in details:

UK:	0121 260 4861
All other locations:	+44 121 260 4861
Passcode:	5220762#

Transcript

A transcript of the results presentation will be available on the website as soon as possible after the event.

Chief Executive Statement

Over the last five years, the business has been considerably reshaped and advanced to establish a balanced exploration and production company. The year ahead will be eventful with a number of material catalysts which have potential to add further value to the company.

We have created a strong platform for future growth with active positions in six countries in almost 50 licences providing significant acreage positions of technical and commercial value. The discovery of the SNE field offshore Senegal in 2014 marked a return to exploration success for Cairn and provides an opportunity to implement our strategy of creating, adding and realising value for shareholders through a balanced, well-funded and sustainable company.

In Senegal, we have confirmed the scale and potential of this world class asset, and following the appraisal success and contingent resource upgrade in 2016, we have now commenced the third phase of evaluation activity. The JV also has plans for future exploration drilling.

In the UK and Norway, we have high quality assets and have made significant progress in the last year. Both the Kraken and Catcher development projects are below budget and on schedule to target first oil this year. The start up of these developments is significant, as it will mark Cairn's first production since 2012 when we sold the majority stake in our Indian business and returned the proceeds to shareholders. The mature and emerging basins of the UK and Norway provide balance to Cairn's frontier exploration portfolio and will deliver the cash flow to sustain future exploration.

With a fully funded balance sheet, the company is well positioned to the prevailing oil price environment which presents challenges to the industry but also opportunities to allocate capital to value enhancing projects while benefitting from reduced operational costs.

We are taking advantage of the lower industry cost environment as we continue to shape the business for the future. We actively assess new ventures within the context of our balanced offering whether they be potential additions to our portfolio of future exploration opportunities or cash flow generating assets.

Corporate Responsibility remains at the heart of our business. During 2016, we continued to prioritise the health, safety, security and wellbeing of our people while promoting safe behaviours of contractors and partners. We remain committed to protecting the environment in the areas where we operate. Good governance is also important and we are committed to meeting all our obligations in a responsible and transparent manner.

We announced the appointment of Eric Hathon as Director of Exploration earlier this year. Eric has more than 25 years' industry experience and will join in April from Marathon Oil Corporation. Eric will succeed Richard Heaton who is retiring after 23 years' service with the company. I would like to welcome Eric and thank Richard for his significant contribution over his long career at Cairn where he has been a core member of the senior team. I was also delighted to welcome a new independent non-executive Director to the Board early this year: Nicoletta Giadrossi brings a wealth of international senior management and oil and gas industry experience to Cairn.

I would like to recognise and thank all our employees and contractors working both offshore and in our four international locations for their efforts, commitment and hard work during 2016 in what has been an extremely busy year. We look forward to another exciting year ahead.

Operational Review

Cairn's strategy is to deliver value for stakeholders by building and maintaining a balanced portfolio of exploration, development and production assets. Our exploration focus in on frontier and emerging basin acreage from which the greatest value can be created. The Group's production assets provide the cash flow to sustain future exploration and development activity.

We have made good progress against our strategic objectives, increasing the recently discovered resource base in Senegal and progressing our North Sea developments through to first oil and future cash flow.

Senegal – opening a new hydrocarbon basin

Cairn was the first company to drill deepwater wells offshore Senegal, which remains a relatively underexplored region of the world. The success of the Cairn discoveries has attracted the attention of the global oil industry with a number of high profile new entrants to Senegal during the year.

The management of Health, Safety, Security and Environment remains a high priority and we are aiming to build on our good performance in Senegal in the year ahead. Cairn has enjoyed excellent support from local services such as Dakar port where the company has now established a shore base facility to aid the growth of the oil sector in Senegal.

Since the two initial basin opening discoveries in 2014, we have drilled five successful wells in the area. During 2016, subsurface data gathering was successfully completed on four wells, SNE-2, SNE-3, BEL-1 and SNE-4. With better than expected drilling performance and the lower cost environment, these four wells were essentially drilled and evaluated on the SNE field for the original budget of three wells.

In 2017, the third phase of evaluation is underway which is intended to improve the definition of the project and confirm volumes, connectivity and productivity. Operations and testing of the first of the appraisal wells, SNE-5, have recently been successfully completed, ahead of schedule and under budget. The well has been plugged and abandoned and the Stena DrillMAX has moved location to commence operations on the Vega-Regulus (VR-1) well. VR-1 will target the Vega- Regulus exploration prospect in the Aptian Carbonates underlying the SNE field which has potential gross mean consolidated prospective resource of more than 100 mmbbls. In addition, the well will provide further appraisal on the SNE field targeting potential incremental resources. The results will narrow the range of SNE field volumes and also allow the JV time to fully integrate the results of SNE-5 prior to moving to appraisal well SNE-6 to complete the planned interference test.

The prospectivity of Cairn's Senegal acreage, an area of more than 7,000 km^2 under licence, has high potential; the success of both the SNE discovery and follow on appraisal of the SNE field has proven there is a prolific source rock, excellent reservoir development and a good working seal. The new 3D seismic data has improved our ability to map traps along the extension of the SNE trend. Numerous, prospects have been identified in a wide variety of play types.

The JV has endorsed the foundation development concept of a standalone FPSO with subsea wells and expansion capability. This is established and proven technology in areas where Cairn can add value through recent experience in the Kraken and Catcher North Sea developments. The potential around SNE for further exploration success would transform the project into a multi-phase development.

The focus of the remaining appraisal activity is on improving our estimates of the scale and phasing of the overall field development including the balance between the number of drilling centres, type and number of wells and the subsea infrastructure.

Cairn and its JV partners submitted a three year evaluation work plan to the Government of Senegal in 2015. As part of this plan, we currently anticipate an outline timetable for development with an Exploitation Plan to be submitted in 2018, a Final Investment Decision within twelve months thereafter and first oil expected in the period 2021-2023.

Cairn (Operator) has a 40% Working Interest (WI) in the three blocks offshore Senegal (Sangomar Deep, Sangomar Offshore, Rufisque Offshore) alongside partners: Woodside 35% WI, Far Ltd 15% WI and the Senegal National Oil Company, Petrosen 10% WI.

UK & Norway

The mix of mature and emerging basins along the UK and Norwegian continental shelves provides good opportunities for balanced portfolio growth and operational synergies. Cairn has built a strong position in the UK and Norway by acquiring exploration, appraisal and development assets and participating in licensing rounds.

The UK and Norway are a key region of focus for the Group and during 2016 we have expanded the team and added 13 new licences and four licence extensions. The strategy is to maintain and grow a strong prospect inventory capable of increasing resources and reserves, providing material exploration upside and bringing discoveries into production. We are also looking to identify new venture opportunities and manage the portfolio in an active market for asset transactions.

Developments

Kraken and Catcher are two of the largest ongoing development projects in the UK North Sea. Both are core development projects along with the Skarfjell discovery in Norway, where the development concept has been selected. These three projects are a key part of our strategy to build steady future cash flows to sustain the business model and fund future international exploration.

We have made significant progress on the UK developments in 2016 and both the Kraken and Catcher projects are below budget and remain on schedule to target first oil in 2017. Re-establishing a new cash generative production base is an important milestone for Cairn in 2017.

Kraken

In 2016, the Kraken development progressed well, finishing the year ahead of budget and the Operator targeting first oil in Q2 2017. Most significantly, through a combination of release of contingencies, contract re-negotiations and some reduction in scope, the Operator is now forecasting total gross capex at US$2.5b which is ~22% lower than the sanctioned estimate.

At the year end, four producers and five injectors had been satisfactorily drilled and completed. The 2016 subsea scope was completed without any issues. The FPSO was essentially mechanically complete with the vast majority of systems commissioned. The vessel left the deep water anchorage of Singapore and arrived in the North Sea in early 2017, having completed its journey as scheduled. The vessel berthed in Rotterdam to make final preparations prior to sailing offshore to hook up the Submerged Turret Production (STP) buoy mooring system, risers and umbilicals. Handover of FPSO systems from commissioning to operations continued in Rotterdam prior to sailing away. On arrival at the field, the hook up of the STP buoy mooring system was completed and a full rotation test performed to ensure the vessel was on station and securely moored. Commissioning work will continue on the topsides. Reconstruction of the turret area pipework and connection of the risers and umbilicals to the swivel stack is being undertaken followed by commissioning of the subsea infrastructure.

