# FINANCIAL STATEMENTS


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# Independent Auditors' Report to the Members of Cairn Energy PLC

## Report on the audit of the financial statements

**Opinion**

In our opinion, Cairn Energy PLC's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Company Balance Sheets as at 31 December 2020; the Group Income Statement and Group Statement of Comprehensive Income, the Group and Company Statements of Cash Flows, and the Group and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

**Separate Opinion in Relation to International Financial Reporting Standards Adopted Pursuant to Regulation (EC) No 1606/2002 as It Applies in the European Union**

As explained in note 1 to the group financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group. Other than those disclosed in note 7.4 to the financial statements, we have provided no non-audit services to the group in the period under audit.

**Our Audit Approach**

**Context**

Cairn Energy PLC is an independent, UK-based energy company, focused on oil and gas exploration, development and production. Cairn's exploration activities are focused on North West Europe, West Africa and Latin America. Its production assets are located in the UK North Sea. Cairn's headquarters and finance team are in Edinburgh supported by a small finance team in Mexico.

**Overview**

Audit scope

- We conducted audit work on 10 components. 2 of these components were subject to a full scope audit, the remaining 8 were specified scope.
- All audit work was performed in the UK by PwC UK, with the exception of the Mexican component which was audited by PwC Mexico.
- Our audit scope covered 98% of total assets.

Key audit matters

- Accounting for the Indian arbitration award (group).
- Valuation of intangible exploration/appraisal assets and development/producing assets ('oil and gas assets') (group).
- Implications of COVID-19 (group and company).

Materiality

- Overall group materiality: US$16,000,000 (2019: US$20,800,000) based on 1% of total assets excluding the arbitration award asset.
- Overall company materiality: US$14,400,000 (2019: US$20,100,000) based on 1% of total assets capped at 90% of group materiality.
- Performance materiality: US$12,000,000 (group) and US$10,800,000 (company).

**The Scope of Our Audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

**Capability of the Audit in Detecting Irregularities, Including Fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the wide variety of jurisdictions in which the group operates, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to areas of estimate in the financial statements and posting of inappropriate journal entries in order to improve reported performance. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussion with management, internal audit, internal and external legal counsel, and individuals outside the finance function, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Understanding management's controls designed to prevent and detect irregularities.
- Review of Board minutes and Internal Audit reports.
- Challenging assumptions and judgements made by management in its significant accounting estimates, in particular in relation to the recognition and valuation of the arbitration award and assessments of oil and gas asset impairment; and
- Identifying and testing journal entries, in particular, any journal entries posted by unexpected users, journals posted at unexpected times, journals reflecting unusual account combinations or journals with descriptions containing key unexpected words.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

## Key Audit Matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Accounting for the Indian arbitration award and Implications of COVID-19 are new key audit matters this year. Otherwise, the key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Accounting for the Indian arbitration award (group)***<br>As disclosed in note 1.4 of the financial statements, on 23 December 2020 the group announced that the Tribunal established under the registry of the Permanent Court of Arbitration to rule on its claim against the Government of India (GoI) had found unanimously in the group's favour. The group's claim was brought under the terms of the UK-India Bilateral Investment Treaty which awarded the group compensation of US$1.2 billion plus interest and costs.<br><br>Management has concluded that, due to the uncertainty around both the amount (including interest) and timings of the actual settlement, they are unable to reliably estimate the value of the award. Therefore, the receivable under the award has been classified and disclosed as a contingent asset as required under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".<br><br>Refer to note 1.4 of the financial statements for further information. | In assessing management's position on the accounting treatment for the Indian arbitration award, our procedures included:<br>– Obtaining and reviewing the award of the Tribunal to confirm the decision and compensation awarded;<br>– Assessing the ability of the group to enforce the award;<br>– Holding inquiries with the group's internal and external legal counsel;<br>– Obtaining written representations from external legal counsel on the matter and assessing their professional qualifications;<br>– Assessing management's analysis and compliance with the requirements of IAS 37 and specifically considering whether the timing and amount of expected settlement was virtually certain or whether treatment of the receivable as a contingent asset was appropriate;<br>– Discussing the accounting treatment with senior management and the Audit Committee; and<br>– Considering the appropriateness of the related disclosures in note 1.4 to the financial statements.<br><br>Our procedures did not identify any inconsistencies that suggest that this award should not be considered to be a contingent asset or that the circumstances were not appropriately disclosed. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of intangible exploration/appraisal assets and development/producing assets ('oil and gas assets') (group)***<br>The group has continued to invest in its exploration and appraisal activities with a carrying value of $112.1m at 31 December 2020. The majority of this asset relates to LATAM and East Atlantic fields, amounting to $69.2m and $34.9m respectively.<br><br>Development and producing assets of $849.8m reflects spend to 31 December 2020 on Catcher and Kraken in the North Sea.<br><br>Significant judgement and estimation is involved in valuing the group's oil and gas assets, including;<br>– long term oil price;<br>– reserve levels;<br>– production volume profiles;<br>– cost profiles and level of price escalation; and<br>– discount rates.<br><br>Refer to notes 2.2 and 2.3 to the financial statements. | We challenged management's assessment of impairment triggers for exploration and appraisal assets under IFRS 6 by considering licence conditions, the company's budgets and plans for, and results of, drilling activities.<br><br>We did not identify any additional triggers that had not been identified by management.<br><br>We tested management's analyses of the carrying values of development/producing assets at 31 December 2020 by performing the work described below:<br>– assessed the integrity and mathematical accuracy of the impairment model;<br>– compared the assumptions used within the impairment review models to approved budgets and business plans and other evidence of future intentions for the relevant assets;<br>– obtained reports from third party reserves auditors which we compared to management's assessments. Where there were differences, we sought explanations for these. We evaluated the third party reserves auditors' independence and expertise and discussed their reports directly with them;<br>– benchmarked key assumptions including comparing the commodity price and discount rates used to expected ranges prepared by our own valuation experts;<br>– considered the global focus on clean energy transition and climate change in the context of impairment and key assumptions made;<br>– reviewed management's sensitivities and performing additional sensitivity analysis over key assumptions in the model in order to assess the potential impact of a range of possible outcomes;<br>– assessed the inclusion of all appropriate assets and liabilities in the cash generating unit and given that the recoverable amount is determined based on fair value less costs of disposal, the inclusion or exclusion of certain tax related balances; and<br>– compared the carrying value of assets to certain other market evidence.<br><br>We found certain assumptions used by the group, including the long-term oil price and inflation rate to be at the lower end of our independently assessed market benchmark range. We found that the discount rates for the North Sea assets were towards the higher end of our expected range. Our audit therefore focused on the sensitivity of the impairment assessments to movements in the long-term oil price, inflation as well as in the reserves and production profile.<br><br>We assessed the disclosure in the financial statements for compliance with IAS 1 'Presentation of Financial Statements' and IAS 36 'Impairment of Assets'. |
| ***Implications of COVID-19 (group and parent company)***<br>The COVID-19 pandemic has caused significant global disruption and economic uncertainty, including increased volatility in commodity prices which has impacted the group's results and resulted in the deferral of capital expenditure.<br><br>The uncertainty caused by the pandemic could have a direct impact on the recoverability of assets and on the going concern of the group and company. Additionally, there is a heightened risk of the group's controls being bypassed with employees working remotely.<br><br>Refer to Business Context and Risk Management sections of the Annual Report. | We have reviewed management's cash flow forecasts in support of the going concern and asset impairment reviews. We have corroborated these forecasts to latest Board approved budgets and confirmed the mathematical accuracy of underlying calculations.<br><br>We have assessed forecast assumptions used in the base and severe but plausible downside scenarios and the impact of COVID-19 on these forecasts and concluded that these were reasonable.<br><br>We considered the group's liquidity and availability of financing to support the going concern and viability assessments.<br><br>We have tested journal entries posted to underlying support with consideration to the risk of management override of controls. In respect of the control environment, we did not observe any degradation in the operation of controls during our audit.<br><br>We considered the disclosures made by management to address the impact of COVID-19 and disclosures made in respect of going concern and viability, and found them to be appropriate.<br><br>Further details of our work on going concern is included later in this report. |

### How We Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

For operational purposes, the group is structured around five segments: Senegal (up until disposal), UK, Norway (up until disposal), LATAM and East Atlantic. During 2020, all of the production activity has been in UK, with the majority of the exploration and development activity located in LATAM and East Atlantic.

For accounting purposes, the group is structured into 31 reporting units ("components"). The majority of the finance function in based in Edinburgh with the exception of the Mexican components which are accounted for in Mexico. Work performed by PwC Mexico covered the Mexican statutory entities, with all other audit work performed by our group audit team in Edinburgh. Due to COVID-19 restrictions, the audits of all components were performed remotely.

When scoping the audit, we focused on total assets (consistent with our approach to materiality) and identified two financially significant components which comprised a high proportion of total group assets and as such required an audit of their complete financial information. A further 10 components were subject to procedures addressing specific financial statement line items to obtain sufficient coverage.

The group team remained involved in the audit work of its component audit team throughout the year. We maintained contact with PwC Mexico throughout the audit and conducted formal planning and year end video conferences.

Our group audit approach resulted in coverage of 98% of the consolidated total assets.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Financial statements – group | Financial statements – company |
|---|---|---|
| Overall materiality | US$16,000,000 (2019: US$20,800,000). | US$14,400,000 (2019: US$20,100,000). |
| How we determined it | 1% of total assets excluding the Indian arbitration award. | 1% of total assets capped at 90% of group materiality. |
| Rationale for benchmark applied | We believe that total assets excluding the Indian arbitration award is an appropriate measure that reflects the group's portfolio of oil and gas exploration and production assets. | The company's purpose is to hold investments in the subsidiaries of the group. The company has limited income statement transactions, therefore the appropriate benchmark for assessing materiality is total assets. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was $250,000 to $14,400,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US$12,000,000 for the group financial statements and US$10,800,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $800,000 (group audit) (2019: $1,100,000) and $720,000 (company audit) (2019: $1,000,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions Relating to Going Concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and examining management's base case forecasts and downside scenarios, checking that the forecasts have been subject to board review and approval;
- Considering the historical reliability of management forecasting for cash flow and net debt by comparing budgeted results to actual performance;
- Reviewing the key inputs into the model, such as commodity prices and production forecasts, to ensure that these were consistent with our understanding and the inputs used in other key accounting judgements in the financial statements;
- Performing our own independent sensitivity analysis to understand the impact of changes in cash flow on the resources available to the group;
- Reviewing agreements for acquisitions and disposals entered into subsequent to year end, considered availability of funding; and
- Reading management's paper to the Audit Committee in respect of going concern, and agreeing the forecasts set out in this paper to the underlying base case cash flow model.

# Independent Auditors' Report to the Members of Cairn Energy PLC continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Reporting on Other Information**
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

**Strategic Report and Directors' Report**
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

**Directors' Remuneration**
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

**Corporate Governance Statement**
The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:
- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:
- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

**Responsibilities for the Financial Statements and the Audit**

**Responsibilities of the Directors for the Financial Statements**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

**Use of This Report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

**Companies Act 2006 Exception Reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Appointment**

Following the recommendation of the Audit Committee, we were appointed by the members on 23 May 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2013 to 31 December 2020.

**Lindsay Gardiner (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
8 March 2021

# Group Income Statement
## For the year ended 31 December 2020

| | Note | 2020 US$m | 2019 US$m |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 2.1 | **394.7** | 533.4 |
| Cost of sales | 2.1 | **(115.5)** | (73.1) |
| Depletion and amortisation | 2.3 | **(215.7)** | (217.2) |
| **Gross profit** | | **63.5** | 243.1 |
| Pre-award costs | 4.2 | **(12.1)** | (17.2) |
| Unsuccessful exploration costs | 2.2 | **(78.8)** | (107.0) |
| Other operating income | | **1.4** | – |
| Administrative expenses | 4.3 | **(41.1)** | (32.3) |
| Reversal of impairment of property, plant & equipment – development/producing assets | 2.3 | **–** | 147.3 |
| Impairment of goodwill | 2.6 | **–** | (79.0) |
| **Operating (loss)/profit** | | **(67.1)** | 154.9 |
| Gain/(Loss) on financial assets at fair value through profit or loss | | **0.1** | (1.8) |
| Finance income | | **0.8** | 3.0 |
| Finance costs | 4.5 | **(51.2)** | (36.6) |
| **(Loss)/Profit before tax from continuing operations** | | **(117.4)** | 119.5 |
| **Taxation** | | | |
| Tax charge | 5.2 | **(0.1)** | (0.3) |
| **(Loss)/Profit from continuing operations** | | **(117.5)** | 119.2 |
| Loss from discontinued operations | 6.1 | **(276.3)** | (25.6) |
| **(Loss)/Profit for the year attributable to equity holders of the Parent** | | **(393.8)** | 93.6 |
| **Earnings per share for (loss)/profit from continuing operations:** | | | |
| (Loss)/Profit per ordinary share – basic (cents) | 1.3, 4.6 | **(20.16)** | 20.47 |
| (Loss)/Profit per ordinary share – diluted (cents) | 1.3, 4.6 | **(20.16)** | 20.26 |
| **Earnings per share for (loss)/profit attributable to equity holders of the Parent:** | | | |
| (Loss)/Profit per ordinary share – basic (cents) | 1.3, 4.6 | **(67.58)** | 16.08 |
| (Loss)/Profit per ordinary share – diluted (cents) | 1.3, 4.6 | **(67.58)** | 15.91 |

