

CEO'S REVIEW



Simon Thomson
Chief Executive Officer

Cairn's strategic execution during 2020 has been delivered against the backdrop of a global pandemic. Our people and those who work with Cairn have successfully adopted new ways of working to ensure business continuity and momentum on all activities. We thank them for their effort and commitment. Cairn has not accessed any Government business support schemes.

Energy transition

As an exploration and production business, Cairn's role in the transition to lower net carbon energy is to responsibly produce hydrocarbons in support of the UN Sustainable Development Goals. The company is committed to driving down emissions in its operations wherever possible and has committed to the World Bank global gas flaring reduction initiative. During 2020, Cairn invested in the NECCUS project, which is examining proof-of-concept industrial carbon capture projects: an engineered solution to helping businesses and governments achieve CO₂ abatement on the path to net zero. Cairn also assesses its reporting against the Task Force on Climate-related Financial Disclosure and is committed to complying with its framework.

Financial flexibility to rebuild a balanced portfolio

Financial flexibility is integral to Cairn's strategy. At the onset of the pandemic, swift action was taken to proactively manage the capital programme without risking future activity and opportunity. Active portfolio management saw completion of the sale of the Group's interests in Norway in Q1, and of its Senegal interests in Q4, eliminating significant, long term capital commitments totalling US\$1.7bn and enabling a US\$250m special dividend to shareholders, which was paid in January 2021.

With balance sheet strength, Cairn is well positioned to fund growth and we announced in March 2021, the proposed acquisition of 50% of Shell's production, development and exploration upstream interests in the Western Desert, Egypt for a purchase price of US\$323m net to Cairn, with additional contingent consideration

of up to US\$140m net to Cairn if certain requirements are met. The remaining 50% of the interests will be acquired by Cairn's consortium partner Cheiron, an experienced local operator. Cheiron will operate the production and development assets and two exploration concessions, with Cairn operating three exploration concessions.

The acquisition is in line with Cairn's strategy of expanding and diversifying the production base. The assets provide low-cost production, near-term development and exploration growth potential and enhance the contribution of gas within Cairn's portfolio.

Transaction highlights:

- Adds WI 2P reserves of 113 mmmboe as at 31 December 2020
- Adds low-cost 2021 forecast WI production of between 33,000-38,000 boepd with an opex/bbl of <US\$6/boe, with significant potential to increase production levels in future years
- Two-thirds of production from the Assets is gas weighted, adjusting Cairn's current hydrocarbon split towards gas
- Significant Cashflow from Operations (CFFO) contribution: average CFFO for previous three years (2017-2019) was ~US\$140m net to the interest being acquired by Cairn
- Enhances near-term growth opportunities with 2C contingent resources WI of 49 mmmboe as at 31 December 2020 to Cairn and significant exploration potential remaining
- Cairn, together with Cheiron Energy, plans to finance the Acquisition with a new joint acquisition reserve-based lending facility of up to US\$350m, joint junior debt facility of US\$100m and existing cash on balance sheet
- The economic effective date of the Acquisition is 1 January 2020. Production for the assets being acquired averaged 83,000 boepd (Cairn WI of 41,500 boepd) in 2020

Subject to the approval of the Egyptian authorities and Cairn's shareholders, the acquisition is expected to complete in H2 2021.

Cairn also announced in March 2021, the proposed sale of its entire interests in the UK Catcher and Kraken fields to Waldorf Production UK Limited for a firm consideration of US\$460m with a further uncapped contingent consideration dependent on oil price and production performance. The divestment realises value for these assets as they fall into natural decline, enabling Cairn to further pursue its strategic goals at an opportune time in the industry cycle.

Subject to regulatory and shareholder approval, the disposal is expected to complete in H2 2021.

India

On 23 December, Cairn announced that the tribunal established to rule on its claim against the Government of India ("GoI") had found in Cairn's favour.

The tribunal ruled unanimously that India had breached its obligations to Cairn under the UK-India Bilateral Investment Treaty and it awarded to Cairn damages of US\$1.2bn plus interest and costs, which immediately became payable. The total due at the year-end was US\$1.7bn.

Cairn has engaged directly with the GoI regarding satisfaction of the Award, which is also enforceable against India-owned assets in over 160 countries that have signed and ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Cairn has already taken steps to have the Award recognised in certain major jurisdictions in which Indian sovereign assets have been identified.

Disposal of Senegal interests and return of cash to shareholders

The sale of Cairn's interests in Senegal to Woodside completed in Q4 2020, providing flexibility for future investment, enabling shareholder returns and avoiding significant long-term development capital expenditure. Cash received at completion was US\$525m, comprising the US\$300m acquisition consideration and a US\$225m reimbursement of expenditure incurred on the sale assets

since 1 January 2020. A further US\$100m is payable to Cairn subject to certain conditions being met relating to the date of first production from the Sangomar development and the prevailing oil price at that time.

As a result of this transaction, in January 2021 Cairn returned approximately US\$250m to shareholders via a special dividend of 32 pence per eligible ordinary share.

Cairn's discoveries offshore Senegal opened up a new basin on the Atlantic Margin, laying the foundations for Senegal's first multi-phase offshore oil and gas development.

Outlook

Cairn's engagement with the Government of India on its arbitration award will continue in parallel with pursuing options of enforcement and monetisation of the Award in order to safeguard shareholders' rights. As a result of the transactions announced in March 2021, Cairn will deliver a step change in the scale and growth potential of the business with the planned material expansion and diversification of our production profile. The broadening of Cairn's production base will provide the funding and cash flow to support selective exploration activity, with wells in Egypt, the UK and Mexico during 2021. Underpinning Cairn's approach to capital allocation decisions is our longstanding principle of weighing business development and investment opportunities against a track record of returning cash to shareholders and we will continue to seek opportunities to realise value for shareholders.

Chair succession

Nicoletta Giadrossi succeeded Ian Tyler as Board Chair on 1 January 2021. We thank Ian for his significant contribution to the business during his seven years on the Board, six as Chairman.



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As we continue to live and work with the consequences of the global pandemic, we have focused on keeping our people safe while maintaining momentum on business priorities and returning value to shareholders.

The proposed acquisition of Shell's Western Desert assets in Egypt is an important step in our strategic ambition to expand and diversify our producing asset base, bringing material reserve and production additions and offering exploration potential in a country with significant oil and gas growth opportunities. Our Joint Venture with established Egyptian operator Cheiron Petroleum Corporation creates a strong partnership with extensive experience and complementary skill sets.

We also announced in March 2021 the proposed sale of our interests in the UK Catcher and Kraken fields. The divestment of these assets, as they fall into natural decline, will further strengthen our ability to pursue Cairn's strategic goals.

Following the unanimous arbitration decision under the UK-India Investment Treaty to award Cairn US\$1.2 billion plus interest, we have engaged with the Government of India regarding adherence to the ruling and we are pursuing all avenues to protect our shareholders' rights to the value of the award."