Catcher

The Catcher project progressed well in 2016, with the Operator targeting start-up and first oil in Q4 2017. The Operator is now forecasting total project capex at US$1.6b which is ~29% lower than sanctioned estimate.

The drilling programme made excellent progress in 2016; efficient execution together with a well-executed subsea installation campaign, were key factors in the project capex reductions. To minimise rig moves during the winter months, the schedule was adjusted so that at the year end, four wells on Catcher, two wells on Burgman and two wells on Varadero were successfully drilled and tested with all wells coming in at, or better than, prognosis in terms of reservoir quality and well deliverability. Due to these good well results and well placement optimisation, the well count required to deliver the base plan has reduced to 20 firm wells, delivering further significant reductions to the forecast development capex.

Very good progress was made with the FPSO in the second half of the year, with the joining of the two hull ‘mega blocks’ and installation of the living quarters in Singapore. All of the topside modules were also safely lifted on and very good progress made with the topsides integration.

The majority of the project’s subsea installation scope was also completed in 2016. Only short subsea campaigns will be required in 2017-19 to tie-in the new wells drilled and to support the hook up of the FPSO. The project focus is now on final mechanical completion of the FPSO and the pre-commissioning/commissioning work scopes. FPSO sail-away from Singapore is expected to be around mid-year 2017.

Skarfjell

The JV has selected a development concept for the Skarfjell field. Under the proposed solution, the reservoir will be connected to the nearby Gjøa platform via a subsea tie-back. The Operator has submitted the development concept to the Norwegian Ministry of Petroleum and Energy and now enters the define phase of the project, refining the technical and economic plan before committing to a final investment decision, planned for Q1 2018. Based on the proposed plan, hydrocarbons from the Skarfjell reservoir will be developed with two subsea templates tied back to the Gjøa platform for processing and export. Gjøa will also provide lift gas to the field and water injection for pressure support. Several studies will be conducted before the final investment decision and the plan for development and operation can be submitted to the Ministry.

Exploration

In 2016, Cairn secured three licences in the Barents Sea, including one as Operator. We believe the Barents Sea is a potential core exploration opportunity and our experience from operations in the Arctic will be relevant in the region. According to the Norwegian Petroleum Directorate, the region may contain as much as half the country's unexplored resources with yet-to- find hydrocarbon potential of 8.8 billion boe. In 2016, Cairn participated in two non-operated exploration wells (Aurelia in the Barents Sea 10% WI and Laverda in the UK 36% WI). Aurelia was unsuccessful in finding commercial quantities of oil at the primary horizon. Laverda did find potentially commercial quantities of oil at the primary horizon but was unsuccessful at the secondary target of the well.

International

Cairn's exploration focus is on the Atlantic Margin where, in addition to Senegal, we have key interests offering the potential for material discoveries and high prospectivity.

In Western Sahara, we signed a new Petroleum Agreement with Operator Kosmos in 2016 and are acquiring 3D seismic in 2017. In Mauritania, we relinquished a licence in 2016, although we continue to be interested in exploring the region.

In Ireland, there have been a number of developments: Cairn agreed a farm-in to LO 16/19 with 70% WI and Operatorship with Europa Oil & Gas with plans for 3D seismic in 2017. Cairn has previously been awarded adjacent LO 16/18 in the Atlantic Licensing Round in H1 2016. The acquisition of 3D seismic is planned to be acquired over both licence option blocks in 2017 and processed in 2018. Cairn also agreed a farm-in to FEL 2/14 in the Southern Porcupine Basin with partners Providence Resources Plc (Providence) and Sosina. An exploration well will be drilled in 2017. The 53/6-A well is planned to spud in June 2017, subject to the necessary regulatory consents, using the Stena IceMAX drill ship targeting both large stratigraphic traps, Druid and the deeper independent Drombeg target. This will result in the planned well, in 2,200m water depth, being deepened from ~3,900m to ~5,200m. As a result of the proposed transaction, the equity interests in FEL 2/14 will be Providence (Operator 56%), Cairn (30%) and Sosina (14%). Both agreements are subject to approval of the Government of Ireland.

Outlook

During 2017, Cairn will commence production, continue to deliver future development as well as define and explore significant growth opportunities from Senegal. We will continue to advance the business to create a balanced exploration portfolio across emerging and frontier basins in the Atlantic Margin and Barents Sea alongside mature basins in the North Sea. The Group will continue to evaluate new venture and growth opportunities to allow us to create value through successful exploration and discovered resources.

Financial Review

Overview

Significant progress has been made on the Group’s two North Sea development projects and, with the Kraken FPSO now on location, first oil production is targeted for Q2 2017. Cairn successfully completed a four well programme in 2016 in Senegal and a further exploration and appraisal programme is currently underway.

Subsequent to year-end, Cairn executed two financing arrangements further enhancing the Group’s liquidity.

A NOK 500 million (~US$60m) Exploration Finance Facility allows the Company to borrow against any Norwegian tax refunds from future exploration.

Related to the additional 4.5% Kraken working interest acquired in 2016, the Group also secured funding of US$75m from FlowStream in exchange for the proceeds from 4.5% of Kraken production. FlowStream’s entitlement to Kraken production reduces to 1.35% if FlowStream achieves a 10% return and reduces to 0.675% after FlowStream achieves a 15% return. An additional tranche of US$125m in return for a further proceeds from production across Kraken and Catcher is available, subject to mutual consent, at Cairn’s option. FlowStream’s sole recourse for the funding is to its production rights from the assets.

Confirmation received via the international arbitration that accrued dividends of US$51m are no longer restricted, immediate release of this sum has been requested from CIL.

Cash

	US$m
Opening cash and cash equivalents	603
Pre-award costs	(18)
Exploration expenditure	(149)
Development expenditure	(125)
Norwegian tax refund	36
Administration expenses and finance costs	(16)
Foreign exchange movements	4
Closing cash and cash equivalents	**335**

Cairn had cash and cash equivalents of US$335m at 31 December 2016, representing a net cash outflow of US$268m over the year.

Cash outlfows in the period included Senegal exploration costs of US$105m related to the completion of a four well exploration and appraisal programme which commenced in 2015.

Development expenditure primarily related to costs of the Kraken development as Cairn’s share of capital expenditure on Catcher remained carried throughout the year.

Forecast development expenditure for 2017, taking the UK development projects through to cashflow generation, is US$150m; and remaining currently committed drilling exploration and appraisal expenditure for 2017 is estimated at US$170m, predominantly in Senegal.

Cairn remains fully funded to meet all existing commitments at the balance sheet date. Cairn’s Reserve Based Lending bank facility remains undrawn, with peak availability expected to reach US$350m to US$400m.

Analysis of the cash flow movements on assets to additions in the financial statements is as follows:

	Exploration				Development
	Senegal	UK & Norway	International	**Total**	**UK & Norway**
	US$m	US$m	US$m	**US$m**	**US$m**
Additions	102	41	7	**150**	**277**
Working capital and provisions movements	3	3	(2)	**4**	**(87)**
Carried (non-cash)	-	(5)	-	**(5)**	**(65)**
Cash outflow	**105**	**39**	**5**	**149**	**125**

Oil and Gas Assets

	US$m
Opening oil and gas assets	1,003
Exploration additions – Senegal	102
Exploration additions – UK & Norway	41
Exploration additions – International	7
Development additions – UK & Norway	277
Impairment of exploration costs – UK & Norway	(11)
Impairment of exploration costs - International	(14)
Unsuccessful exploration costs – UK & Norway	(28)
Unsuccessful exploration costs – International	(42)
Foreign exchange movements	(129)
Closing oil and gas assets	**1,206**

Exploration and Appraisal Assets

Senegal

Additions in 2016 included US$78m of drilling costs predominantly relating to the SNE-2, SNE-3, SNE-4 and BEL-1 appraisal wells completed in the year. A further US$5m was incurred in advance of the 2017 SNE-5 and SNE-6 appraisal wells.

UK & Norway

Cairn completed two exploration wells in the UK and Norway region during 2016. The UK Laverda exploration well, located in the Greater Catcher Area, successfully discovered commercial volumes of hydrocarbons, though these were not sufficient to support previously capitalised costs and an impairment of US$11m was charged in the year. Cairn's share of cash expenditure of the Laverda well was carried.