# Group Statement of Comprehensive Income
## For the year ended 31 December 2020

| | Note | 2020 US$m | 2019 US$m |
|---|---|---|---|
| **(Loss)/Profit for the year attributable to equity holders of the Parent** | | **(393.8)** | 93.6 |
| **Other Comprehensive Income – items that may be recycled to the Income Statement** | | | |
| Fair value gain/(loss) on hedge options | 3.5 | **52.2** | (29.7) |
| Hedging gain recycled to the Income Statement | 2.1 | **(56.0)** | (10.9) |
| Currency translation differences | | **14.7** | 0.4 |
| Currency translation differences recycled on disposal of subsidiary | 6.1 | **44.6** | – |
| **Other Comprehensive Income/(Expense) for the year** | | **55.5** | (40.2) |
| **Total Comprehensive (Expense)/Income for the year attributable to equity holders of the Parent** | | **(338.3)** | 53.4 |
| **Total Comprehensive (Expense)/Income from:** | | | |
| Continuing operations | | **(99.7)** | 77.6 |
| Discontinued operations | | **(238.6)** | (24.2) |
| | | **(338.3)** | 53.4 |

# Group Balance Sheet
## As at 31 December 2020

| | Note | 2020 US$m | 2019 US$m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible exploration/appraisal assets | 2.2 | **112.1** | 245.9 |
| Property, plant & equipment – development/producing assets | 2.3 | **849.8** | 1,405.3 |
| Other property, plant & equipment and intangible assets | | **11.5** | 13.6 |
| | | **973.4** | 1,664.8 |
| **Current assets** | | | |
| Inventory | 2.1 | **12.3** | 13.8 |
| Financial assets at fair value through profit or loss | | **5.2** | 5.1 |
| Cash and cash equivalents | 3.1 | **569.6** | 146.5 |
| Trade and other receivables | 3.4 | **74.6** | 111.2 |
| Derivative financial instruments | 3.5 | **0.2** | 4.1 |
| | | **661.9** | 280.7 |
| **Assets held-for-sale** | 6.3 | **–** | 143.5 |
| **Total assets** | | **1,635.3** | 2,089.0 |
| **Current liabilities** | | | |
| Lease liabilities | 3.3 | **43.2** | 43.1 |
| Derivative financial instruments | 3.5 | **3.2** | 1.6 |
| Trade and other payables | 3.6 | **91.6** | 134.6 |
| Deferred revenue | 3.7 | **4.8** | 16.9 |
| | | **142.8** | 196.2 |
| **Non-current liabilities** | | | |
| Provisions – decommissioning | 2.4 | **153.2** | 141.2 |
| Lease liabilities | 3.3 | **196.8** | 239.8 |
| Deferred revenue | 3.7 | **16.9** | 18.7 |
| | | **366.9** | 399.7 |
| **Liabilities held-for-sale** | 6.3 | **–** | 37.6 |
| **Total liabilities** | | **509.7** | 633.5 |
| **Net assets** | | **1,125.6** | 1,455.5 |
| **Equity attributable to equity holders of the Parent** | | | |
| Called-up share capital | 7.1 | **12.6** | 12.6 |
| Share premium | 7.1 | **490.1** | 489.8 |
| Shares held by ESOP/SIP Trusts | 7.1a,b | **(13.4)** | (15.8) |
| Foreign currency translation | 7.1c | **(130.8)** | (190.1) |
| Merger and capital reserves | 7.1d | **40.8** | 296.7 |
| Hedge reserve | 7.1e | **(3.4)** | 0.4 |
| Retained earnings | | **729.7** | 861.9 |
| **Total equity** | | **1,125.6** | 1,455.5 |

The Financial Statements on pages 134 to 177 and page 188 were approved by the Board of Directors on 8 March 2021 and signed on its behalf by:

**James Smith**
Chief Financial Officer

**Simon Thomson**
Chief Executive

# Group Statement of Cash Flows
## For the year ended 31 December 2020

| | Note | 2020 US$m | 2019 US$m |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| (Loss)/Profit before tax from continuing operations | | **(117.4)** | 119.5 |
| Loss before tax from discontinued operations | 6.1 | **(2.1)** | (115.6) |
| **(Loss)/Profit before tax including discontinued operations** | | **(119.5)** | 3.9 |
| **Adjustments for non-cash income and expense and non-operating cash flows:** | | | |
| Release of deferred revenue | | **(13.9)** | (17.2) |
| Unsuccessful exploration costs | | **78.8** | 145.7 |
| Depreciation, depletion and amortisation | | **223.1** | 223.2 |
| Share-based payments charge | | **9.1** | 11.9 |
| Reversal of impairment of property, plant & equipment – development/producing assets | | **–** | (147.3) |
| Impairment of goodwill | | **–** | 79.0 |
| Impairment of disposal group non-current assets | | **–** | 65.7 |
| (Gain)/Loss on financial assets at fair value through profit or loss | | **(0.1)** | 1.8 |
| Gain on disposal of oil and gas assets | | **–** | (0.7) |
| Finance income | | **(0.8)** | (3.4) |
| Finance costs | | **51.5** | 43.4 |
| **Adjustments to operating cash flows for movements in current assets and liabilities:** | | | |
| Income tax refund received relating to operating activities | 6.2 | **–** | 2.3 |
| Income tax paid | | **–** | (0.5) |
| Inventory movement | | **1.5** | (5.6) |
| Trade and other receivables movement | 3.4 | **16.6** | 2.2 |
| Trade and other payables movement | 3.6 | **11.6** | 4.9 |
| Other provisions movement | | **–** | (2.8) |
| **Net cash flows from operating activities** | | **257.9** | 406.5 |
| **Cash flows from investing activities:** | | | |
| Expenditure on intangible exploration/appraisal assets | | **(126.7)** | (194.6) |
| Expenditure on property, plant & equipment – development/producing assets | | **(271.4)** | (75.5) |
| Expenditure on other property, plant & equipment and intangible assets | | **(2.7)** | (5.0) |
| Proceeds on disposal of oil and gas assets | 6.1 | **524.8** | 77.1 |
| Costs incurred on disposal of oil and gas assets | 6.1 | **(1.7)** | – |
| Proceeds on disposal of subsidiary | 6.1 | **105.2** | – |
| Costs incurred on disposal of subsidiary | 6.1 | **(0.5)** | – |
| Cash and cash equivalents included in assets of subsidiary disposed of | 6.1 | **(2.2)** | – |
| Income tax refund received relating to investing activities | 6.2 | **–** | 28.6 |
| Interest received and other finance income | | **0.8** | 3.2 |
| **Net cash flows from/(used in) investing activities** | | **225.6** | (166.2) |
| **Cash flows from financing activities:** | | | |
| Debt arrangement fees | 3.2 | **(5.3)** | – |
| Other interest and charges | | **(7.8)** | (13.9) |
| Proceeds from borrowings | 3.2 | **139.6** | 47.4 |
| Repayment of borrowings | 3.2 | **(139.6)** | (134.0) |
| Proceeds from issue of shares | | **0.3** | 0.1 |
| Cost of shares purchased | 7.1a | **(1.0)** | – |
| Lease payments | 3.3 | **(59.5)** | (59.5) |
| Lease reimbursements | 3.3 | **4.0** | 7.0 |
| **Net cash flows used in financing activities** | | **(69.3)** | (152.9) |
| Net increase in cash and cash equivalents | | **414.2** | 87.4 |
| Opening cash and cash equivalents at beginning of year | | **153.7** | 66.3 |
| Foreign exchange differences | | **1.7** | – |
| **Closing cash and cash equivalents** | 3.1 | **569.6** | 153.7 |

# Group Statement of Changes in Equity
## For the year ended 31 December 2020

| | Equity share capital and share premium US$m | Shares held by ESOP/SIP Trusts US$m | Foreign currency translation US$m | Merger and capital reserves US$m | Hedge reserve US$m | Retained earnings US$m | **Total equity US$m** |
|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 502.3 | (19.6) | (190.5) | 296.7 | 41.0 | 760.2 | 1,390.1 |
| Profit for the year | – | – | – | – | – | 93.6 | 93.6 |
| Fair value on hedge options | – | – | – | – | (29.7) | – | (29.7) |
| Hedging gain recycled to the Income Statement | – | – | – | – | (10.9) | – | (10.9) |
| Currency translation differences | – | – | 0.4 | – | – | – | 0.4 |
| Total comprehensive income/(expense) | – | – | 0.4 | – | (40.6) | 93.6 | 53.4 |
| Share-based payments | – | – | – | – | – | 11.9 | 11.9 |
| Exercise of employee share options | 0.1 | – | – | – | – | – | 0.1 |
| Cost of shares vesting | – | 3.8 | – | – | – | (3.8) | – |
| At 31 December 2019 | 502.4 | (15.8) | (190.1) | 296.7 | 0.4 | 861.9 | 1,455.5 |
| Loss for the year | – | – | – | – | – | (393.8) | **(393.8)** |
| Fair value on hedge options | – | – | – | – | 52.2 | – | **52.2** |
| Hedging gain recycled to the Income Statement | – | – | – | – | (56.0) | – | **(56.0)** |
| Currency translation differences | – | – | 14.7 | – | – | – | **14.7** |
| Currency translation differences recycled on disposal of subsidiary | – | – | 44.6 | – | – | – | **44.6** |
| **Total comprehensive income/(expense)** | **–** | **–** | **59.3** | **–** | **(3.8)** | **(393.8)** | **(338.3)** |
| Merger reserve transferred to retained earnings | – | – | – | (255.9) | – | 255.9 | **–** |
| Share-based payments | – | – | – | – | – | 9.1 | **9.1** |
| Exercise of employee share options | 0.3 | – | – | – | – | – | **0.3** |
| Cost of shares purchased | – | (1.0) | – | – | – | – | **(1.0)** |
| Cost of shares vesting | – | 3.4 | – | – | – | (3.4) | **–** |
| **At 31 December 2020** | **502.7** | **(13.4)** | **(130.8)** | **40.8** | **(3.4)** | **729.7** | **1,125.6** |

# Section 1 – Basis of Preparation and Contingent Asset

This section includes the Group's general accounting policies applicable across the Financial Statements. Accounting policies specific to individual notes to the accounts are embedded in the notes themselves. This section also includes details of the Contingent Asset in regard to the Arbitration Award due from the Government of India.

#### 1.1 Significant Accounting Policies

**a) Basis of Preparation**

The consolidated Financial Statements of Cairn Energy PLC ("Cairn" or "the Group") for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 8 March 2021. Cairn is a limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded. The registered office is located at 50 Lothian Road, Edinburgh, Scotland, EH3 9BY. The registered company number is SC226712.

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"). Accounting policies have been applied consistently across all periods disclosed.

The Group's Financial Statements are prepared on a going concern basis.

**b) Accounting Standards**

Cairn prepares its Financial Statements in accordance with applicable IFRS, issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") in conformity with the requirements of the Companies Act 2006 and pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, and further requirements under the 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 2020.

Effective 1 January 2020, Cairn has adopted the following amendments to standards:
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies"
- Amendments to IFRS 3 "Business Combinations"
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"
- Revised Conceptual Framework for financial reporting

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

There are no new standards or amendments, issued by the IASB and endorsed under the Companies Act, that have yet to be adopted by the Group that will materially impact the Group's Financial Statements.

**c) Basis of Consolidation**

The consolidated Financial Statements include the results of Cairn Energy PLC and its subsidiary undertakings to the balance sheet date. Where subsidiaries follow differing accounting policies from those of the Group, those accounting policies have been adjusted to align with those of the Group. Intercompany balances and transactions between Group companies are eliminated on consolidation, though foreign exchange differences arising on intercompany balances between subsidiaries with differing functional currencies are not offset.

The results of subsidiaries acquired or incorporated in any year are included in the Income Statement and Statement of Cash Flows from the effective date of acquisition while the results of subsidiaries disposed of or liquidated during the year are included in the Income Statement and Statement of Cash Flows to the date at which control passes from the Group.

**d) Joint Arrangements**

Cairn is a partner (joint operator) in oil and gas exploration, development and production licences which are unincorporated joint arrangements. All of the Group's current interests in these arrangements are determined to be joint operations. A full list of oil and gas licence interests can be found on page 189.

Costs incurred relating to an interest in a joint operation other than costs relating to production activities are capitalised in accordance with the Group's accounting policies for oil and gas assets as appropriate (notes 2.2 and 2.3). All the Group's intangible exploration/appraisal assets and property, plant & equipment – development/producing assets relate to interests in joint operations.

Cairn's working capital balances relating to joint operations are included in trade and other receivables (note 3.4) and trade and other payables (note 3.6). Any share of finance income or costs generated or incurred by the joint operation is included within the appropriate income statement account.

# Section 1 – Basis of Preparation and Contingent Asset continued

### 1.1 Significant Accounting Policies continued

#### e) Foreign Currencies

These Financial Statements continue to be presented in US dollars (US$), the functional currency of the Parent.

In the Financial Statements of individual Group companies, Cairn translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date (or an approximation thereof where not materially different). Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset, though there were none in either the current or preceding year.

The Group maintains the Financial Statements of the Parent and subsidiary undertakings in their functional currency. Where applicable, the Group translates subsidiary Financial Statements into the presentation currency, US$, using the closing rate method for assets and liabilities which are translated at the rate of exchange prevailing at the balance sheet date and rates at the date of transactions for income statement accounts. Cairn takes exchange differences arising on the translation of net assets of Group companies whose functional currency is non-US$ directly to reserves.

Rates of exchange to US$1 were as follows:

| | Closing 2020 | YTD Average 2020 | Closing 2019 | YTD Average 2019 |
|---|---|---|---|---|
| GBP | **0.731** | **0.779** | 0.754 | 0.783 |

#### f) Exceptional Items

Where items have a significant impact on profit or loss, occur infrequently and are not part of the Group's normal operating cycle, such items may be disclosed as exceptional items on the face of the Income Statement.

### 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 at least 12 months from the date of approval of the Financial Statements. These forecasts assume completion of the Shell Western Desert acquisition within the conditions of the associated financing facilities for which the Group has obtained commitment letters from external lenders. Additionally, these forecasts also include scenarios that take account of a prolonged economic downturn as a result of COVID-19 which has led to volatility in oil prices across 2020.

The Directors have a reasonable expectation that the Group will continue in operational existence for a period of at least 12 months from the date of approval of the Financial Statements and have therefore used the going concern basis in preparing the Financial Statements.

The Board and Audit Committee assessments of risk and mitigants to the Group's operational existence beyond this 12-month period is included in the Viability Statement on page 43.