The second well, the Aurelia exploration well in the Norwegian Barents Sea was unsuccessful and costs of US$10m have been charged to the income statement.

Further charges of US$10m were made on licences to be relinquished and costs of US$8m on the prior year Kraken West appraisal well were written off as the discovery is no longer considered commercially viable.

International

During 2016, the Group relinquished the C-19 licence in Mauritania and expensed previously capitalised costs of US$32m. Further costs of US$14m relating to the Spanish Point appraisal prospect were impaired. The Group's remaining assets in the International segment are located in Ireland, Malta and Boujdour Maritime, Western Sahara where exploration activity remains at an early stage.

Development Assets

In Kraken, Cairn acquired an additional 4.5% working interest in January for nominal consideration bringing the Group's total working interest to 29.5%. US$16m is included within additions representing working capital balances related to the 4.5% increase. Further Kraken additions in the year were US$165m, including an increase of US$26m in the decommissioning asset.

Cairn's share of capital expenditure on the Catcher development was carried by Dyas BV under the terms of the 2015 farm down. Thus additions of US$96m were largely non-cash and also include an increase of US$27m in the decommissioning asset.

The Group's development assets were tested for impairment, with the Group reducing its long term oil-price assumption to US$70 per barrel. The Group's three year short term assumption remains linked to the forward curve. No impairment charge was recorded.

The Group's development assets are held in a GBP functional subsidiary, which is translated to US$ on consolidation. With the fall in GBP following the EU referendum result, significant foreign currency exchange losses of US$121m are recorded on development assets.

Available-for-Sale Financial Asset - Cairn India Investment and Dividends

Cairn is currently unable to access the value in its ~10% residual shareholding in Cairn India Limited valued at US$656m at 31 December 2016, though the Company is seeking remittance of accrued dividend payments due of US$51m.

International arbitration proceedings are progressing in respect of the Group's claim under the UK-India Bilateral Investment Treaty. Cairn is seeking restitution for losses resulting from the attachment of its shares in CIL and failure to treat the Company and its investments fairly and equitably. Cairn has a high level of confidence in its case under the Treaty and, in addition to resolution of the retrospective tax dispute, its statement of claim to the arbitration panel is seeking damages equal to the value of Group's residual shareholding in CIL at the time it was attached (approximately US$1 billion).

Results for the Year

	2016 US$m	2015 US$m
Pre-award costs	(18)	(35)
Unsuccessful exploration costs	(70)	(97)
Administrative expenses and other costs	(35)	(31)
Related tax credit	13	37
Operational and administrative expenses	(110)	(126)
Net finance costs	(3)	(1)
Impairment of financial asset	-	(319)
Related tax credit	-	10
CIL investment and impairment	-	(309)
Gain in disposal of oil and gas assets	-	27
Impairment of oil and gas assets	(25)	(43)
Asset related tax credit/(charge)	43	(64)
Oil and gas asset sales and impairment	18	(80)
Loss for the year	(95)	(516)

Unsuccessful exploration costs

Unsuccessful exploration costs of US$28m in the UK and Norway region included the cost of two wells (Aurelia, Barents Sea and Kraken West, UK North Sea) and relinquished licences. Further unsuccessful exploration costs in the International region of US$42m included US$32m of costs in Mauritania and a US$7m charge following the relinquishment of acreage offshore Ireland. The remaining US$3m represented costs incurred closing licences in Morocco and Greenland.

Administrative expenses and other costs

The year-on-year increase in administrative expenses and other costs reflected costs incurred on the CIL arbitration and an increase in non-cash share-based payment charges.

Taxation

As the Group's activities continue to focus on assets in the exploration, appraisal and development phases, the Group currently generates no production income and as such no corporation tax was payable in the year.

A cash tax refund is received in Norway in respect of 78% of qualifying exploration and overhead spend. US$36m was received during the current period, with a further US$26m receivable based on 2016 qualifying expenditure. Norwegian deferred tax liabilities at the year-end of US$63m reflect timing differences on the carrying value of exploration assets where a tax refund has been claimed.

The Group's tax credit for the year consisted of a UK deferred tax credit of US$43m and net Norwegian tax credits of US$13m, linked to the tax refund. The UK tax credit followed the recognition of deferred tax assets to offset deferred tax liabilities arising on development asset additions under the Catcher carry. UK deferred tax assets are recognised only to the extent that they offset liabilities and no net UK deferred tax asset or liability exists at the year end.

At 31 December 2016, Cairn had total UK ring fence losses of US$683m. US$514m of losses were recognised as deferred tax assets to fully offset deferred tax liabilities of US$206m. The remaining US$169m of losses represented an unrecognised deferred tax asset of US$68m. With no taxable income and a tax charge distorted by balance sheet additions, the effective tax rate of the Group does not provide a meaningful measure of Cairn's current tax position: the effective tax rate of the Group was 37.3% in the year (2015: (3.5)%).

Cairn Energy PLC

Group Income Statement

For the year ended 31 December 2016

	Section	**2016 US$m**	2015 US$m
Continuing operations			
Pre-award costs		**(17.7)**	(35.2)
Unsuccessful exploration costs	2.1	**(70.3)**	(97.4)
Administrative and other expenses	4.2	**(34.9)**	(29.7)
Impairment of intangible exploration/appraisal assets	2.1	**(25.3)**	(17.9)
Impairment of property, plant & equipment - development assets	2.2	**-**	(25.1)
Gain on disposal of oil and gas assets	2.3	**-**	26.6
Operating loss		**(148.2)**	(178.7)
Impairment of available-for-sale financial asset	3.1	**-**	(318.6)
Finance income		**14.0**	19.8
Finance costs		**(17.3)**	(20.3)
Loss before taxation from continuing operations		**(151.5)**	(497.8)
Taxation			
Tax credit/(charge)	5.1	**56.5**	(17.7)
Loss for the year attributable to equity holders of the parent		**(95.0)**	(515.5)
Loss per ordinary share – basic (cents)	4.3	**(16.56)**	(90.26)
Loss per ordinary share – diluted (cents)	4.3	**(16.56)**	(90.26)

Group Statement of Comprehensive Income

For the year ended 31 December 2016

	Section	**2016 US$m**	2015 US$m
Loss for the year		**(95.0)**	(515.5)
Other comprehensive income/(expense) – items that may be recycled to profit or loss			
Surplus/(deficit) on valuation of financial asset	3.1	**272.1**	(318.6)
Deferred tax credit on valuation of financial asset	5.1	**-**	9.5
Valuation movement recycled to income statement	3.1	**-**	318.6
Deferred tax credit on valuation movement recycled to income statement	5.1	**-**	(9.5)
Currency translation differences		**(104.2)**	(63.5)
Other comprehensive income/(expense) for the year		**167.9**	(63.5)
Total comprehensive income/(expense) for the year attributable to equity holders of the parent		**72.9**	(579.0)

Cairn Energy PLC

Group Balance Sheet

As at 31 December 2016

	Section	2016 US$m	2015 US$m
Non-current assets			
Intangible exploration/appraisal assets	2.1	**471.3**	423.4
Property, plant & equipment – development assets	2.2	**735.1**	579.6
Intangible assets - goodwill		**118.9**	131.9
Other property, plant & equipment and intangible assets		**1.9**	3.9
Available-for-sale financial asset	3.1	**656.1**	384.0
		1,983.3	1,522.8
Current assets			
Income tax asset	5.2	**26.1**	33.0
Inventory		**-**	0.7
Other receivables	3.3	**113.7**	148.9
Cash and cash equivalents	3.2	**334.9**	602.8
		474.7	785.4
Total assets		**2,458.0**	2,308.2
Current liabilities			
Trade and other payables	3.4	**123.0**	120.1
		123.0	120.1
Non-current liabilities			
Deferred tax liabilities	5.3	**62.7**	48.8
Provisions - decommissioning	2.4	**79.6**	37.1
Provisions - other		**2.8**	2.8
		145.1	88.7
Total liabilities		**268.1**	208.8
Net assets		**2,189.9**	2,099.4
Equity attributable to equity holders of the parent			
Called-up share capital		**12.4**	12.4
Share premium		**488.0**	487.1
Shares held by ESOP/SIP Trusts		**(10.2)**	(23.0)
Foreign currency translation		**(250.1)**	(146.2)
Capital reserves – non-distributable		**40.8**	40.8
Merger reserve		**255.9**	255.9
Available-for-sale reserve		**272.1**	-
Retained earnings		**1,381.0**	1,472.4
Total equity		**2,189.9**	2,099.4

Cairn Energy PLC

Group Statement of Cash Flows

For the year ended 31 December 2016

	Section	**2016 US$m**	2015 US$m
Cash flows from operating activities			
Loss before taxation		**(151.5)**	(497.8)
Unsuccessful exploration costs		**70.3**	97.4
Depreciation and amortisation		**2.7**	3.4
Share-based payments charge		**16.7**	15.2
Impairment of intangible exploration/appraisal assets		**25.3**	17.9
Impairment of property, plant & equipment - development assets		**-**	25.1
Gain on disposal of oil and gas assets		**-**	(26.6)
Inventory disposal/write down		**0.7**	(0.2)
Impairment of available-for-sale financial assets		**-**	318.6
Finance income		**(14.0)**	(19.8)
Finance costs		**17.3**	20.3
Interest paid		**-**	(0.2)
Income tax received from operating activities		**6.8**	23.6
Other receivables movement	3.3	**(0.8)**	4.3
Trade and other payables movement	3.4	**6.0**	6.1
Provisions movement		**(0.1)**	(2.4)
Net cash used in operating activities		**(20.6)**	(15.1)
Cash flows from investing activities			
Expenditure on intangible exploration/appraisal assets		**(149.1)**	(208.4)
Expenditure on property, plant & equipment - development assets		**(125.2)**	(114.2)
Income tax received from investing activities		**28.7**	28.2
Proceeds on disposal of oil and gas assets		**-**	54.7
Movement on inventory		**0.6**	0.8
Purchase of other property, plant & equipment and intangible assets		**(4.5)**	(2.1)
Interest received		**2.3**	3.6
Net cash used in investing activities		**(247.2)**	(237.4)
Cash flows from financing activities			
Facility, arrangement fees and bank charges		**(5.0)**	(6.3)
Proceeds from exercise of share options		**0.9**	0.1
Net cash flows used in financing activities		**(4.1)**	(6.2)
Net decrease in cash and cash equivalents		**(271.9)**	(258.7)
Opening cash and cash equivalents at beginning of year		**602.8**	869.3
Foreign exchange differences		**4.0**	(7.8)
Closing cash and cash equivalents	3.2	**334.9**	602.8

Cairn Energy PLC
Group Statement of Changes in Equity
For the year ended 31 December 2016

	Equity share capital US$m	Shares held by ESOP Trust and SIP Trust US$m	Foreign currency translation US$m	Merger and capital reserves US$m	Available-for-sale reserve US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2015	499.4	(26.7)	(82.7)	296.7	-	1,976.4	**2,663.1**
Loss for the year	-	-	-	-	-	(515.5)	**(515.5)**
Deficit on valuation of financial assets	-	-	-	-	(318.6)	-	**(318.6)**
Deferred tax credit on valuation of financial assets	-	-	-	-	9.5	-	**9.5**
Valuation movement recycled to income statement	-	-	-	-	318.6	-	**318.6**
Deferred tax credit on valuation movement recycled to income statement	-	-	-	-	9.5	-	**9.5**
Currency translation differences	-	-	(63.5)	-	-	-	**(63.5)**
Total comprehensive income/(expense) for the year	-	-	(63.5)	-	-	(515.5)	**(579.0)**
Share-based payments	-	-	-	-	-	15.2	**15.2**
Exercise of employee share options	0.1	-	-	-	-	-	**0.1**
Cost of shares vesting	-	3.7	-	-	-	(3.7)	**-**
At 31 December 2015	499.5	(23.0)	(146.2)	296.7	-	1,472.4	**2,099.4**
Loss for the year	-	-	-	-	-	(95.0)	**(95.0)**
Surplus on valuation of financial assets	-	-	-	-	272.1	-	**272.1**
Currency translation differences recycled on disposal of subsidiary	-	-	0.3	-	-	(0.3)	**-**
Currency translation differences	-	-	(104.2)	-	-	-	**(104.2)**
Total comprehensive income/(expense) for the year	-	-	(103.9)	-	272.1	(95.3)	**72.9**
Share-based payments	-	-	-	-	-	16.7	**16.7**
Exercise of employee share options	0.9	-	-	-	-	-	**0.9**
Cost of shares vesting	-	12.8	-	-	-	(12.8)	**-**
At 31 December 2016	**500.4**	**(10.2)**	**(250.1)**	**296.7**	**272.1**	**1,381.0**	**2,189.9**

Section 1 – Basis of Preparation

1.1 Significant Accounting Policies

a) Basis of preparation

Cairn prepares its financial statements on a historical cost basis, unless accounting standards require an alternate measurement basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed either in the relevant accounting policy or in the notes to the financial statements. The financial statements comply with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ("IFRS").

The Group's financial statements are prepared on a going concern basis.

The financial information contained in this announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. However, the financial statements contained in this announcement are extracted from audited statutory accounts for the financial year ended 31 December 2016, which will be delivered to the Registrar of Companies. Those accounts have an unqualified audit opinion.

b) Accounting standards

Cairn prepares its financial statements in accordance with applicable IFRS, issued by the International Accounting Standards Board ("IASB") as adopted by the EU, and interpretations issued by the IFRS Interpretations Committee and Companies Act 2006 applicable to companies reporting under IFRS. The Group's financial statements are also consistent with IFRS as issued by the IASB as they apply to accounting periods ended 31 December 2016.

Effective 1 January 2016, Cairn has adopted the following standards:

- Annual improvements to IFRSs 2012-2014 Cycle
- Amendments to IFRS 10 Consolidated Financial Statements
- Amendments to IFRS 11 Joint Arrangements
- Amendments to IFRS 12 Disclosure of Interest in Other Entities
- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IAS 27 Separate Financial Statements
- Amendments to IAS 28 Investments in Associates and Joint Ventures
- Amendments to IAS 38 Intangible Assets

The adoption of these amendments has had no material impact on Cairn's results or financial statement disclosures.

The following new standards issued by the IASB and endorsed by the EU have yet to be adopted by the Group:

- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)

The adoption of these standards is not expected to have a material impact on Cairn's results or financial statement disclosures. The impact of IFRS 15 shall be further assessed on commencement of production, expected in 2017.

The following new accounting standards and amendments to existing standards have been issued but are not yet effective and have not yet been endorsed by the EU:

- IFRS 16 Leases (effective 1 January 2019)
- Amendments to IFRS 2 Share Based Payments (effective 1 January 2018)
- Amendments to IAS 7 Statement of Cash Flows (effective 1 January 2017)
- Amendments to IAS 12 Income Taxes (effective 1 January 2017)
- Clarifications to IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)

The Group is currently assessing the impact of adopting the new accounting standards noted above on its audited financial statements.

The Group has not early adopted any other standard, amendment or interpretation that was issued but not yet effective.

c) Annual report and accounts

Full accounts are due to be posted to shareholders in April 2017 and will be available at the Company's registered office, 50 Lothian Road, Edinburgh, EH3 9BY.

The Annual General Meeting is due to be held on Friday 19 May 2017 and at 12 midday.

Section 1 – Basis of Preparation

1.2 Going Concern

The directors have considered the factors relevant to support a statement of going concern.

In assessing whether the going concern assumption is appropriate, the Board and Audit Committee considered the Group cash flow forecasts under various scenarios, identifying risks and mitigants and ensuring the Group has sufficient funding to meet its current commitments as and when they fall due for a period of 12 months from the date of signing these financial statements.

The directors have a reasonable expectation that the Group will continue in operational existence for a period of 12 months from the date of signing these financial statements and have therefore used the going concern basis in preparing the financial statements.

The Board and Audit Committees assessment of risk and mitigants to the Group's operational existence beyond this 12 month period is included in the viability statement.