### 1.3 Restatement of Comparative Information

Following the sale of the Group's interests in Norway, which completed in February 2020, comparative information has been restated where appropriate to separate the UK & Norway operating segment into geographical components. This impacts comparative disclosures in notes 2.2, 2.3 and 4.1.

Disclosures in note 4.4 were restated to reclassify costs and employee numbers relating to Senegal operations as discontinued.

As detailed in notes 4.6 and 9.1, the weighted average number of shares used in both basic and diluted earnings per share calculations, disclosed on the Income Statement, was adjusted to reflect the share consolidation in January 2021.

### 1.4 Contingent Asset

**Arbitration Award Settlement Due from the Government of India**

On 23 December 2020, Cairn announced that the tribunal established to rule on its claim against the Government of India ("GoI") had found unanimously in Cairn's favour. Cairn's claim was brought under the terms of the UK-India Bilateral Investment Treaty (the "Treaty"), the legal seat of the tribunal was the Netherlands and the proceedings were under the registry of the Permanent Court of Arbitration.

The tribunal ruled unanimously that India had breached its obligations to Cairn under the UK-India Bilateral Investment Treaty and that compensation was due.

Addressing the jurisdiction of the arbitration, the tribunal ruled that the dispute was within the scope of the Treaty and other relevant legal parameters. It further ruled that the application to Cairn of the retrospective tax amendment introduced by the GoI was "grossly unfair", discriminatory and in breach of the "Fair and Equitable Treatment" standard of the Treaty.

The Tribunal therefore ordered the withdrawal of the tax demand in India and awarded to Cairn compensation equal to the value of the shares held in Cairn India Limited (subsequently merged with Vedanta Limited) seized by India in 2014 and withheld tax refunds due on other matters, totalling US$1,223m plus interest and costs, which is now payable. Interest is payable based on US$ six-month LIBOR plus a semi-annual margin of 1.375%, accruing from 2014, and the costs awarded totalled US$22m. The total amount due to Cairn at 31 December 2020 was US$1,725m.

Cairn has engaged directly with the GoI regarding satisfaction of the award, and it is also enforceable against Indian-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.

Cairn is extremely confident that satisfaction of the award will be achieved either by negotiated settlement or by enforcement against Indian assets (with potential financing and risk sharing options available to accelerate access to cash recovered through enforcement). However, at the date of this report, neither route to recovery is sufficiently well defined in terms of the timing and amount of expected settlement to provide the virtual certainty required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" which would allow recognition of an asset on the Balance Sheet. The receivable under the award therefore remains classified as a contingent asset at this time.

# Section 2 – Oil and Gas Assets and Operations

This section contains analysis of the gross profit generated by the Group's producing assets in the UK North Sea and details of the Group's capital expenditure on exploration/appraisal assets, with drilling in Mexico during 2020, and impairment test sensitivities on the Group's UK producing assets.

**Significant Accounting Judgements in This Section:**

**Impairment Testing of Oil and Gas Assets**

Cairn has reviewed its long-term economic assumptions, focussing on the forecast impact a move from hydrocarbons towards renewable sources of energy will have on demand for oil and gas and associated prices, concluding that peak oil demand will be followed by structurally lower prices. At the year end, Cairn revised its oil price assumptions reducing the Group's long-term oil price assumption from US$65/bbl to US$55/bbl and removing future escalation of prices. Updated production profile estimates, reflecting this change in assumption, have led to downward reserve revisions and combined with lower forecast prices have reduced the fair value less cost of disposal of producing asset cash-generating units. As the reduction in the oil price assumption is an indicator that impairment may exist impairment tests were performed. No impairment was recorded.

**Key Estimates and Assumptions in This Section:**

**Estimation of Hydrocarbon Reserves and Long-Term Oil Price Assumption**

Oil and gas reserve volumes and related production profiles are estimated based on Cairn's internal process manual which follows industry best practice. This represents Cairn's best estimate of reserves as at the reporting date. Cairn's Reserves and Resources Reporting Committee, which provides oversight, advice and guidance while providing senior level review, reports to the Group's Audit Committee before ultimately requesting approval of annual reserve volumes by the Board.

Third-party audits of Cairn's reserves and resources are conducted annually.

A change in reserve volumes could impact depletion and decommissioning charges, impairment testing, release of deferred revenue and related deferred tax assets and liabilities.

Cairn reduced its long-term oil price assumption from US$65/bbl to US$55/bbl flat also removing future price escalation which it believes reflects long-term market conditions. The Group's short-term assumption remains linked to the forward curve but has been shortened from three to two years.

**Impairment Testing of Intangible Exploration/Appraisal Assets and Property, Plant & Equipment – Development/Producing Assets**

Where it is identified that there is an indicator of impairment, or an indicator identified that a prior year impairment may have reversed or decreased, on an intangible exploration/appraisal asset or a development/producing asset, an impairment test is conducted in accordance with the Group's accounting policies. The test compares either the carrying value of the asset or the carrying value of the cash-generating unit ("CGU") containing the asset, to the recoverable amount of that asset or CGU.

The recoverable amount of an asset represents its fair value less costs of disposal. This is based on either a verifiable third-party arm's length transaction from which a fair value can be obtained or, where there is no such transaction, the fair value less costs of disposal of an asset is calculated using a discounted post-tax cash flow model over the field life of the asset. Cairn does not believe that the value in use of the asset would materially exceed its fair value less cost of disposal.

The key assumptions used in the Group's discounted cash flow models reflect past experience and take account of external factors. These assumptions include:

- Short/medium-term oil price based on a six-month average forward curve for two years from the balance sheet date (2019: three-month average forward curve for three years from the balance sheet date);
- Long-term oil price of US$55/bbl unescalated (2019: US$65/bbl escalated at 2.0%);
- Reserve estimates of discovered resource (2P and 2C) based on P50 reserve estimates;
- Production profiles based on Cairn's internal estimates including assumptions on performance of assets;
- Cost profiles for the development and operating costs supplied by the operators and escalated at 0.5% (2019: 2.0%) per annum; and
- Post-tax discount rates of 10% (2019: 10%).

**Decommissioning Estimates**

Provisions for decommissioning are based on the latest estimates provided by operators, subject to review by Cairn and adjusted where deemed necessary. Costs provided to date are an estimate of the cost that would be incurred to remove and decommission facilities that existed at the year end and to plug and abandon development wells drilled to that date. Costs are escalated at 0.5% per annum (2019: 2.0%) and discounted at risk-free rates between 0.0% and 0.7% (2019: 2.0%).

# Section 2 – Oil and Gas Assets and Operations continued

### 2.1 Gross Profit: Revenue and Cost of Sales

**Accounting Policies**

**Revenue**

Revenue from oil sales represents the Group's share of sales, on a liftings basis, from its producing interests in the UK North Sea, at the point in time where ownership of the oil has been passed to the buyer. This occurs either when the customer takes delivery of a cargo of oil from the FPSO or at the contracted delivery point whichever is determined to be the point in time that the consideration due becomes unconditional and only the passage of time is required before payment is due. Revenue is measured using the Brent (or estimated Brent) oil price plus or minus the applicable premium or discount based on the quality of the oil.

Revenue from the sale of gas is recorded based on the volume of gas accepted each day by customers at the delivery point.

Revenue from royalties is calculated on production from fields in Mongolia.

**Commodity price hedging**

Cairn may hedge oil production for the Group's assets in line with hedging policies approved by the Board. Where a hedging instrument has been formally designated as a hedge for hedge accounting, changes in the intrinsic value of the hedged item and the time value of the option are recognised within Other Comprehensive Income (where the hedge is effective) based on fair value and are reclassified to the Income Statement when the hedged production itself affects profit or loss. Hedge effectiveness is assessed on a prospective basis at commencement and throughout the life of the option. Any hedge ineffectiveness identified is immediately charged to the Income Statement.

A change in the fair value of an option that is either not designated as a hedging instrument for hedge accounting or does not qualify for hedge accounting is recognised in the Income Statement.

**Cost of sales and inventory**

Production costs include Cairn's share of costs incurred by the joint operation in extracting oil and gas. Also included are marketing and transportation costs and loss-of-production insurance costs payable over the year.

Adjustments for overlift (where liftings taken by Cairn exceed the Group's working interest share), underlift (where liftings taken by Cairn are less than the Group's working interest share) and movements in inventory are included in cost of sales. Oil inventory is measured at market value in accordance with established industry practice.

Variable lease charges represent lease payments made on leases over and above the fixed lease commitment. Variable lease costs are charged directly to the Income Statement.

| | **Year ended 31 December 2020 US$m** | Year ended 31 December 2019 US$m |
|---|---|---|
| Oil sales | **323.7** | 501.6 |
| Gas sales | **0.8** | 2.6 |
| Gain on hedge options designated for hedge accounting | **56.0** | 10.9 |
| Loss on hedge options not designated for hedge accounting | **(0.1)** | - |
| Release of deferred revenue (note 3.7) | **13.9** | 17.2 |
| **Revenue from oil and gas sales** | **394.3** | 532.3 |
| Royalty income | **0.4** | 1.1 |
| **Total revenue** | **394.7** | 533.4 |
| | | |
| Production costs | **(75.9)** | (68.1) |
| Oil inventory and underlift (decrease)/increase | **(16.6)** | 20.6 |
| Variable lease charges (note 3.3) | **(23.0)** | (25.6) |
| **Cost of sales** | **(115.5)** | (73.1) |
| | | |
| **Depletion and amortisation (note 2.3)** | **(215.7)** | (217.2) |
| **Gross profit** | **63.5** | 243.1 |

# **Section 2 – Oil and Gas Assets and Operations** continued

### **2.1 Gross Profit: Revenue and Cost of Sales** continued

**Revenue**

Cairn receives revenue from its two producing assets in the UK North Sea, Kraken and Catcher. On Kraken, where only oil is sold, Cairn took a full lifting of crude on a scheduled basis to reflect the Group's working interest until a change in the marketing of Kraken crude during the second half of 2020 which results in Cairn now receiving its working interest percentage share of each lifting of crude. This now aligns with Catcher where the Group receives its working interest share of each lifting of crude and its working interest share of Catcher gas sales. Payment terms are within 30 days.

Net sales volumes during the year averaged ~21,000 boepd (2019: ~21,400 boepd) for the two assets combined, realising an average sales price of US$42.23/boe (2019: US$64.52/boe).

COVID-19 contributed to pricing volatility during 2020 but had no significant impact on production levels.

**Commodity Price Hedging**

During 2020, Cairn realised gains on hedge options designated for hedge accounting of US$56.0m (2019: US$10.9m) as the oil price fell below the floor on several hedge contracts. Hedging gains and/or losses on hedge options designated for hedge accounting are recycled to the Income Statement from Other Comprehensive Income when the option matures.

Details on the Group's hedging position at 31 December 2020 can be found in note 3.5.

**Cost of Sales and Inventory**

Inventory of oil held at the year end is recorded at a market value of US$12.3m (2019: US$13.8m). Underlift adjustments on Kraken production volumes of US$15.1m at 31 December 2019 fully unwound during 2020 following the change in the marketing of the crude. There is now no overlift or underlift adjustment on either Catcher or Kraken. The total inventory and underlift decrease in the year was US$16.6m (2019: increase of US$20.6m).

Variable lease costs on the Kraken FPSO of US$10.6m (2019: US$10.5m) and on the Catcher FPSO of US$12.4m (2019: US$15.1m) are charged to the Income Statement. Details on leases can be found in note 3.3.

## 2.2 Intangible Exploration/Appraisal Assets

### Accounting Policy

Cairn follows a successful efforts-based accounting policy for oil and gas assets.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement as pre-award costs.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-licence basis. Costs are held, undepleted, within intangible exploration/appraisal assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered and a field development plan approved.

Exploration expenditure incurred in the process of determining oil and gas exploration targets is capitalised initially within intangible exploration/appraisal assets and subsequently allocated to drilling activities. Costs are recognised following a cost accumulation model where any contingent future costs on recognition of an asset are recognised only when incurred. This includes where Cairn has entered into a 'farm-in' agreement to either acquire or part-dispose of an exploration interest.

A farm-in is an agreement in which a party agrees to acquire from one or more of the existing licencees an interest in an exploration licence, for a consideration which may consist of the performance of a specified work obligation on behalf of the existing licencees. This obligation may be subject to a monetary cap. Refund of full or partial costs incurred to date may also be included in a farm-in agreement. Where Cairn has part-disposed of an exploration licence interest through a farm-in arrangement, a 'farm-down', the contingent consideration payable by the third party on Cairn's behalf is not recognised in the Financial Statements. The future economic benefit which Cairn will receive as a result of the farm-down will be dependent upon future success of any exploration drilling.

Exploration/appraisal drilling costs are capitalised on a well-by-well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well-by-well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial and work to confirm the commercial viability of such hydrocarbons is intended to be carried out in the foreseeable future. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated and approved in a field development plan, then the related capitalised intangible exploration/appraisal costs are transferred into a single field cost centre within property, plant & equipment – development/producing assets, after testing for impairment (see below).

Proceeds from the disposal or farm-down of part or all of an exploration/appraisal asset are credited initially to that interest with any excess being credited to the Income Statement.

#### Impairment

Intangible exploration/appraisal assets are reviewed regularly for indicators of impairment and tested for impairment where such indicators exist. An indicator that one of the Group's assets may be impaired is most likely to be one of the following:

- There are no further plans to conduct exploration activities in the area;
- Exploration drilling in the area has failed to discover commercial reserve volumes;
- Changes in the oil price or other market conditions indicate that discoveries may no longer be commercial; or
- Development proposals for appraisal assets in the pre-development stage indicate that it is unlikely that the carrying value of the exploration/appraisal asset will be recovered in full.

In such circumstances the intangible exploration/appraisal asset is allocated to any property, plant & equipment – development/producing assets within the same CGU and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development assets within the CGU, the excess of the carrying amount of the exploration/appraisal asset over its recoverable amount is charged immediately to the Income Statement.