Section 2 – Oil and Gas Assets and Decommissioning Provisions

2.1 Intangible Exploration/Appraisal Assets

	Senegal US$m	UK & Norway US$m	International US$m	**Total US$m**
Cost				
At 1 January 2015	166.8	217.6	125.1	509.5
Foreign exchange	-	(20.8)	(0.5)	(21.3)
Additions	61.4	32.3	58.8	152.5
Disposals	-	(11.6)	-	(11.6)
Unsuccessful exploration costs	-	(44.2)	(100.8)	(145.0)
At 31 December 2015	228.2	173.3	82.6	**484.1**
Foreign exchange	-	(13.4)	0.3	**(13.1)**
Additions	102.1	40.9	7.5	**150.5**
Unsuccessful exploration costs	-	(28.2)	(57.7)	**(85.9)**
At 31 December 2016	**330.3**	**172.6**	**32.7**	**535.6**
Impairment				
At 1 January 2015	**-**	24.2	68.3	92.5
Foreign exchange	-	(1.6)	(0.5)	(2.1)
Impairment charge	-	16.7	1.2	17.9
Unsuccessful exploration costs	-	-	(47.6)	(47.6)
At 31 December 2015	-	39.3	21.4	**60.7**
Foreign exchange	-	(6.4)	0.3	**(6.1)**
Impairment charge	-	11.0	14.3	**25.3**
Unsuccessful exploration costs	-	-	(15.6)	**(15.6)**
At 31 December 2016	**-**	**43.9**	**20.4**	**64.3**
Net book value				
At 31 December 2014	166.8	193.4	56.8	417.0
At 31 December 2015	228.2	134.0	61.2	423.4
At 31 December 2016	**330.3**	**128.7**	**12.3**	**471.3**

Senegal

Cairn has drilled six wells offshore Senegal in two years; two basin-opening discoveries in 2014 and four successful exploration/appraisal wells. The four well campaign, which completed in 2016, included the BEL-1 exploration and appraisal well and the additional SNE-2, SNE-3 and SNE-4 appraisal wells. The successful appraisal programme confirmed the resource base of the SNE-1 discovery made in 2014.

Additions in the year of US$102.1m include US$78.2m of drilling costs associated with the exploration and appraisal wells completed in the period and costs of US$5.4m in preparation for the 2017 appraisal programme which commenced in January 2017 with the SNE-5 appraisal well. A further US$18.5m of non-well specific exploration costs were incurred in the year.

Capitalised costs of US$330.3m at 31 December 2016 include US$84.6m relating to the FAN-1 discovery of 2014 which has yet to be appraised.

UK & Norway

Additions in the current year of US$40.9m include the cost of two exploration wells; one completed in the Greater Catcher Area in the UK North Sea and the second being a farm-in to the unsuccessful Aurelia well in the Norwegian Barents Sea. Further additions in 2016 relate to the cost of seismic data purchase and ongoing evaluation costs on other licence areas.

The dual prospect well in the Greater Catcher Area encountered commercial volumes of hydrocarbons in the upper Laverda prospect while the deeper Slough prospect was dry. Costs, therefore, remain capitalised at the year end. The Aurelia well was unsuccessful and related costs of US$9.9m were charged to the income statement in 2016.

Further unsuccessful costs written off in the year include US$8.4m relating to the Kraken West discovery, drilled in 2015, and US$6.6m on the Grosbeak discovery, south of Skarfjell. Following further evaluation, neither discovery is now considered to be commercial.

Section 2 – Oil and Gas Assets and Decommissioning Provisions

2.1 Intangible Exploration/Appraisal Assets (continued)

UK & Norway (continued)

The remaining US$3.3m of unsuccessful costs charged in 2016 relate to other licence interests relinquished in the region.

During 2015 two wells were drilled; the successful Kraken West appraisal well, noted above, and the unsuccessful Crossbill exploration well. Unsuccessful costs of US$44.2m were charged to the income statement for 2015; US$23.7m on the relinquished Bonneville satellite discovery, US$12.7m on the Crossbill well and US$7.8m on other exploration licences where no further activity was planned.

Disposal proceeds of US$11.6m in 2015 arose on the farm down of a 10% working interest in the Catcher asset; refer to section 2.3 for further details.

Exploration costs remaining capitalised at the year-end of US$139.7m include costs of US$97.6m relating to discovered resource across two fields; the Norwegian Skarfjell discovery where progress towards development continues, and costs of the Laverda discovery in the UK North Sea. The remaining US$42.1m of cost has been incurred across 18 of the Group's remaining exploration licences held in the UK and Norwegian North Sea, the Norwegian Sea and the Barents Sea.

International

Unsuccessful exploration costs of US$42.1m (US$57.7m of cost net of impairment of US$15.6m) were written off on relinquished licences. US$31.7m was charged on the C-19 licence, offshore Mauritania and US$7.0m on FEL 1/14 offshore Ireland. Further costs of US$3.4m were charged on Morocco and Greenland.

Costs remaining at the year-end of US$12.3m include US$5.6m, US$5.8m and US$0.9m on Ireland, Malta and Western Sahara (Boujdour Maritime) licences respectively.

Impairment review

At the year end, Cairn reviewed its intangible exploration/appraisal assets for indicators of impairment. Indicators were identified where future exploration plans remain uncertain or when the carrying value of assets relating to discovered resource may not be fully recovered through future development and production.

Impairment tests identified impairment on the Group's intangible exploration assets, resulting in a charge of US$25.3m to the 2016 income statement. Of the charge, US$11.0m relates to the Laverda discovery, within the Greater Catcher area in the UK & Norway region and US$14.3m relates to the Spanish Point appraisal prospect, offshore Ireland, with the International portfolio. The 2015 charge of US$17.9m included US$16.7m on impairment of satellite fields within the Catcher development area in the UK and Norway region and US$1.2m on Greenland licence costs.

Section 2 – Oil and Gas Assets and Decommissioning Provisions

2.2 Property, Plant & Equipment - Development Assets

	UK & Norway US$m	**Total US$m**
Cost		
At 1 January 2015	467.8	467.8
Foreign exchange	(32.5)	(32.5)
Additions	230.6	230.6
Disposals	(61.2)	(61.2)
At 31 December 2015	604.7	**604.7**
Foreign exchange	(125.2)	**(125.2)**
Additions	276.6	**276.6**
At 31 December 2016	**756.1**	**756.1**
Impairment		
At 1 January 2015	-	-
Impairment charge	25.1	25.1
At 31 December 2015	25.1	25.1
Foreign exchange	(4.1)	(4.1)
At 31 December 2016	**21.0**	**21.0**
Net book value		
At 31 December 2014	467.8	467.8
At 31 December 2015	579.6	579.6
At 31 December 2016	**735.1**	**735.1**

Significant progress was made on Cairn's two non-operated development projects in the UK North Sea. First oil production from the Kraken and Catcher fields is targeted for 2017.

In February 2016 Cairn increased its working interest in Kraken by 4.5% to 29.5%. The additional interest was acquired from First Oil plc for nominal consideration with Cairn liable for working capital liabilities that existed at the date of the agreement. US$15.8m is therefore included within additions relating to this increase. Further additions on the Kraken development were US$165.3m (2015: US$150.9), including an increase of US$26.3m (2015: US$24.5m) in the decommissioning asset.

On Catcher, additions during the year of US$95.5m (2015: US$79.7) include US$65.2m (2015: US$70.1m), settled on Cairn's behalf by Dyas under the carry agreement detailed below in section 2.3. Additions also include US$26.5m (2015: US$7.8m) for the Catcher decommissioning asset increase.

During 2015, disposals of US$61.2m relate to the farm down of a 10% working interest in Catcher, see section 2.3.

2.3 Gain on Disposal of Oil and Gas Assets

In January 2015, Cairn completed the farm down of 10% of the Group's working interest in the Catcher development, satellite fields and surrounding exploration acreage to Dyas. Under the terms of the deal, Dyas funds Cairn's exploration and development costs in respect of the licences up to a cap of US$182.0m, from an effective economic date of 1 January 2014.

On completion of the transaction, Cairn received cash proceeds of US$54.7m (US$36.5m under the carry, US$18.2m as a refund of the 10% share of costs from 1 January 2014) and recognised the remaining carry as a receivable at its discounted, post-tax fair value of US$44.7m. US$11.6m of the proceeds received were allocated to exploration assets and credited against previously capitalised exploration costs. The remaining proceeds and carry receivable were allocated to development assets.

The disposal of 10% of the Group's working interest in the development asset (with related working capital adjustments) resulted in a gain on disposal of US$26.6m and a tax credit of US$4.6m in the 2015 income statement.

Section 2 – Oil and Gas Assets and Decommissioning Provisions

2.4 Provisions - Decommissioning

	Exploration well abandonment US$m	Decommissioning of development assets US$m	**Total US$m**
At 1 January 2016	6.2	30.9	**37.1**
Foreign exchange	(1.0)	(10.3)	**(11.3)**
Unwinding of discount	0.1	0.9	**1.0**
Provided in year	-	52.8	**52.8**
At 31 December 2016	**5.3**	**74.3**	**79.6**

The decommissioning provisions represent the present value of decommissioning costs related to the Kraken and Catcher development projects. The provisions are based on operator estimates, subject to internal review and amendment where considered necessary and using assumptions based on existing technology and the current economic environment, with a discount rate of 2% per annum (2015: 2%). The reasonableness of these assumptions is reviewed at each reporting date to take into account any material changes required.

The decommissioning provisions represent management's best estimate of the obligation arising based on work undertaken at the balance sheet date. Actual decommissioning costs will depend upon the prevailing market conditions for the work required at the relevant time.

The decommissioning of the Group's development assets is forecast to occur between 2026 and 2034.

2.5 Capital Commitments

	2016 US$m	2015 US$m
Oil and gas expenditure:		
Intangible exploration/appraisal assets	**126.4**	150.3
Property, plant & equipment – development assets	**603.9**	887.9
Contracted for	**730.3**	1,038.2

Capital commitments represent Cairn's share of obligations in relation to its interests in joint operations. These commitments include Cairn's share of the capital commitments of the joint operations themselves.

The capital commitments for intangible exploration/appraisal assets primarily relate to operations in Senegal and UK & Norway.

The capital commitments for property, plant & equipment – development assets include US$395.1m (2015: US$411.0m) relating to two lease commitments due within the next eight years. The lease terms for these assets have not yet commenced. The future minimum rentals payable under these leases are aged as follows:

	2016 US$m	2015 US$m
Not later than one year	**10.4**	-
After one year but not more than five years	**219.2**	189.5
After five years	**165.5**	221.5
	395.1	411.0

The Group has no further material capital expenditure committed at the balance sheet date.

Section 2 – Oil and Gas Assets and Decommissioning Provisions

2.6 Impairment Testing Sensitivity Analysis

UK & Norway

At 31 December 2016, impairment tests were conducted on the Group's exploration/appraisal assets, development assets and goodwill. This resulted in an impairment charge of US$11.0m on exploration/appraisal assets; see section 2.1.

The recoverable amount for all assets is based on fair value less costs of disposal estimated using discounted cash flow modelling. The key assumptions used in determining the fair value are often subjective, such as the future oil price assumption, or reliant upon the performance of operational partners for delivering development projects on time and within approved budgets. With Cairn's two North Sea development projects nearing first oil production, the Group have increased confidence over the likelihood of the production commencing in line with internal estimates. Sensitivity analysis performed on delays to production did not indicate a material impact on the Group's impairment test calculations.

Cairn has run sensitivities on its long-term oil price assumption of US$70, using alternate long-term price assumptions of US$65 and US$60 and a long-term assumption equal to the forward curve price at the end of the Group's three year short term assumption.

The impact of these changes on the carrying value of the Group's assets at the balance sheet date is summarised below:

Reduction in long-term oil price assumption to:	**US$65 US$m**	**US$60 US$m**	**Forward Curve US$m**
Impairment of intangible assets – exploration/appraisal assets	(14.0)	(16.0)	(19.0)
Impairment of property, plant & equipment – development assets	(16.9)	(58.0)	(114.7)
Impairment of goodwill	(30.5)	(93.3)	(124.3)
Total impairment	**(61.4)**	**(167.3)**	**(258.0)**

The Group's proved and probable and contingent reserve estimates are based on P50 probabilities. P10 and P90 estimates are also produced but would not provide a reasonable estimate to be used in calculating the fair value of the Group's assets. Cairn's reserve estimates do not materially differ from those of the operators.

Senegal

The Group's exploration assets in Senegal, containing the two 2014 discoveries, has been tested for impairment as a single cash generating unit. No impairment was identified. Further downside sensitivity performed on the Group's oil price assumption did not identify an impairment using any of the alternate price scenarios noted above.

International

The Group's portfolio of international assets was reviewed for indicators of impairment and impairment of US$14.3m was recorded on the Group's appraisal asset in Ireland. As the remaining assets in this segment are at an early stage in the exploration life-cycle, any impairment test would not be sensitive to changes in the oil price or any other key assumption; if an indicator of impairment was identified on a remaining asset then that asset would be impaired in full.

Section 3 – Financial Assets and Working Capital

3.1 Available-for-Sale Financial Asset

	Listed equity shares US$m
Fair Value	
As at 1 January 2015	702.6
Deficit on valuation	(318.6)
As at 31 December 2015	**384.0**
Surplus on valuation	**272.1**
As at 31 December 2016	**656.1**

The available-for-sale financial asset represents the Group's remaining investment in the fully diluted share capital of Cairn India Limited, listed in India, which by its nature has no fixed maturity or coupon rate. These listed equity securities present the Group with an opportunity for return through dividend income or trading gains.

At 31 December 2016, the value of the investment in Cairn India Limited had increased to US$656.1m. The significant accumulated deficit during 2015 of US$318.6m was recycled to the 2015 income statement and recorded as impairment.

Cairn is currently restricted from selling its shares in Cairn India Limited. See section 5.4.

The Group is exposed to equity price risks arising from the listed equity investments it holds in Cairn India Limited.

Movements in the fair value during the year are recognised directly in equity and are disclosed in the statement of comprehensive income. The cumulative gain or loss that arises on disposal of the available-for-sale financial asset is recycled through the income statement.

3.2 Cash and Cash Equivalents

	2016 US$m	2015 US$m
Cash at bank	**24.0**	54.2
Short-term bank deposits	**147.7**	465.2
Money market funds	**137.5**	83.4
Tri-party repurchase agreements	**25.7**	-
Cash and cash equivalents	**334.9**	602.8

Cash and cash equivalents earn interest at floating rates. Short-term investments are made for varying periods ranging from instant access to unlimited but generally not more than three months depending on the cash requirements of the Group.

Cairn invests surplus funds into high-quality liquid investments, including money market funds, short-term bank deposits and tri-party repurchase transactions ("repos"). Cairn limits the placing of such funds and other investments to banks or financial institutions that have ratings of A- or above from at least two of Moody's, Standard & Poor's or Fitch, unless a sovereign guarantee is available from an AAA rated government. The counterparty limits vary between US$50.0m and US$200.0m depending on the ratings of the counterparty. No investments are placed with any counterparty with a five-year credit default swap exceeding 250 bps. Investments in money market liquidity funds are only made with AAA rated liquidity funds and the maximum holding in any single fund is 5% of total investments. Where investments are made in repos, collateral is fixed income debt securities with a minimum rating of BBB- which is managed by Euroclear. No adjustment is made to the counterparty credit rating to reflect the collateral held when assessing investment options. The Group's Treasury function manages the credit risk associated with such investments.

On 18 July 2014, Cairn Energy PLC signed a seven-year reserve-based lending facility with a syndicate of six international banks (BNP Paribas, Commonwealth Bank of Australia, DNB Bank ASA, HSBC Bank PLC, Société Générale and Standard Chartered Bank) which was effective 1 August 2014. Until completion of the Catcher and Kraken developments, the facility can be utilised to fund development costs on those projects and facility finance costs. No amounts have been drawn under the facility, with maximum available currently forecast to be US$386.4m during the course of the development projects. The facility may also be utilised to issue letters of credit and performance guarantees for the Cairn Group of up to US$175.0m. Following completion, the facility can be used for general corporate purposes.

Section 3 – Financial Assets and Working Capital

3.2 Cash and Cash Equivalents (continued)

Interest on outstanding debt will be charged at the appropriate LIBOR for the currency drawn plus an applicable margin. The facility is subject to bi-annual redeterminations, has a market standard suite of covenants and is cross-guaranteed by all Group companies party to the facility. Debt is repayable in line with the amortisation of bank commitments over the period from 1 July 2018 to the final maturity date of 30 June 2021.