# Section 2 – Oil and Gas Assets and Operations continued

### 2.2 Intangible Exploration/Appraisal Assets continued

| | Senegal US$m | UK (restated) US$m | Norway (restated) US$m | LATAM US$m | East Atlantic US$m | Total US$m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2019 | 463.0 | 89.5 | 35.8 | 32.7 | 36.8 | 657.8 |
| Foreign exchange | – | – | (0.4) | – | – | (0.4) |
| Additions | 58.9 | 3.9 | 33.4 | 108.3 | 19.5 | 224.0 |
| Unsuccessful exploration costs | – | (5.9) | – | (84.7) | (31.0) | (121.6) |
| Unsuccessful exploration costs – discontinued operations | – | – | (38.7) | – | – | (38.7) |
| Transfer to development/producing assets | (378.8) | (30.3) | – | – | – | (409.1) |
| Transfer to assets held-for-sale (note 6.3) | – | – | (30.1) | – | – | (30.1) |
| At 31 December 2019 | 143.1 | 57.2 | – | 56.3 | 25.3 | 281.9 |
| Additions | 2.6 | 8.9 | – | 59.5 | 21.2 | **92.2** |
| Unsuccessful exploration costs | – | (20.6) | – | (46.6) | (11.6) | **(78.8)** |
| Disposals | (145.7) | (1.5) | – | – | – | **(147.2)** |
| **At 31 December 2020** | **–** | **44.0** | **–** | **69.2** | **34.9** | **148.1** |
| **Impairment** | | | | | | |
| At 1 January 2019 | – | 48.1 | – | – | 14.6 | 62.7 |
| Unsuccessful exploration costs | – | – | – | – | (14.6) | (14.6) |
| Transfer to development/producing assets | – | (12.1) | – | – | – | (12.1) |
| **At 31 December 2019 and 31 December 2020** | **–** | **36.0** | **–** | **–** | **–** | **36.0** |
| **Net book value** | | | | | | |
| At 31 December 2018 | 463.0 | 41.4 | 35.8 | 32.7 | 22.2 | 595.1 |
| At 31 December 2019 | 143.1 | 21.2 | – | 56.3 | 25.3 | 245.9 |
| **At 31 December 2020** | **–** | **8.0** | **–** | **69.2** | **34.9** | **112.1** |

Additions to intangible exploration/appraisal assets were funded through cash and working capital other than a further US$0.7m provided in relation to well abandonment provisions and US$0.9m of additions relating to asset swaps.

Cairn completed the sale of its Norwegian business in February 2020 and disposed of its 40% working interest in its Senegal exploration assets in December 2020. See note 6.1.

**UK**

Additions in the year include the acquisition and subsequent costs on the non-operated licence P2380 containing the Jaws prospect. A 50% interest in this licence was obtained through a swap for a 50% interest in the licence P2379 containing the Diadem prospect. During the year US$4.2m and US$2.3m were incurred on the Jaws and Diadem prospects respectively with remaining additions of US$2.4m incurred across the rest of the UK portfolio of licences.

US$20.6m was charged to the Income Statement as unsuccessful costs in the year, including US$19.4m on the Agar-Plantain licence which was relinquished early in 2021 after concluding that the discovery was not commercially viable in a lower oil-price environment.

**LATAM**

Additions of US$59.5m include US$56.0m in Mexico and US$4.2m in Suriname, offset by accrual reversals in Nicaragua of US$0.7m.

In Mexico the Block 9 Bitol-1 and Block 7 Ehecatl-1 exploration wells were drilled during the year with additions of US$30.2m and US$17.1m incurred respectively. Both wells were declared unsuccessful and US$47.3m charged to the Income Statement. Remaining additions in Mexico of US$8.7m were not directly attributable to either well. The carrying value of assets in Mexico at the year end was US$55.7m, with US$38.8m of costs on Block 9, US$11.7m on Block 7 and US$5.2m relating to Block 15. The farm-in and farm-down agreements with Eni, effectively creating a 'swap' of a 15% interest in Block 9 for a 15% non-operated interest in neighbouring Block 10, containing the Saasken discovery, have not yet been completed due to COVID-19 delays. Additions in 2020 include US$14.8m incurred under short-term lease contracts.

Suriname additions in the year were US$4.2m and total costs of US$13.5m remain capitalised at the year end.

**East Atlantic**

East Atlantic additions of US$21.2m primarily relate to Mauritania and Côte d'Ivoire.

In 2020 Cairn became operator of blocks CI-301 and CI-302 offshore Côte d'Ivoire and agreed to relinquish blocks CI-518, CI-519, CI-521 and CI-522.

### 2.2 Intangible Exploration/Appraisal Assets continued

Cairn retains a non-operated interest in block CI-520. Additions in the year of US$8.6m were incurred across the seven blocks. On relinquishment of the four blocks, US$11.6m was charged to the Income Statement as unsuccessful costs. Costs of US$12.2m remain capitalised at the year end.

Costs capitalised in Mauritania at the year end of US$21.0m relate to Block 7. The initial licence has expired following the operator's withdrawal, but Cairn has applied for a new licence on the same acreage. Cairn are confident that this application shall be successful, thus costs continue to be carried in the Balance Sheet. Additions in the year of US$11.3m primarily relate to the farm-in payment to the original licence.

#### Impairment Review

At the year end, Cairn reviewed its remaining intangible exploration/appraisal assets for indicators of impairment. No indicators of impairment were identified.

### 2.3 Property, Plant & Equipment – Development/Producing Assets

#### Accounting Policy

**Costs**

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated and a development plan approved are capitalised within development/producing assets on a field-by-field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed.

Costs of borrowings relating to the ongoing construction of development/producing assets and facilities are capitalised during the development phase of the project. Capitalisation ceases once the asset is ready to commence production.

Net proceeds from any disposal, part disposal or farm-down of development/producing assets are credited against the appropriate portion of previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds, measured at fair value, exceed or are less than the appropriate portion of the net capitalised costs.

**Depletion and amortisation**

Depletion is charged on a unit-of-production basis, based on proved and probable reserves on a field-by-field basis. Fields within a single development area may be combined for depletion purposes. Where production commences prior to completion of the development, costs to be depleted include the costs-to-complete of the facility required to extract the volume of reserves recorded. Amortisation charged on right-of-use leased assets is also charged on a unit-of-production basis, based on proved and probable reserves.

**Impairment**

Development/producing assets are reviewed for indicators of impairment at the balance sheet date. Indicators of impairment for the Group's development assets include:
- Downward revisions of reserve estimates;
- Increases in cost estimates for development projects; or
- A decrease in the oil price or other negative changes in market conditions.

Impairment tests are carried out on each development/producing asset at the balance sheet date where an indicator of impairment is identified. The test compares the carrying value of an asset to its recoverable amount based on the higher of its fair value less costs of disposal or value in use. Where the fair value less costs of disposal supports the carrying value of the asset, no value-in-use calculation is performed.

If it is not possible to calculate the fair value less costs of disposal of an individual asset, the fair value less costs of disposal is calculated for the CGU containing the asset and tested against the carrying value of the assets and liabilities in the CGU for impairment. Where an asset can be tested independently for impairment, this test is performed prior to the inclusion of the asset into a CGU for further impairment tests.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment charge is made.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior years.

**Decommissioning**

At the end of the producing life of a field, costs are incurred in plugging and abandoning wells, removing subsea installations and decommissioning production facilities. Cairn recognises the full discounted cost of decommissioning as an asset and liability when the obligation to rectify environmental damage arises. The decommissioning asset is included within property, plant & equipment – development/producing assets with the cost of the related installation. The liability is included within provisions.

Revisions to the estimated costs of decommissioning which alter the level of the provisions required are also reflected in adjustments to the decommissioning asset. The amortisation of the asset is calculated on a unit-of-production basis based on proved and probable reserves. The amortisation of the asset is included in the depletion charge in the Income Statement and the unwinding of discount of the provision is included within finance costs.

# Section 2 – Oil and Gas Assets and Operations continued

## 2.3 Property, Plant & Equipment – Development/Producing Assets continued

| | Senegal US$m | UK (restated) US$m | UK right-of-use leased assets US$m | Norway (restated) US$m | **Total US$m** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2019 | – | 1,093.4 | 313.4 | 122.2 | 1,529.0 |
| Foreign exchange | – | – | – | (5.8) | (5.8) |
| Additions | – | 16.3 | – | 50.2 | 66.5 |
| Increase in decommissioning asset | – | 10.8 | 2.9 | 4.5 | 18.2 |
| Transfer from exploration/appraisal assets | 378.8 | 18.2 | – | – | 397.0 |
| Disposal | – | – | – | (82.1) | (82.1) |
| Transfer to assets held-for-sale (note 6.3) | – | – | – | (89.0) | (89.0) |
| At 31 December 2019 | 378.8 | 1,138.7 | 316.3 | – | 1,833.8 |
| Additions | 223.2 | 35.6 | – | – | **258.8** |
| Increase in decommissioning asset | – | 3.4 | – | – | **3.4** |
| Disposals | (602.0) | – | – | – | **(602.0)** |
| **At 31 December 2020** | **–** | **1,177.7** | **316.3** | **–** | **1,494.0** |
| **Depletion, amortisation and impairment** | | | | | |
| At 1 January 2019 | – | 336.9 | 21.7 | – | 358.6 |
| Depletion and amortisation charges | – | 160.7 | 56.5 | – | 217.2 |
| Reversal of impairment | – | (147.3) | – | – | (147.3) |
| At 31 December 2019 | – | 350.3 | 78.2 | – | 428.5 |
| Depletion and amortisation charges | – | 166.7 | 49.0 | – | **215.7** |
| **At 31 December 2020** | **–** | **517.0** | **127.2** | **–** | **644.2** |
| **Net book value** | | | | | |
| At 31 December 2018[1] | – | 756.5 | 144.2 | 122.2 | 1,022.9 |
| At 31 December 2019 | 378.8 | 788.4 | 238.1 | – | 1,405.3 |
| **At 31 December 2020** | **–** | **660.7** | **189.1** | **–** | **849.8** |

1 The 2018 net book value excludes the IFRS 16 opening balance adjustment of US$147.5m recorded on 1 January 2019

The Group's UK producing assets contain two cash generating units; the Kraken development area, including the Worcester satellite field, and the Greater Catcher and Laverda development areas which form a single unit.

Additions during the year of US$258.8m relate to development activity funded through cash and working capital and include US$10.4m of costs under short-term lease contracts.

Additions of US$223.2m were incurred in Senegal prior to disposal of the development asset, see note 6.1. These costs principally related to the FPSO facility and subsea construction for the Sangomar field development.

In the UK, additions of US$35.6m consist of Kraken costs of US$18.2m, including drilling costs of the Worcester well, and Catcher spend of US$17.4m, where the Varadero infill well and subsea installation were completed in the year. Drilling of the Catcher North and Laverda development wells have been delayed due to COVID-19 uncertainties.

The increase in the decommissioning asset in the current year of US$3.4m relates to changes in estimates for both Kraken and Catcher. The 2019 increase was due to a change in estimate for Kraken in the UK and for Nova in Norway.

Disposals and transfers to assets held-for-sale during 2019 relate to the sale of a 10% working interest in the Nova asset and subsequent disposal of the Norwegian business respectively. See notes 6.1 and 6.4.

Combined depletion and amortisation charges for the year of US$215.7m (2019: US$217.2m) were charged to the Income Statement.

### Leased Assets

There were no changes to the Kraken or Catcher FPSO lease terms during the current or previous year.

### 2.3 Property, Plant & Equipment – Development/Producing Assets continued

**Impairment Review**

At 31 December 2020, following a reduction in the Group's long-term oil price assumption, impairment tests were conducted on the Group's UK producing assets at the balance sheet date. No impairment was identified. Sensitivity analysis on the Group's impairment tests can be found in note 2.7.

During 2019, production performance on Kraken improved significantly and in addition the Operator conducted more regular well testing to improve reservoir monitoring. Consequently Cairn revised production profile estimates upward reflecting this improvement while also incorporating new volumes associated with the Worcester satellite field, subsequently developed in 2020. The changes to the production profile resulting from improved performance is an indicator that prior year impairment charges may no longer exist or may have decreased. The resultant impairment test indicated that a full reversal of prior year impairment charges should be recorded. The reversal was capped to US$147.3m, being the brought forward impairment adjusted for the depletion that would have been charged had no impairment been recorded.

**Proposed Sale of Catcher and Kraken Producing Assets**

On 8 March 2021, Cairn entered into a sales agreement to dispose of its entire interests in the Catcher and Kraken producing assets (note 9.3). As the sales process was not sufficiently advanced at the year end, the assets have not been reclassified as Assets Held-for-Sale at the balance sheet date.

### 2.4 Provisions – Decommissioning

| | Exploration well abandonment US$m | Development/ Producing assets US$m | Total US$m |
|---|---|---|---|
| At 1 January 2019 | 1.3 | 117.8 | 119.1 |
| Foreign exchange | 0.1 | 5.7 | 5.8 |
| Unwinding of discount (note 4.5) | – | 2.6 | 2.6 |
| Provided in the year | – | 18.2 | 18.2 |
| Released on disposal (note 6.4) | – | (1.8) | (1.8) |
| Transferred to liabilities held-for-sale (note 6.3) | – | (2.7) | (2.7) |
| At 31 December 2019 | 1.4 | 139.8 | 141.2 |
| Foreign exchange | 0.1 | 4.9 | **5.0** |
| Unwinding of discount (note 4.5) | – | 2.9 | **2.9** |
| Provided in the year | 0.7 | 3.4 | **4.1** |
| **At 31 December 2020** | **2.2** | **151.0** | **153.2** |

Decommissioning provisions at 31 December 2020 represent the present value of decommissioning costs related to the Kraken and Catcher development/producing assets and exploration well abandonment provisions in the UK. Amounts provided during the year of US$3.4m reflect additional decommissioning costs for the wells drilled in the year. During 2019, a provision of US$4.5m was introduced for development activities undertaken on Nova, which were released through disposal and the balance transferred to liabilities held-for-sale. Further provisions during 2019 relate to revised decommissioning estimates for Kraken.