3.3 Other Receivables

	2016 **US$m**	2015 US$m
Prepayments	**21.4**	18.4
Other receivables	**58.0**	81.1
Joint operation receivables	**34.3**	49.4
	113.7	148.9

Prepayments include US$14.6m (2015: US$14.6m) of facility arrangement fees which will be amortised over the expected useful life of the facility commencing from the date the facility is drawn down.

Other receivables include US$50.6m (2015: US$43.1m) of dividends receivable from Cairn India Limited, US$2.1m (2015: US$27.4m) of the remaining Dyas carry relating to the 10% Catcher disposal (see section 2.3) and US$5.3m (2015: US$3.7m) of other amounts due. In 2015, other receivables included costs incurred by Cairn on behalf of joint operations of US$6.9m which were reimbursed during 2016. The Dyas carry was recorded at its initial fair value at the date of the transaction and is released to development assets based on the payments made by Dyas on Cairn's behalf.

Joint operation receivables include Cairn's working interest share of the receivables relating to joint operations and amounts recoverable from partners in joint operations.

At 31 December 2016 and 31 December 2015, no material amount within the Group's other receivables or joint operation receivables was past due or impaired. In determining the recoverability of other receivables the Group carries out a risk analysis based on the type and age of the outstanding receivable.

The Group's other receivables predominantly relate to investing and financing activities. Therefore, the movement in other receivables through operating cash flows, reported in the cash flow statement, is not significant.

3.4 Trade and Other Payables

	2016 **US$m**	2015 US$m
Trade payables	**3.1**	2.6
Other taxation and social security	**2.1**	1.5
Other payables	**1.4**	1.6
Joint operation payables	**98.7**	99.5
Accruals	**17.7**	14.9
	123.0	120.1

Joint operation payables include Cairn's share of the trade and other payables of operations in which the Group participates. Where Cairn is operator of the joint operation, joint operation payables also include amounts that Cairn will settle and recover from partners.

Trade and joint operation payables primarily relate to investing activities in the cash flow statement. Movements in accruals, other taxes and other payables are recorded though operating cash flows.

Section 4 – Results for the Year

4.1 Segmental Analysis

Operating segments

Cairn's business model is to create, add and realise value from a balanced portfolio. To ensure focus on Senegal, while actively managing the balanced portfolio, from 1 January 2016 Cairn implemented a new organisational structure based around three groups of Senegal, UK & Norway and International. These three business units, based on geographical regions, form the Group's operating segments. Prior year comparatives have been restated to reflect the new organisational structure.

Each business unit is headed by a regional director (a regional director may be responsible for more than one business unit) and the Board monitors the results of each separately for the purposes of making decisions about resource allocation and performance assessment.

The Senegal business units focus is on appraising the successful 2014 discoveries offshore Senegal and to identify further exploration prospects for future drilling. The UK & Norway business unit includes exploration activities in the North Sea, Norwegian Sea and Barents Sea and management of the Group's development assets in the UK North Sea. The International business unit consists of all other regions where Cairn currently holds (or held during the year) exploration licences, including Greenland, Ireland, Western Sahara, Mauritania and the Mediterranean.

The Other Cairn Energy Group segment exists to accumulate the activities and results of the holding company and other unallocated expenditure and net assets/liabilities including amounts of a corporate nature not specifically attributable to any of the business units.

Geographical information: non-current assets

Non-current assets for this purpose consist of intangible exploration/appraisal assets; property, plant & equipment – development assets; intangible assets – goodwill; and other property, plant & equipment and intangible assets.

	2016 US$m	2015 US$m
Senegal	**330.3**	228.2
UK	**760.5**	626.9
Norway	**104.0**	87.0
Goodwill (allocated to segment)	**118.9**	131.9
UK and Norway	**983.4**	845.8
Ireland	**5.6**	24.9
Mauritania	**-**	31.1
Others	**6.7**	5.2
International	**12.3**	61.2
Other	**1.2**	3.6
Total non-current assets	**1,327.2**	1,138.8

Section 4 – Results for the Year

4.1 Segmental Analysis (continued)

The segment results for the year ended 31 December 2016 are as follows:

	Senegal US$m	UK & Norway US$m	International US$m	Other Cairn Energy Group US$m	**Total US$m**
Pre-award costs	-	(8.5)	(2.8)	(6.4)	**(17.7)**
Unsuccessful exploration costs	-	(28.2)	(42.1)	-	**(70.3)**
Depreciation	-	(0.3)	-	(0.4)	**(0.7)**
Amortisation	-	-	-	(2.0)	**(2.0)**
Inventory write-down	-	-	-	(0.7)	**(0.7)**
Administrative expenses	-	(2.9)	(0.8)	(27.8)	**(31.5)**
Impairment of oil and gas assets	-	(11.0)	(14.3)	-	**(25.3)**
Operating loss	**-**	**(50.9)**	**(60.0)**	**(37.3)**	**(148.2)**
Interest income	-	0.5	-	3.5	**4.0**
Other finance income and costs	-	(2.0)	(0.1)	(5.2)	**(7.3)**
Loss before taxation	**-**	**(52.4)**	**(60.1)**	**(39.0)**	**(151.5)**
Tax credit	-	56.5	-	-	**56.5**
Profit/(loss) for the year	**-**	**4.1**	**(60.1)**	**(39.0)**	**(95.0)**
Capital expenditure	**102.1**	**318.0**	**7.5**	**0.8**	**428.4**
Total assets	**341.8**	**1,080.0**	**31.6**	**1,004.6**	**2,458.0**
Total liabilities	**16.7**	**217.6**	**17.6**	**16.2**	**268.1**
Non-current assets	**330.3**	**983.4**	**12.3**	**1.2**	**1,327.2**

Non-current assets for this purpose consist of intangible exploration/appraisal assets; property, plant & equipment – development assets; intangible assets – goodwill; and other property, plant & equipment and intangible assets.

All transactions between the segments are carried out at arm's length basis

Section 4 – Results for the Year

4.1 Segmental Analysis (continued)

The segment results for the year ended 31 December 2015 were as follows:

	Senegal US$m	UK & Norway US$m	International US$m	Other Cairn Energy Group US$m	Total US$m
Pre-award costs	-	(27.6)	(3.8)	(3.8)	(35.2)
Unsuccessful exploration costs	-	(44.2)	(53.2)	-	(97.4)
Inventory disposal/write down	-	-	-	(0.2)	(0.2)
Depreciation	-	(0.3)	(0.1)	(0.6)	(1.0)
Amortisation	-	-	-	(2.4)	(2.4)
Administrative expenses	-	(2.1)	(0.3)	(23.7)	(26.1)
Impairment of oil and gas assets	-	(41.8)	(1.2)	-	(43.0)
Gain on disposal of oil and gas assets	-	26.6	-	-	26.6
Operating loss	-	(89.4)	(58.6)	(30.7)	(178.7)
Impairment of available-for-sale financial assets	-	-	-	(318.6)	(318.6)
Interest income	-	1.4	-	2.2	3.6
Interest expense	-	(0.3)	-	-	(0.3)
Other finance income and costs	-	1.1	-	(4.9)	(3.8)
Loss before taxation	-	(87.2)	(58.6)	(352.0)	(497.8)
Tax (charge)/credit	-	(27.2)	-	9.5	(17.7)
Loss for the year	-	(114.4)	(58.6)	(342.5)	(515.5)
Capital expenditure	61.4	263.1	58.8	1.9	385.2
Total assets	249.6	977.9	74.4	1,006.3	2,308.2
Total liabilities	29.4	139.5	23.1	16.8	208.8
Non-current assets	228.2	845.8	61.2	3.6	1,138.8

4.2 Administrative and Other Expenses

	2016 US$m	2015 US$m
Administrative expenses	**34.2**	29.5
Inventory disposal/write down	**0.7**	0.2
	34.9	29.7

Administrative expenses in 2016 include charges of US$7.2m (2015: US$4.3m) incurred defending the Group's tax position in India through the ongoing arbitration. Also included are US$3.5m (2015: US$3.3m) in respect of operating lease payments.