Provisions are based on operator cost estimates, subject to internal Cairn review and amendment where considered necessary, and are calculated using assumptions based on existing technology and the current economic environment, with a discount rate of 0.0% and 0.7% per annum for Catcher and Kraken respectively (2019: 2.0%). The rates are based on the UK risk-free rate to the maturity of the respective decommissioning liability. The reasonableness of these assumptions is reviewed at each reporting date.

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/producing assets is forecast to occur between 2026 and 2036.

# Section 2 – Oil and Gas Assets and Operations continued

## 2.5 Capital Commitments

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| **Oil and gas expenditure:** | | |
| Intangible exploration/appraisal assets | **46.2** | 96.7 |
| Property, plant & equipment – development/producing assets | **7.9** | 460.0 |
| **Contracted for** | **54.1** | 556.7 |

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 include US$25.9m (2019: US$40.4m) for operations in the UK and US$13.1m (2019: US$37.9m) commitments in LATAM, predominantly Mexico.

The capital commitments for property, plant & equipment – development/producing assets at 31 December 2019 related principally to Senegal.

As at 31 December 2020, Cairn had the following commitments relating to short-term leases. These amounts are also included in the total of capital commitments shown above.

| | Exploration/ Appraisal assets US$m | Development/ Producing assets US$m | Total US$m |
|---|---|---|---|
| **Lease commitments at 31 December 2020** | **6.0** | **–** | **6.0** |
| Lease commitments at 31 December 2019 | 9.5 | 10.6 | 20.1 |

## 2.6 Intangible Assets – Goodwill

| | UK & Norway US$m | Total US$m |
|---|---|---|
| **Cost** | | |
| At 1 January 2019 | 384.6 | 384.6 |
| Foreign exchange | (1.4) | (1.4) |
| Transferred to assets held-for-sale | (82.1) | (82.1) |
| **At 31 December 2019 and 31 December 2020** | **301.1** | **301.1** |
| **Impairment** | | |
| At 1 January 2019 | 258.8 | 258.8 |
| Foreign exchange | (0.6) | (0.6) |
| Transferred to assets held-for-sale | (36.1) | (36.1) |
| Impairment charge | 79.0 | 79.0 |
| **At 31 December 2019 and 31 December 2020** | **301.1** | **301.1** |
| **Net book value** | | |
| At 31 December 2018 | 125.8 | 125.8 |
| At 31 December 2019 | – | – |
| **At 31 December 2020** | **–** | **–** |

Goodwill was tested for impairment at 31 December 2019 and an impairment charge of US$79.0m was recorded against continuing operations. Goodwill, net of impairment, allocated to Capricorn Norge AS was transferred to assets held-for-sale and tested for impairment as part of the disposal group. with a subsequent impairment charged and recorded in discontinued operations as detailed in note 6.3.

### 2.7 Impairment Testing Sensitivity Analysis

**UK Producing Assets**

At 31 December 2020, impairment tests were conducted on the Group's UK producing asset cash generating units. No impairment was recorded.

Cairn has run sensitivities on its long-term oil price assumption of US$55/bbl, using alternate long-term price assumptions of US$50/bbl and long-term prices based on the IEA's World Economic Outlook 2020 Sustainable Development Scenario ('WEO-2020'). These are considered to be reasonably possible long-term changes for the purposes of sensitivity analysis. The impact on the carrying value of development/producing assets is shown below.

| Reduction in long-term oil price assumption to: | WEO-2020 US$m | US$50/bbl US$m |
|---|---|---|
| Reduction in carrying value of development/producing assets | **60.5** | **72.0** |

The oil price at the end of the Group's short-term, forward-curve based assumption period was US$48/bbl and the impact of using this price as a long-term assumption does not materially differ from the US$50/bbl sensitivity shown above.

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.

The valuations of Catcher and Kraken used in the year end impairment test have not been updated to reflect the combined value of the assets in the sales agreement entered with Waldorf Production Limited (note 9.3). However, the sales value agreed would not indicate any impairment of the producing assets.

# Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities

This section includes detail on the Group's loan facilities, lease liabilities and hedging positions at the year-end. The Group's financial risk management objectives and policies are also contained in this section.

**Significant Accounting Judgements and Key Estimates and Assumptions in This Section:**
**Arbitration Award Settlement Due from Government of India**
No asset has been recognised in respect to the Award due to Cairn following the Tribunal's ruling on the Indian Tax arbitration, See note 1.4 for full details.

### 3.1 Cash and Cash Equivalents

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| Cash at bank | 4.3 | 7.0 |
| Money market funds | 565.3 | 139.5 |
| | 569.6 | 146.5 |

Closing cash balances held by Capricorn Norge AS at 31 December 2019 of US$7.2m (note 6.3) were included in closing cash and cash equivalents disclosed in the 2019 cash flow statement of US$153.7m.

Cash and cash equivalents earn interest at floating rates. Short-term investments are made for varying periods, which can be as short as instant access but generally not more than three months, depending on the cash requirements of the Group.

At 31 December 2019 and 2020 Cairn has invested surplus funds into money market funds.

Cairn limits the placing of 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 a 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 20% of total investments.

### 3.2 Loans and Borrowings

| Reconciliation of opening and closing liabilities to cash flow movements: | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| **Opening liabilities** | – | 101.7 |
| **Loan advances disclosed in the Cash Flow Statement:** | | |
| RBL advances in the year | 100.0 | 20.0 |
| Senegal Bridge Facility advances in the year | 39.6 | – |
| EFF advances in the year | - | 27.4 |
| | 139.6 | 47.4 |
| **Loan repayments disclosed in the Cash Flow Statement:** | | |
| RBL repayments in the year | (100.0) | (105.0) |
| Senegal Bridge Facility repayments in the year | (39.6) | – |
| EFF repayments in the year | – | (29.0) |
| | (139.6) | (134.0) |
| **Other movements in Cash Flow Statement:** | | |
| Debt arrangement fees | (5.3) | – |
| **Non-cash movements:** | | |
| Foreign exchange | – | (1.6) |
| Amortisation of debt arrangement fees | 6.3 | 1.9 |
| Transfer of unamortised arrangement fees from prepayments | (8.5) | - |
| Transfer of unamortised arrangement fees to prepayments | 7.5 | 8.5 |
| Transferred to liabilities held-for-sale (note 6.3) | – | (23.9) |
| **Closing liabilities** | – | – |

**RBL**

The Group's RBL facility was undrawn at 31 December 2020 and 31 December 2019.

Interest on debt drawn is charged at the appropriate LIBOR for the currency drawn plus an applicable margin. The facility remains subject to biannual redeterminations, has a market standard suite of covenants and is cross-guaranteed by all Group companies party to the facility. Any debt drawn is repayable in line with the amortisation of bank commitments over the period from 1 July 2022 to the extended final maturity date of 31 December 2025.

Total commitments under the facility are US$575.0m. An accordion feature permits additional future commitments of up to US$425.0m. The maximum available drawdown at 31 December 2020 was US$107.0m available to several Group companies. The facility can also be used for general corporate purposes and may also be used to issue letters of credit and performance guarantees for the Group of up to US$250.0m. Details of guarantees granted under this facility can be found in note 7.3.

**Senegal Bridge Facility**

Cairn signed a Bridge loan facility with a syndicate of international banks, effective 25 September 2020. The purpose of the facility was to fund Senegal-related development and general and administrative expenses from 1 September 2020 until completion of the sale of Senegal assets to Woodside.

Total commitments under the facility were US$250.0m and interest on debt drawn was charged at the appropriate LIBOR for the interest period drawn plus an applicable margin.

The facility was drawn from September to December 2020, then repaid in full and cancelled on 23 December 2020, after proceeds were received from the sale of the Senegal assets.

**EFF**

The Group's Norwegian Exploration Finance Facility was included in the disposal of Capricorn Norge AS in February 2020 and no longer forms part of the Group's borrowing facilities. No advances were drawn under this facility in the current year prior to disposal.

# Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

### 3.3 Lease Liabilities

**Accounting Policy**
Lease liabilities are measured and recorded on commencement of the asset being brought into use. Measurement is based on the lower of fair value of the asset or the net present value of fixed lease commitments under the contract. Lease payments made in excess of the fixed instalments are charged direct to the Income Statement as variable lease costs.

Lease payments are allocated between capital and interest based on the rate implicit in the lease agreement. Where this is not practical to determine, the Group's incremental borrowing rate is used.

Where there are changes subsequent to initial recognition, adjustments are made to both the lease liability and the capitalised asset. The interest rate used where the rate implicit in the lease is not determinable is updated at the date of the remeasurement.

No lease liability is recognised for leases where the period over which the right-of-use of an asset is obtained is forecast to be less than 12 months. Leases for low value items are not recorded as a liability but are charged as appropriate when the benefit is obtained.

| Reconciliation of opening and closing liabilities to cash flow movements: | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| **Opening lease liabilities** | **282.9** | 322.9 |
| **Leases commenced/revisions to leases in year:** | | |
| Revisions to lease liabilities | **–** | 0.4 |
| **Lease payments disclosed in the Cash Flow Statement as financing cash flows:** | | |
| Total lease payments | **(82.5)** | (85.1) |
| Variable lease payments (note 2.1) | **23.0** | 25.6 |
| | **(59.5)** | (59.5) |
| **Other movements in the Cash Flow Statement:** | | |
| Reimbursements received from lessors | **4.0** | 7.0 |
| **Non-Cash Movements:** | | |
| Foreign exchange | **0.3** | 0.4 |
| Reimbursements due transferred from other receivables | **(1.0)** | (3.0) |
| Lease interest charges (note 4.5) | **13.3** | 15.3 |
| Transferred to liabilities held-for-sale (note 6.3) | **–** | (0.6) |
| **Closing liabilities** | **240.0** | 282.9 |
| **Amounts due less than one year:** | | |
| Tangible development/producing assets – right-of-use assets | **40.9** | 41.0 |
| Other property, plant & equipment – right-of-use assets | **2.3** | 2.1 |
| | **43.2** | 43.1 |
| **Amounts due greater than one year:** | | |
| Tangible development/producing assets – right-of-use assets | **193.1** | 234.0 |
| Other property, plant & equipment – right-of-use assets | **3.7** | 5.8 |
| | **196.8** | 239.8 |
| **Total lease liabilities** | **240.0** | 282.9 |

Variable lease costs are disclosed in note 2.1. Amortisation charges on right-of-use assets relating to property, plant & equipment – development/producing assets are disclosed in note 2.3. Amortisation charges on other right-of-use assets are disclosed in note 4.1. Costs relating to short-term leases and leases of low value assets relating to exploration and development activities are disclosed in notes 2.2 and 2.3 where material. There are no further material short-term leases or charges for leases of low value assets. The maturity analysis for lease liabilities is disclosed in note 3.8. The carrying value of right-of-use development/producing assets at 31 December 2020 is US$189.1m (2019: US$238.1m) (note 2.3) and the carrying value of right-of-use assets included in other property, plant & equipment is US$5.2m (2019: US$7.0m).

### 3.4 Trade and Other Receivables

**Accounting Policy**

Trade receivables represent amounts due from the sale of oil and gas from the Group's UK producing assets and royalty payments receivable from producing fields in Mongolia. Other receivables primarily represent recharges to joint operations. Joint operation receivables relate to Cairn's interest in its oil and gas joint arrangements, including Cairn's participating interest share of the receivables of the joint arrangements themselves.

Trade receivables, other receivables and joint operation receivables, which are financial assets, are measured initially at fair value and subsequently recorded at amortised cost.

A loss allowance is recognised, where material, for expected credit losses on all financial assets held at the balance sheet date. Expected credit losses are the difference between the contractual cash flows due to Cairn, and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

Prepayments, which are not financial assets, are measured at historic cost.

| | **At 31 December 2020 US$m** | At 31 December 2019 US$m |
|---|---|---|
| Trade receivables | **16.4** | 22.3 |
| Other receivables | **15.3** | 9.0 |
| Accrued income – underlift (note 2.1) | **–** | 15.1 |
| Prepayments | **11.1** | 14.0 |
| Joint operation receivables | **31.8** | 50.8 |
| | **74.6** | 111.2 |

Trade receivables are measured at amortised cost. Revenue is recognised at the point in time where title passes to the customer and payment becomes unconditional.

| **Reconciliation of opening and closing receivables to operating cash flow movements:** | **Year ended 31 December 2020 US$m** | Year ended 31 December 2019 US$m |
|---|---|---|
| Opening trade and other receivables | **111.2** | 91.2 |
| Closing trade and other receivables | **(74.6)** | (111.2) |
| Decrease/(Increase) in trade and other receivables | **36.6** | (20.0) |
| Foreign exchange | **(2.2)** | 1.3 |
| Increase in joint operation receivables relating to investing activities | **9.2** | 17.7 |
| (Decrease)/Increase in prepayments and other receivables relating to other non-operating activities | **(2.2)** | 10.5 |
| Joint operation receivables derecognised on disposal of Senegal assets | **(24.1)** | – |
| Other receivables transferred to assets held-for-sale (note 6.3) | **–** | (7.3) |
| Increase in other receivables classified as assets held-for-sale | **(0.7)** | – |
| **Trade and other receivables movement** | **16.6** | 2.2 |

The movements in joint operation receivables relating to investing activities relate to the Group's share of the receivables of joint operations in respect of exploration, appraisal and development activities. Cash flow movements during 2019 include amounts for Norwegian operations. Movements relating to production activities are included in amounts through operating cash flows.

Other non-operating cash flow movements for 2019 primarily relate to the reclassification of prepaid facility fees.

# Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

## 3.5 Derivative Financial Instruments

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| **Current assets** | | |
| Financial assets – hedge options maturing within one year | **0.2** | 4.1 |
| **Current liabilities** | | |
| Financial liabilities – hedge options maturing within one year | **(3.2)** | (1.6) |
| | **(3.0)** | 2.5 |

Cairn currently has an active commodity price hedging programme in place to protect debt capacity and support committed capital programmes. Mark-to-market gains and losses on oil price hedge options are recorded as financial assets and financial liabilities as appropriate at 31 December 2020.

At 31 December 2020 the Group had hedged ~1.0m barrels of 2021 forecast Kraken and Catcher oil production, using three-way collar and swap structures. ~0.5m barrels of production have been hedged through three-way collars, with a weighted average ceiling, floor and sub-floor prices of US$55.00/bbl, US$48.27/bbl and US$35.00/bbl respectively (all prices quoted relate to dated Brent). ~0.5m barrels of production have been hedged through swap options with a weighted average strike price of US$45.20/bbl. At 31 December 2020, no production forecast beyond 31 December 2021 had been hedged.

The three-way collars and swaps have been designated as hedges for hedge accounting. Hedge effectiveness is assessed at commencement of the option and prospectively thereafter. At the year end, the closing Brent oil price was US$50.49/bbl (2019: US$66.00/bbl). Fair value movements on the cost of the option are recorded in the Statement of Comprehensive Income in the year, with fair value losses of US$3.8m being offset by fair value gains on options that matured in the year of US$56.0m. The gain on matured options has been recycled to the Income Statement. In 2019 fair value losses of US$40.6m were offset by fair value gains of US$10.9m on options that matured in the year. The gain on matured options was recycled to the Income Statement.

| Hedge options outstanding at the year end | At 31 December 2020 | At 31 December 2019 |
|---|---|---|
| Volume of oil production hedged | **1.0mmbbls** | 2.8mmbbls |
| Weighted average sub-floor price of options | **US$35.00** | - |
| Weighted average floor price of options | **US$48.27** | US$62.09 |
| Weighted average ceiling price of options | **US$55.00** | US$74.89 |
| Weighted average strike price of swaps | **US$45.20** | US$61.85 |
| Maturity dates | **January 2021 – December 2021** | January 2020 – December 2020 |

| Effects of hedge accounting on financial position and (loss)/profit for the year | 2020 US$m | 2019 US$m |
|---|---|---|
| Financial assets | **0.2** | 4.1 |
| Financial liabilities | **(3.2)** | (1.6) |
| Accruals and other payables – accrued option costs | **(0.5)** | (2.1) |
| Fair value gain/(loss) on hedge options recorded in Other Comprehensive Income | **52.2** | (29.7) |
| Hedging gain recycled to Income Statement | **(56.0)** | (10.9) |
| Hedging gain recorded in Income Statement within revenue (note 2.1) | **56.0** | 10.9 |

**Sensitivity Analysis**
Sensitivity analysis has been performed on equity movements that would arise from changes in the year end oil price forward curve and the resulting impact on the fair value of open hedge options at the year end. The sensitivity analysis considers only the impact on line items directly relating to hedge accounting (being financial assets and liabilities and fair value gains through Other Comprehensive Income) and not the impact of the change of other balance sheet items where valuation is based on the year end oil price, such as inventory.

| Increase/(decrease) in equity | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| **Change in year end oil price forward curve** | | |
| Decrease of 10% | **8.8** | 12.4 |
| Decrease of 20% | **4.2** | 26.6 |
| Increase of 10% | **(4.3)** | (12.6) |
| Increase of 20% | **(9.2)** | (25.5) |

### 3.6 Trade and Other Payables

**Accounting Policy**

Trade and other payables are non-interest bearing and are measured at fair value initially then amortised cost subsequently.

Joint operation payables are payables that relate to Cairn's interest in its oil and gas joint arrangements, including Cairn's participating interest share of the trade and other payables of the joint arrangements themselves. Where Cairn is operator of the joint operation, joint operation payables also include amounts that Cairn will settle to third parties on behalf of joint operation partners. The amount to be recovered from partners for their share of such liabilities are included within joint operation receivables.

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| Trade payables | **10.6** | 0.9 |
| Other taxation and social security | **1.6** | 0.9 |
| Accruals and other payables | **42.3** | 25.4 |
| Joint operation payables | **37.1** | 107.4 |
| | **91.6** | 134.6 |

Accruals and other payables include US$11.3m payable to the previous marketing agent for the sale of Kraken crude and US$6.0m of costs relating to the disposal of Senegal assets.

Joint operation payables include US$9.6m (2019: US$71.4m), US$5.1m (2019: US$5.5m) and US$22.4m (2019: US$30.5m) relating to exploration/appraisal assets, development/producing assets and production costs respectively.

The decrease in joint operation payables for exploration/appraisal assets at the balance sheet date compared to the prior year was due to payables of US$49.2m at 31 December 2019 relating to the Mexico drilling campaign.

| **Reconciliation of opening and closing payables to operating cash flow movements:** | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| Opening trade and other payables | **(134.6)** | (103.1) |
| Closing trade and other payables | **91.6** | 134.6 |
| (Decrease)/Increase in trade and other payables | **(43.0)** | 31.5 |
| Foreign exchange | **(0.6)** | (1.1) |
| (Increase)/Decrease in trade payables relating to investing activities | **(2.2)** | 1.1 |
| Decrease/(Increase) in joint operation payables relating to investing activities | **44.3** | (40.4) |
| Decrease in accruals and other payables relating to other non-operating activities | **2.1** | 3.4 |
| Joint operation payables derecognised on disposal of Senegal assets | **11.4** | – |
| Trade and other payables transferred to liabilities held-for-sale (note 6.3) | **–** | 10.4 |
| Decrease in other payables classified as liabilities held-for-sale | **(0.4)** | – |
| **Trade and other payables movement recorded in operating cash flows** | **11.6** | 4.9 |

Movements above for investing activities relate to exploration, appraisal and development activities through the Group's joint operations. Movements relating to production activities are included in amounts through operating cash flows.

The movement in trade and other payables recorded in the Cash Flow Statement through operating cash flows primarily arises on production activities in the UK North Sea.

# Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

### 3.7 Deferred Revenue

**Accounting Policy**

Deferred revenue, arising from a streaming agreement, is treated as cash received in advance of future oil sales. Revenue is recorded at the fair value of the consideration received and is amortised to the Income Statement on a unit-of-production basis, based on expected future volumes to which the stream provider is entitled.

| FlowStream deferred revenue | 2020 US$m | 2019 US$m |
|---|---|---|
| At 1 January | 35.6 | 52.8 |
| Released during the year (note 2.1) | (13.9) | (17.2) |
| **At 31 December** | **21.7** | 35.6 |
| Amounts expected to be released within one year | 4.8 | 16.9 |
| Amounts expected to be released after one year | 16.9 | 18.7 |
| | 21.7 | 35.6 |

Deferred revenue relates to the stream agreement with FlowStream entered into in 2017. A step-down in the percentage of Kraken crude sales attributable to FlowStream, triggered during 2020, has reduced the amounts that fall payable within 12 months from the balance sheet date.

### 3.8 Financial Instruments

Set out below is the comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the Financial Statements.

**Financial Assets**

| Carrying amount and fair value | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| *Financial assets at amortised cost* | | |
| Cash and cash equivalents | 569.6 | 146.5 |
| Trade receivables | 16.4 | 22.3 |
| Other receivables | 15.3 | 9.0 |
| Accrued underlift | – | 15.1 |
| Joint operation receivables | 31.8 | 50.8 |
| *Financial assets at fair value through profit or loss* | | |
| Listed equity shares | 5.2 | 5.1 |
| *Derivative financial instruments* | | |
| Financial assets – hedge options | 0.2 | 4.1 |
| | 638.5 | 252.9 |

Due to the short-term nature of financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value.

There are no material impairments of financial assets held on the Balance Sheet at either 31 December 2020 or 2019.

All the Group's financial assets are expected to mature within one year.

### 3.8 Financial Instruments continued

**Financial Liabilities**

| Carrying amount and fair value | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| *Financial liabilities at amortised cost* | | |
| Trade payables | **10.6** | 0.9 |
| Accruals and other payables | **42.3** | 25.4 |
| Joint operation payables | **37.1** | 107.4 |
| Lease liabilities | **240.0** | 282.9 |
| *Derivative financial instruments* | | |
| Financial liabilities – hedge options | **3.2** | 1.6 |
| | **333.2** | 418.2 |

The fair value of financial assets and liabilities, other than the listed equity shares and hedge options, has been calculated by discounting the expected future cash flows at prevailing interest rates.

**Maturity analysis of financial liabilities**

The expected financial maturity of the Group's financial liabilities at 31 December 2020 is as follows:

| | < 1 year US$m | 1-2 years US$m | 2-5 years US$m | >5 years US$m |
|---|---|---|---|---|
| *Financial liabilities at amortised cost* | | | | |
| Trade payables | **10.6** | **–** | **–** | **–** |
| Accruals and other payables | **42.3** | **–** | **–** | **–** |
| Joint operation payables | **37.1** | **–** | **–** | **–** |
| Lease liabilities | **43.2** | **44.8** | **89.5** | **62.5** |
| Financial liabilities – hedge options | **3.2** | **–** | **–** | **–** |
| | **136.4** | **44.8** | **89.5** | **62.5** |

The expected financial maturity of the Group's financial liabilities at 31 December 2019 was as follows:

| | < 1 year US$m | 1-2 years US$m | 2-5 years US$m | >5 years US$m |
|---|---|---|---|---|
| *Financial liabilities at amortised cost* | | | | |
| Trade payables | 0.9 | – | – | – |
| Accruals and other payables | 25.4 | – | – | – |
| Joint operation payables | 107.4 | – | – | – |
| Lease liabilities | 43.1 | 43.1 | 123.0 | 73.7 |
| Financial liabilities – hedge options | 1.6 | – | – | – |
| | 178.4 | 43.1 | 123.0 | 73.7 |

# Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

### 3.8 Financial Instruments continued

**Fair Value**

The Group holds hedge options which are held at fair value determined by models which have observable inputs.

Cairn holds listed equity shares, being the residual shareholding in Vedanta Limited as a financial asset at fair value through profit or loss. The Group determines and discloses the fair value by reference to the quoted (unadjusted) prices in active markets for those shares at the measurement date.

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| **Assets measured at fair value – Level 1** | | |
| *Financial assets at fair value through profit or loss* | | |
| Listed equity shares | 5.2 | 5.1 |
| **Assets measured at fair value – Level 2** | | |
| *Derivative financial instruments* | | |
| Financial assets – hedge options | 0.2 | 4.1 |
| **Liabilities measured at fair value – Level 2** | | |
| *Derivative financial instruments* | | |
| Financial liabilities – hedge options | (3.2) | (1.6) |
| | 2.2 | 7.6 |

### 3.9 Financial Risk Management: Objectives and Policies

The main risks arising from the Group's financial instruments are commodity price risk, liquidity risk, credit risk and foreign currency risk. The Board of Cairn Energy PLC, through the Treasury Subcommittee, reviews and agrees policies for managing each of these risks and these are summarised below.

The Group's Treasury function and Executive Team as appropriate are responsible for managing these risks, in accordance with the policies set by the Board. Management of these risks is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques. These potential exposures are managed while ensuring that the Company and the Group have adequate liquidity at all times in order to meet their immediate cash requirements. There are no significant concentrations of risks unless otherwise stated. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The primary financial assets and liabilities comprise cash, short- and medium-term deposits, money market liquidity funds, listed equity shares, intra-group loans and other receivables and financial liabilities held at amortised cost. The Group's strategy has been to finance its operations through a mixture of retained profits, bank borrowings and other production-related streaming agreements. Other alternatives such as equity issues and other forms of non-investment-grade debt finance are reviewed by the Board, when appropriate.

**Commodity Price Risk**

Commodity price risk arises principally from the Group's North Sea production, which could adversely affect revenue and debt availability due to changes in commodity prices.

The Group measures commodity price risk through an analysis of the potential impact of changing commodity prices. Based on this analysis and considering materiality and the potential business impact, the Group may choose to hedge.

Linked to production in the UK North Sea, the Group continued to hedge during 2020 in order to protect debt capacity and support committed capital programmes. Details of current hedging arrangements, together with oil price sensitivity analysis, can be found in note 3.5.

Transacted derivatives are designated, where possible, in cash flow hedge relationships to minimise accounting income statement volatility. The Group is required to assess the likely effectiveness of any proposed cash flow hedging relationship and demonstrate that the hedging relationship is expected to be highly effective prior to entering into a hedging instrument and at subsequent reporting dates.

### 3.9 Financial Risk Management: Objectives and Policies continued

**Liquidity Risk**

The Group closely monitors and manages its liquidity risk using both short- and long-term cash flow projections, supplemented by debt and equity financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in asset production profiles and cost schedules.

The operations of the Group have been impacted by COVID-19 and increased oil price volatility throughout 2020. The Group has deferred capital expenditure to preserve liquidity during this period of uncertainty. The Group runs various sensitivities on its liquidity position throughout the year. This includes scenarios forecasting a prolonged economic downturn as a result of COVID-19 and further volatility in oil prices. Further details are noted in the Viability Statement provided on page 43.

Details of the Group's debt facilities can be found in note 3.2. The Group is subject to quarterly forecast liquidity tests as part of the RBL facility agreement. The Group has complied with the liquidity requirements of this test at all times during the year.

The Group invests cash in a combination of money market liquidity funds and term deposits with a number of international and UK financial institutions, ensuring sufficient liquidity to enable the Group to meet its short and medium-term expenditure requirements.

**Credit Risk**

Credit risk arises from cash and cash equivalents, investments with banks and financial institutions, trade and other receivables and joint operation receivables.

Customers and joint operation partners are subject to a risk assessment using publicly available information and credit reference agencies, with follow-up due diligence and monitoring if required.

Investment credit risk for investments with banks and other financial institutions is managed by the Group Treasury function in accordance with the Board-approved policies of Cairn Energy PLC. These policies limit counterparty exposure, maturity, collateral and take account of published ratings, market measures and other market information. The limits are set to minimise the concentration of risks and therefore mitigate the risk of financial loss through counterparty failure.

It is Cairn's policy to invest with banks or other financial institutions that, firstly, offer the greatest degree of security in the view of the Group and, secondly, the most competitive interest rates. Repayment of principal is the overriding priority and this is achieved by diversification and shorter maturities to provide flexibility. The Board continually re-assesses the Group's policy and updates as required.