Section 4 – Results for the Year

4.3 Earnings per Ordinary Share

Basic and diluted earnings per share are calculated using the following measures of loss:

	2016 **US$m**	2015 US$m
Loss and diluted loss attributable to equity holders of the parent	**(95.0)**	(515.5)

The following reflects the share data used in the basic and diluted earnings per share computations:

	2016 **'000**	2015 '000
Weighted average number of shares	**576,733**	576,336
Less weighted average shares held by ESOP and SIP Trusts	**(3,111)**	(5,244)
Basic and diluted weighted average number of shares	**573,622**	571,092
Anti-dilutive shares:		
LTIP awards	**18,048**	15,885
Approved and Unapproved Plans	**3,980**	365
Employee share awards	**1,629**	166
Anti-dilutive number of shares	**23,657**	16,416

Section 5 – Taxation and Other Disclosures

5.1 Tax (Credit)/Charge on Loss for the Year

Analysis of tax (credit)/charge on loss for the year

	2016 US$m	2015 US$m
Current tax credits:		
Norwegian tax refunds receivable	**(26.5)**	(37.1)
	(26.5)	(37.1)
Deferred tax (credit)/charge:		
Norwegian deferred tax charges	**13.3**	4.7
Reduction in UK supplementary charge tax rate	**-**	45.6
Reversal of eligibility to future field allowances on disposal of UK development asset	**-**	13.7
Release of provision on disposal of UK development asset	**-**	(18.7)
Reversal of UK deferred tax asset	**-**	22.4
Release of provision on carried interests due to change in tax rate	**(8.4)**	(3.4)
UK deferred tax credits realised	**(34.9)**	-
Recycled from other comprehensive income on impairment of financial assets	**-**	(9.5)
Total deferred tax (credit)/charge	**(30.0)**	54.8
Total tax (credit)/charge on loss	**(56.5)**	17.7
Tax included in other comprehensive income:		
Deferred tax credit on valuation of financial assets	**-**	(9.5)
Deferred tax credit on valuation movement recycled to income statement	**-**	9.5
Total tax charge in other comprehensive income	**-**	-

Norwegian deferred tax charges includes a charge of US$14.2m (2015: charge of US$5.2m) on temporary differences in respect of non-current assets and a credit of US$0.9m (2015: credit of US$0.5m) on losses and other temporary differences.

Expenditure incurred on Cairn's behalf by Dyas BV under the carry agreement (see note 2.3), capitalised in property, plant and equipment – development assets, creates a deferred tax liability. UK deferred tax credits of US$34.9m were realised to offset this deferred tax liability.

5.2 Income Tax Asset

The income tax asset of US$26.1m (2015: US$33.0m) relates to cash tax refunds due from the Norwegian authorities on the tax value of exploration and other qualifying expenses incurred in Norway during the year. This refund will be received in 2017.

Section 5 – Taxation and Other Disclosures

5.3 Deferred Tax Assets and Liabilities

Reconciliation of movement in deferred tax assets/(liabilities):

	Temporary difference in respect of non-current assets US$m	Losses US$m	Other temporary differences US$m	**Total US$m**
Deferred tax assets				
At 1 January 2015	(82.1)	188.3	-	106.2
Foreign exchange	6.4	(9.8)	-	(3.4)
Deferred tax credit through income statement	(35.0)	(24.6)	-	(59.6)
Deferred tax movement on additions to development assets in respect of carried interests	(43.2)	-	-	(43.2)
At 1 January 2016	(153.9)	153.9	-	**-**
Foreign exchange	6.2	(6.2)	-	**-**
Deferred tax credit through income statement	(14.5)	57.9	-	**43.4**
Deferred tax movement on additions to development assets in respect of carried interests	(43.4)	-	-	**(43.4)**
At 31 December 2016	**(205.6)**	**205.6**	**-**	**-**
Deferred tax liabilities				
At 1 January 2015	(73.7)	9.1	2.9	(61.7)
Foreign exchange	10.2	(1.7)	(0.4)	8.1
Deferred tax credit through income statement	4.2	3.1	(2.5)	4.8
At 1 January 2016	(59.3)	10.5	-	**(48.8)**
Foreign exchange	(0.6)	0.1	-	**(0.5)**
Deferred tax credit through income statement	(14.4)	1.0	-	**(13.4)**
At 31 December 2016	**(74.3)**	**11.6**	**-**	**(62.7)**

Deferred tax liabilities of US$62.7m (2015: US$48.8m) relate solely to deferred tax liabilities in Norway.

5.4 Contingent Liability – Indian Tax Assessment

Cairn UK Holdings Limited ("CUHL"), a direct subsidiary of Cairn Energy PLC, is in receipt of an assessment order from the Indian Income Tax Department ("IITD") relating to the intra-group restructuring undertaken in 2006 prior to the IPO of CIL in India, which cites a retrospective amendment to Indian tax law introduced in 2012. Cairn strongly contests the basis of this attempt to retrospectively tax the group for an internal restructuring.

The assessment order is in the amount of INR102billion (approximately US$1.5bn) plus interest back dated to 2007 totalling INR 188bn (approximately US$2.8bn). The total assets of CUHL have a value at the balance sheet date of US$749.3m (comprising principally the group's 9.8% shareholding in CIL) and any recovery by the Indian authorities would be limited to such assets.

CUHL is pursuing its rights under Indian law to appeal the assessment, both in respect of the basis of taxation and the quantum assessed. CUHL's 9.8% shareholding in CIL was originally attached by the IITD in January 2014 and CUHL continues to be restricted by the IITD from selling such shares. See section 3.1.

Furthermore, Cairn has also commenced international arbitration proceedings against the Republic of India under the UK-India Bilateral Investment Treaty (the "Treaty"), on the basis that India's actions have breached the Treaty by (1) expropriating Cairn's property without adequate and just compensation, (2) denying fair and equitable treatment to Cairn in respect of its investments and (3) restricting Cairn's right to freely transfer funds in connection with its investment. Based on detailed legal advice, Cairn is confident that it will be successful in such arbitration.

The seat of arbitration has been agreed as The Hague in the Netherlands and Cairn filed its Statement of Claim in June 2016 which clearly demonstrates that applying the retrospective amendment to Cairn and seizing US$1bn worth of CIL shares was in breach of the UK-India Investment Treaty obligations of fair and equitable treatment and its protections against expropriation. The Republic of India's Statement of Defence was filed in February 2017 with evidential hearings now expected to take place in January 2018.

Cairn has asked the arbitration panel either to order India to withdraw its unlawful tax demand and compensate Cairn for the harm suffered by the seizure of the CIL shares, being not less than US$1.1bn (plus costs); or, if the tax demand remains in place, compensate Cairn for the quantum of the tax assessment and the harm suffered by the seizure of the CIL shares, being together not less than US$5.6bn (plus costs).

Section 5 – Taxation and Other Disclosures

5.5 Post Balance Sheet Events

FlowStream – Stream Financing Facility

On 2 March 2017, the Group secured funding of US$75m from FlowStream in exchange for the proceeds from 4.5% of Kraken production. FlowStream's entitlement to Kraken production reduces to 1.35% if FlowStream achieves a 10% return and reduces to 0.675% after FlowStream achieves a 15% return. An additional tranche of US$125m in return for a further proceeds from production across Kraken and Catcher is available, subject to mutual consent, at Cairn's option. FlowStream's sole recourse for the funding is to its production from the assets. The agreement is subject to approval from the UK Oil and Gas Authority.

Exploration Finance Facility

On 3 March 2017, Cairn entered into a NOK 500m (~US$60m) Exploration Finance Facility allowing the Group to borrow against any Norwegian tax refunds from future exploration. The facility is provided by BNP Paribas and Commonwealth Bank of Australia. Interest on outstanding debt will be charged at NIBOR plus an applicable margin. The facility is available to draw until 31 December 2018 and the final maturity is 31 December 2019.

Farm-in to FEL 2/14 in Ireland

Subsequent to the year-end, Cairn has agreed a farm-in to FEL 2/14 in Ireland, with partners Providence Resources Plc (Providence) and Sosina. The 53/6-A well on the licence is planned to spud in June 2017, subject to the necessary regulatory consents, targeting both the Druid and the Drombeg targets. As a result of the proposed transaction, the equity interests in FEL 2/14 will be Providence (Operator 56%), Cairn (30%) and Sosina (14%). In the event of a potentially commercial discovery at Druid or Drombeg and joint operator approval of the drilling of an appraisal well, Cairn will have the option to take over Operatorship of the licence. Under the terms of the farm-in Cairn will pay an additional 15% share of costs, over the Group's working interest of 30%, up to a monetary cap.

The farm-in is subject to the approval of the Government of Ireland.