At the year end the Group does not have any significant concentrations of bad debt risk. As at 31 December 2020 the Group had investments with thirteen counterparties (2019: nine) to ensure no concentration of counterparty investment risk. The increase in the number of counterparties holding investments reflects the Group's increased cash balance. At 31 December 2020 and at 31 December 2019 all of these investments were instant access.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

**Foreign Currency Risk**

Cairn manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position.

The Group also aims where possible to hold surplus cash, debt and working capital balances in the functional currency of the subsidiary, thereby matching the reporting currency and functional currency of most companies in the Group. This minimises the impact of foreign exchange movements on the Group's Balance Sheet.

Where residual net exposures do exist and they are considered significant, the Company and Group may from time to time opt to use derivative financial instruments to minimise exposure to fluctuations in foreign exchange and interest rates.

The following table demonstrates the sensitivity to movements in the US$:GBP exchange rate, with all other variables held constant, on the Group's monetary assets and liabilities. These are considered to be reasonably possible changes for the purposes of sensitivity analysis. The Group's exposure to foreign currency changes for all other currencies is not material.

| | **At 31 December 2020** | | At 31 December 2019 | |
|---|---|---|---|---|
| | **Effect on profit before tax US$m** | **Effect on equity US$m** | Effect on profit before tax US$m | Effect on equity US$m |
| 10% increase in GBP to US$ | **(24.4)** | **(18.6)** | (31.6) | (16.3) |
| 10% decrease in GBP to US$ | **24.4** | **18.6** | 31.6 | 16.3 |

# Section 4 – Income Statement Analysis

This section contains further Income Statement analysis, including segmental analysis, details of employee benefits payable in the year and finance costs.

**Significant Accounting Judgements in This Section:**

**Segmental Disclosures and Discontinued Operations**

IFRS 8 'Operating Segments' does not provide guidance as to whether segment disclosures apply to discontinued operations. During the current period, Cairn has presented segmental disclosures exclusive of the results of the discontinued operations, being the sale of Capricorn Norge AS and the disposal of the Group's operations in Senegal, and comparative information has been restated accordingly to exclude these results from the segment formerly called UK & Norway, now presented as the UK segment.

Effective 1 January 2021, Cairn restructured its operations and reporting segments following the disposal of the Group's operations in Senegal. Revised segments now consist of a UK development and producing asset segment, containing the Kraken and Catcher producing assets, an Eastern Assets segment for exploration activities in Mauritania, Côte d'Ivoire and Israel, and a Western Assets segment for exploration activities in the UK, Mexico and Suriname. These changes did not impact the presentation of management information to the Board during 2020, therefore segmental disclosures do not reflect these changes

**Key Estimates and Assumptions in This Section:**

There are several key estimates and assumptions used in the calculation of the Group's share-based payment charges. These are detailed in note 4.4 (b).

### 4.1 Segmental Analysis

**Operating Segments**

Cairn's strategy is to create, add and realise value from a balanced portfolio within a self-funding business model. 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 segment separately for the purposes of making decisions about resource allocation and performance assessment.

In 2020, Cairn had five reportable operating segments: Senegal (until disposal), UK, Norway (until disposal), LATAM (Latin America) and East Atlantic. The Senegal operating segment was focused on the development of the Sangomar discovery prior to the disposal of the Group's assets in the country (note 6.1). The UK segment includes exploration activity in the North Sea and the Kraken and Catcher producing assets. The LATAM segment includes costs of the Mexican exploration drilling programme and exploration activity in Suriname, while the East Atlantic includes costs associated with interests in Côte d'Ivoire, Mauritania and Israel.

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

Non-current assets as analysed on a segmental basis consist of: intangible exploration/appraisal assets; property, plant & equipment – development/producing assets; and other property, plant & equipment and intangible assets.

| Geographical information: non-current assets | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| **Senegal** | **–** | 521.9 |
| **UK** | **857.8** | 1,047.7 |
| Mexico | **57.1** | 49.0 |
| Suriname | **13.5** | 9.2 |
| **LATAM** | **70.6** | 58.2 |
| Côte d'Ivoire | **12.2** | 15.2 |
| Mauritania | **21.0** | 9.8 |
| Israel | **1.7** | 0.3 |
| **East Atlantic** | **34.9** | 25.3 |
| **Other UK** | **10.1** | 11.7 |
| **Total non-current assets** | **973.4** | 1,664.8 |

# Section 4 – Income Statement Analysis continued

#### 4.1 **Segmental Analysis** continued

The segment results for the year ended 31 December 2020 are as follows:

| | Senegal US$m | UK US$m | Norway US$m | LATAM US$m | East Atlantic US$m | Other Cairn Energy Group US$m | Group adjustment for segments US$m | **Total US$m** |
|---|---|---|---|---|---|---|---|---|
| Revenue | – | 394.3 | – | – | – | 0.4 | – | **394.7** |
| Cost of sales | – | (115.5) | – | – | – | – | – | **(115.5)** |
| Depletion and amortisation charges | – | (215.7) | – | – | – | – | – | **(215.7)** |
| **Gross profit** | **–** | **63.1** | **–** | **–** | **–** | **0.4** | **–** | **63.5** |
| Pre-award costs | – | (1.0) | – | (2.7) | (1.6) | (6.8) | – | **(12.1)** |
| Unsuccessful exploration costs | – | (20.6) | – | (46.6) | (11.6) | – | – | **(78.8)** |
| Other operating income | – | – | – | – | – | 1.4 | – | **1.4** |
| Depreciation – purchased assets | – | – | – | – | – | (0.1) | – | **(0.1)** |
| Amortisation – right-of-use assets | – | – | – | (0.2) | – | (1.9) | – | **(2.1)** |
| Amortisation of other intangible assets | – | – | – | (0.3) | – | (4.6) | – | **(4.9)** |
| Other administrative expenses | – | (0.1) | – | (0.2) | – | (33.7) | – | **(34.0)** |
| **Operating profit/(loss)** | **–** | **41.4** | **–** | **(50.0)** | **(13.2)** | **(45.3)** | **–** | **(67.1)** |
| Gain on fair value of financial assets | – | – | – | – | – | 0.1 | – | **0.1** |
| Interest income | – | – | – | – | – | 0.8 | – | **0.8** |
| Finance costs | – | (23.6) | – | 0.2 | – | (27.8) | – | **(51.2)** |
| **Profit/(Loss) before taxation from continuing operations** | **–** | **17.8** | **–** | **(49.8)** | **(13.2)** | **(72.2)** | **–** | **(117.4)** |
| Tax charge | – | – | – | (0.1) | – | – | – | **(0.1)** |
| **Profit/(Loss) for the year from continuing operations** | **–** | **17.8** | **–** | **(49.9)** | **(13.2)** | **(72.2)** | **–** | **(117.5)** |
| Loss from discontinued operations | (237.3) | – | (39.0) | – | – | – | – | **(276.3)** |
| **(Loss)/Profit attributable to equity holders of the Parent** | **(237.3)** | **17.8** | **(39.0)** | **(49.9)** | **(13.2)** | **(72.2)** | **–** | **(393.8)** |
| **Balances as at 31 December 2020:** | | | | | | | | |
| **Capital expenditure** | **225.8** | **47.9** | **5.5** | **59.5** | **21.2** | **4.9** | **(5.5)** | **359.3** |
| **Total assets** | **0.6** | **917.1** | **–** | **97.1** | **39.1** | **581.4** | **–** | **1,635.3** |
| **Total liabilities** | **–** | **464.7** | **–** | **6.3** | **3.2** | **35.5** | **–** | **509.7** |
| **Non-current assets** | **–** | **857.8** | **–** | **70.6** | **34.9** | **10.1** | **–** | **973.4** |

All revenue in the UK segment is attributable to the sale of oil and gas produced in the UK. 31.3% of the Group's sales of oil and gas are to a single customer that marketed the crude on Cairn's behalf and delivered it to the ultimate buyers, prior to a change in the marketing of crude during the second half of 2020.

All transactions between the segments are carried out on an arm's length basis.

# **Section 4 – Income Statement Analysis** continued

**4.1 Segmental Analysis** continued
The segment results for the year ended 31 December 2019 were as follows:

| | Senegal US$m | UK (restated) US$m | Norway (restated) US$m | LATAM US$m | East Atlantic US$m | Other Cairn Energy Group US$m | Group adjustment for segments (restated) US$m | Total US$m |
|---|---|---|---|---|---|---|---|---|
| Revenue | – | 532.3 | – | – | – | 1.1 | – | 533.4 |
| Cost of sales | – | (73.1) | – | – | – | – | – | (73.1) |
| Depletion and amortisation charges | – | (217.2) | – | – | – | – | – | (217.2) |
| Gross profit | – | 242.0 | – | – | – | 1.1 | – | 243.1 |
| Pre-award costs | – | (0.8) | – | (5.0) | (2.3) | (9.1) | – | (17.2) |
| Unsuccessful exploration costs | – | (5.9) | – | (84.7) | (16.4) | – | – | (107.0) |
| Depreciation – purchased assets | – | – | – | (0.2) | – | (0.2) | – | (0.4) |
| Amortisation – right-of-use assets | – | – | – | (0.1) | – | (1.8) | – | (1.9) |
| Amortisation of other intangible assets | – | – | – | – | – | (2.4) | – | (2.4) |
| Other administrative expenses | – | (0.6) | – | (0.1) | – | (26.9) | – | (27.6) |
| Reversal of impairment of property, plant & equipment – development/producing assets | – | 147.3 | – | – | – | – | – | 147.3 |
| Impairment of goodwill | – | (79.0) | – | – | – | – | – | (79.0) |
| Operating profit/(loss) | – | 303.0 | – | (90.1) | (18.7) | (39.3) | – | 154.9 |
| Loss on fair value of financial assets | – | – | – | – | – | (1.8) | – | (1.8) |
| Interest income | – | 0.4 | – | – | – | 2.6 | – | 3.0 |
| Finance costs | – | (14.0) | – | (0.4) | – | (22.2) | – | (36.6) |
| Profit/(Loss) before taxation from continuing operations | – | 289.4 | – | (90.5) | (18.7) | (60.7) | – | 119.5 |
| Tax charge | – | – | – | (0.3) | – | – | – | (0.3) |
| Profit/(Loss) for the year from continuing operations | – | 289.4 | – | (90.8) | (18.7) | (60.7) | – | 119.2 |
| Loss from discontinued operations | – | – | (25.6) | – | – | – | – | (25.6) |
| Profit/(Loss) attributable to equity holders of the Parent | – | 289.4 | (25.6) | (90.8) | (18.7) | (60.7) | – | 93.6 |
| Balances as at 31 December 2019: | | | | | | | | |
| Capital expenditure | 58.9 | 34.0 | 89.1 | 109.9 | 19.5 | 1.6 | – | 313.0 |
| Total assets | 522.1 | 1,248.2 | 143.5 | 91.1 | 30.7 | 174.3 | (120.9) | 2,089.0 |
| Total liabilities | 9.9 | 504.3 | 37.6 | 51.2 | 6.5 | 144.9 | (120.9) | 633.5 |
| Non-current assets | 521.9 | 1,047.7 | – | 58.2 | 25.3 | 11.7 | – | 1,664.8 |

All revenue in the UK segment was attributable to the sale of oil and gas produced in the UK. 38.0% of the Group's sales of oil and gas were to a single customer that marketed the crude on Cairn's behalf and delivered it to the ultimate buyers.

**4.2 Pre-Award Costs**

| | **Year ended 31 December 2020 US$m** | Year ended 31 December 2019 US$m |
|---|---|---|
| UK | **1.0** | 0.8 |
| LATAM and East Atlantic | **4.3** | 7.3 |
| Other | **6.8** | 9.1 |
| | **12.1** | 17.2 |

Pre-award costs represent time costs, legal fees and other direct charges incurred in pursuit of new opportunities in regions which complement the Group's current licence interests and risk appetite.

### 4.3 Administrative Expenses

| | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| Administrative expenses – recurring departmental expenses and corporate projects | 35.3 | 29.3 |
| Administrative expenses – Indian tax arbitration costs | 5.8 | 3.0 |
| | 41.1 | 32.3 |

### 4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments

#### a) Staff Costs

| | Year ended 31 December 2020 | | | Year ended 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | Continuing operations US$m | Discontinued operations US$m | Total US$m | Continuing operations (restated) US$m | Discontinued operations (restated) US$m | Total US$m |
| Wages and salaries | 28.5 | 1.8 | 30.3 | 26.7 | 9.4 | 36.1 |
| Social security costs | 7.4 | (1.0) | 6.4 | 4.7 | 1.5 | 6.2 |
| Redundancy costs | 0.9 | 0.2 | 1.1 | – | – | – |
| Other pension costs | 2.1 | 0.1 | 2.2 | 2.3 | 0.7 | 3.0 |
| Share-based payments | 9.1 | – | 9.1 | 9.4 | 2.5 | 11.9 |
| | 48.0 | 1.1 | 49.1 | 43.1 | 14.1 | 57.2 |

Staff costs are shown gross before amounts recharged to joint operations and include staff employed in Norway and Senegal in discontinued operations. The share-based payments charge represents amounts in respect of equity-settled options.

Staff costs shown for 2019 have been restated above to include Senegal in discontinued operations, previously having been included in continuing operations, see note 1.3. The impact of the restatement is a total increase in staff costs relating to discontinued operations of US$1.0m, of which wages and salaries and share-based payments amounted to US$0.8m and US$0.2m respectively. There was an equivalent decrease in continuing operations.

The monthly average number of full-time equivalent employees, including Executive Directors and individuals employed by the Group working on joint operations, and restated to show Senegal in discontinued operations was:

| | Number of employees | |
|---|---|---|
| | Monthly average 2020 | Monthly average 2019 (restated) |
| **Continuing operations:** | | |
| UK | 164 | 154 |
| Mexico | 7 | 5 |
| | 171 | 159 |
| **Discontinued operations:** | | |
| Norway | 7 | 41 |
| Senegal | 2 | 3 |
| | 9 | 44 |
| | 180 | 203 |

# Section 4 – Income Statement Analysis continued

### 4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments continued

**b) Share-Based Payments**

Income Statement charge

| | Year ended 31 December 2020 US$m | Year ended 31 December 2019 (restated) US$m |
|---|---|---|
| **Included within gross staff costs (continuing operations):** | | |
| SIP | 0.7 | 0.6 |
| LTIP | 7.1 | 7.5 |
| Employee Share Scheme | 1.3 | 1.3 |
| | 9.1 | 9.4 |

Details of those awards with a significant impact on the results for the current and prior year are given below together with a summary of the remaining awards. Disclosures shown below include both continuing and discontinued operations and 2019 comparatives have been restated as set out in note 4.4a.

**Share-based payment schemes and awards details**

The Group operates a number of share award schemes for the benefit of its employees.

The number of share awards made by the Company during the year is given in the table below together with their weighted average fair value ("WAFV") and weighted average grant or exercise price ("WAGP/WAEP"):

| | Year ended 31 December 2020 | | | Year ended 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | WAFV £ | WAGP/ WAEP £ | Number of shares | WAFV £ | WAGP/ WAEP £ | Number of shares |
| SIP – free shares | 1.03 | 1.03 | 550,756 | 1.64 | 1.64 | 331,445 |
| SIP – matching shares | 1.25 | 1.25 | 342,032 | 1.67 | 1.67 | 246,112 |
| LTIP | 0.67 | 1.32 | 8,327,281 | 0.81 | 1.68 | 9,662,172 |
| Employee Share Scheme | 0.78 | 1.32 | 1,173,776 | 1.01 | 1.70 | 1,607,911 |
| | | | 10,393,845 | | | 11,847,640 |

The awards existing under the LTIP with the weighted average grant price ('WAGP') are as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of shares | WAGP £ | Number of shares | WAGP £ |
| At 1 January | 26,186,465 | 1.94 | 27,336,846 | 2.03 |
| Granted during the year | 8,327,281 | 1.32 | 9,662,172 | 1.68 |
| Exercised during the year | (1,154,333) | 1.82 | (1,834,262) | 1.89 |
| Lapsed during the year | (7,541,443) | 2.03 | (8,978,291) | 1.94 |
| **At 31 December** | 25,817,970 | 1.72 | 26,186,465 | 1.94 |

The weighted average remaining contractual life of outstanding awards under the LTIP at 31 December 2020 was 1.2 years (2019: 1.3 years). Included in the above are 1,386,998 of exercisable LTIP awards (2019: 2,541,331). No exercise price is payable in respect of LTIP awards.

The awards existing under all share schemes other than the LTIP with the weighted average of the grant price, exercise price and notional exercise prices ("WAGP/WAEP") are as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of shares | WAGP/WAEP £ | Number of shares | WAGP/WAEP £ |
| At 1 January | 10,129,768 | 1.93 | 9,595,198 | 1.99 |
| Granted during the year | 2,066,564 | 1.23 | 2,185,468 | 1.68 |
| Exercised during the year | (929,045) | 1.94 | (300,284) | 1.96 |
| Lapsed during the year | (662,192) | 1.81 | (1,350,614) | 1.94 |
| **At 31 December** | 10,605,095 | 1.80 | 10,129,768 | 1.93 |

The weighted average remaining contractual life of outstanding awards under all other schemes at 31 December 2020 was 6.8 years (2019: 7.0 years). Included in the above are 1,401,152 of exercisable ESAS (2019: 1,144,858) and exercisable share options of 2,844,905 (2019: 3,073,608). No exercise price is payable in respect of ESAS; the share options had a range of exercise prices from £1.54 to £1.87.

#### 4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments continued

**b) Share-Based Payments** continued

**Assumptions and inputs**

The fair value of the Cairn Energy PLC LTIP scheme awards and the ESAS share awards were calculated using a Monte Carlo model. Awards in prior years were valued similarly.

Vesting % is by reference to the market performance of the Company's TSR compared with a group of peer companies. Vesting percentages for LTIPs can be above 100%. For details on the vesting conditions attached to the LTIPs refer to the Directors' Remuneration Report on page 105. For the ESAS, 100% vesting occurs if the Company's TSR is in excess of the median of the comparator group, otherwise the ESAS will lapse in full.

Cairn Energy PLC share awards normally have a ten year life from the date of grant. Awards were exercised on a regular basis throughout the year, subject to the normal employee dealing bans imposed by the Company at certain times. The weighted average share price during the year was £1.39 (2019: £1.76).

The main inputs to the models include the number of options, share price, leaver rate, trigger points, discount rate and volatility of share prices of the Company and the comparator group.

- Leaver rate assumptions are based on past history of employees leaving the Company prior to options vesting and are revised to equal the number of options that ultimately vest.
- Trigger points are based on the length of time after the vesting periods for awards in 2020: further details are below.
- The risk-free rate is based on the yield on a zero-coupon government bond with a term equal to the expected term on the option being valued.
- Volatility was determined as the annualised standard deviation of the continuously compounded rates of return on the shares of the Company and of a peer group of similar companies selected from the FTSE, as disclosed in the Directors' Remuneration Report on page 108, over a three-year period to the date of award.
- No expected dividends were factored into the model as the Company customarily operates a share consolidation scheme which leaves the number of share awards unchanged before and after any dividend.

The following assumptions and inputs apply:

| Scheme name | Volatility | Risk-free rate per annum | Lapse due to withdrawals per annum |
|---|---|---|---|
| SIP | 0% | 0% | 0% |
| LTIP | 34% – 44% | 0.25% – 1.41% | 0% |
| Employee Share Scheme | 34% – 44% | 0.17% – 1.20% | 5% |

**Employee exercise trigger point assumptions**

For 2020 awards, the assumption used for the Employee Share Scheme and the majority of the LTIP awards is that employees will exercise 35% in the year following the three-year anniversary of the award, and the same in the subsequent year, then 10% in each of the three subsequent years. The LTIP awards exercise assumption for Executive Directors and more senior employees is that awards shall be exercised 50% at the end of the two-year holding period, being the five-year anniversary date, and the remaining 50% on the six-year anniversary date.

**c) Directors' Emoluments and Remuneration of Key Management Personnel**

Details of each Director's remuneration, pension entitlements, share options and awards pursuant to the LTIP are set out in the Directors' Remuneration Report on pages 94 to 121. Directors' remuneration, their pension entitlements and any share awards vested during the year are provided in aggregate in note 8.8.

**Remuneration of key management personnel**

The remuneration of the Directors of the Company and of the members of the management and corporate teams who are the key management personnel of the Group is set out below in aggregate.

| | **Year ended 31 December 2020 US$m** | Year ended 31 December 2019 US$m |
|---|---|---|
| Short-term employee benefits | **6.4** | 6.7 |
| Termination benefits | **0.2** | – |
| Post-employment benefits | **0.3** | 0.4 |
| Share-based payments | **2.9** | 3.2 |
| | **9.8** | 10.3 |

In addition, employer's national insurance contributions for key management personnel in respect of short-term employee benefits were US$0.9m (2019: US$0.9m).

Share-based payments shown above represent the cost to the Group of key management personnel's participation in the Company's share schemes, measured under IFRS 2.

During 2020, 613,791 shares awarded to key management personnel vested under the LTIP (2019: none).

# Section 4 – Income Statement Analysis continued

### 4.5 Finance Costs

| | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| Loan interest and facility fee amortisation | **6.4** | 10.3 |
| Other finance charges | **2.2** | 3.7 |
| Unwinding of discount – provisions | **2.9** | 2.6 |
| Lease interest (note 3.3) | **13.3** | 15.3 |
| Exchange loss | **26.4** | 4.7 |
| | **51.2** | 36.6 |

Loan interest and facility fee amortisation includes US$1.0m (2019: US$1.6m) of facility fees relating to the RBL facilities, which are amortised over the expected useful life of the facility.

### 4.6 Earnings per Ordinary Share

Basic and diluted earnings per share are calculated using the following measures of (loss)/profit:

| | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| **(Loss)/Profit and diluted (loss)/profit after taxation from continuing operations** | **(117.5)** | 119.2 |
| **(Loss)/Profit and diluted (loss)/profit attributable to equity holders of the Parent** | **(393.8)** | 93.6 |

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

| | Number of shares 2020 '000 | Number of shares 2019 '000 |
|---|---|---|
| Weighted average number of shares | **589,782** | 589,751 |
| Less weighted average shares held by ESOP and SIP Trusts | **(7,041)** | (7,731) |
| **Basic weighted average number of shares** | **582,741** | 582,020 |
| | | |
| Potential dilutive effect of shares issuable under employee share plans: | | |
| LTIP awards | **–** | 4,057 |
| Approved and unapproved plans | **–** | 43 |
| Employee share awards | **–** | 1,886 |
| **Diluted weighted average number of shares** | **582,741** | 588,006 |
| | | |
| Potentially issuable shares not included above: | | |
| LTIP awards | **25,818** | 20,877 |
| Approved and unapproved plans | **2,845** | 2,734 |
| Employee share awards | **4,620** | 1,679 |
| **Number of potentially issuable shares** | **33,283**[1] | 25,290 |

1 2020 potentially issuable shares were all anti-dilutive due to the loss for the year

The weighted average number of shares used in the calculations of earnings per share above has been adjusted to reflect the consolidation of shares which took place in January 2021. Further details of the consolidation are provided in note 9.1.

# Section 5 – Taxation

This section highlights the Group's taxation policies, including both the accounting policy and wider strategy and governance policies. Details can also be found on deferred tax liabilities and unrecognised deferred tax assets existing at the year end.

**Significant Accounting Judgements in This Section:**

**Deferred Taxation – Potential Deferred Tax Assets on UK Tax Losses**

At each reporting date, Cairn reviews UK unused tax losses and allowances to assess whether it is probable that taxable profits will be available against which the Group can utilise these losses and allowances and whether or not a deferred tax asset should be recognised.

At 31 December 2019 and 2020, Cairn concluded that no deferred tax asset should be recognised. Impairment tests performed on UK producing assets at both balance sheet dates determined that assets were held at or close to their recoverable value. No deferred tax asset can therefore be recognised as it is unlikely that there will be further profits available against which a deferred tax asset could be recovered.

**Key Estimates and Assumptions in This Section:**

In determining whether future taxable profits are available to recognise deferred tax assets, Cairn uses the same economic models that are used for impairment testing. The key assumptions are therefore consistent with those detailed in section 2.

**Accounting Policy**

The total tax charge or credit represents the sum of current tax and deferred tax.

The current tax charge or credit is based on the taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Where there are uncertain tax positions, Cairn assesses whether it is probable that the position adopted in tax filings will be accepted by the relevant tax authority, with the results of this assessment determining the accounting that follows. If it is not considered probable that the income tax filing position will be accepted by the tax authority, the uncertainty is reflected within the carrying amount of the applicable tax asset or liability by using either the most likely amount or an expected value of the tax treatment, depending on which method is considered to better predict the resolution of the uncertainty, based on the underlying facts and circumstances.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences that exist only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint operations where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset or liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. However, where the recognition of an asset is associated with an interest in a joint operation, which applies to all Cairn's intangible exploration/appraisal assets and property, plant & equipment – development/producing asset additions, and Cairn is not able to control the timing of the reversal of the temporary difference or the temporary difference is expected to reverse in the foreseeable future, a deferred tax asset or liability shall be recognised.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

# **Section 5 – Taxation** continued

### 5.1 Tax Strategy and Governance

The Group's tax strategy is fully aligned with its overarching business objectives and principles. Cairn aims to be a good corporate citizen, managing its tax affairs in a transparent and responsible manner in all the jurisdictions in which it operates. Cairn is committed to having open and constructive relationships with all tax authorities.

Since 2017 the Group's UK activities have included production income on the Catcher and Kraken assets. Due to the level of costs incurred in developing the fields there are no taxable profits in 2019 or 2020 and it is unlikely that any taxable profits will be realised for several years. Taxable profits in other jurisdictions, where Cairn's assets are at various stages of the value creation cycle, are also minimal with no cash payments of corporation tax made in the year (2019: payments of US$0.5m in Mexico).

Cairn undertakes tax planning that supports the business and reflects commercial and economic activity. The Group's policy is to not enter into any artificial tax avoidance schemes but to build and maintain strong collaborative working relationships with all relevant tax authorities based on transparency and integrity. The Group aims for certainty in relation to the tax treatment of all items; however, it is acknowledged that this will not always be possible, for example where transactions are complex or there is a lack of maturity in the tax regime in the relevant jurisdiction in which the Group is operating. In such circumstances Cairn will seek external advice where appropriate and ensure that the approach adopted in any relevant tax return includes full disclosure of the position taken.

### 5.2 Tax Charge on (Loss)/Profit for the Year

**Analysis of Tax Charge on (Loss)/Profit for the Year**

| | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| **Current tax charge:** | | |
| Overseas corporation taxes | **0.1** | 0.3 |
| **Total tax charge on (loss)/profit from continuing operations** | **0.1** | 0.3 |

**Factors Affecting Tax Charge for the Year**

A reconciliation of the income tax charge applicable to the (loss)/profit before income tax to the UK statutory rate of income tax is as follows:

| | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| **(Loss)/Profit before tax from continuing operations** | **(117.4)** | 119.5 |
| (Loss)/Profit before tax multiplied by the UK statutory rate of corporation tax of 19% (2019: 19%) | **(22.3)** | 22.7 |
| **Effect of:** | | |
| Special tax rates and reliefs applying to oil and gas activities | **(16.9)** | 64.4 |
| Impact on deferred tax of adjustments in respect of prior years | **(2.0)** | (3.3) |
| Temporary differences not recognised | **37.3** | (100.2) |
| Permanent items non-deductible | **7.9** | 16.6 |
| Exchange differences | **(3.9)** | – |
| Other | **–** | 0.1 |
| **Total tax charge on (loss)/profit from continuing operations** | **0.1** | 0.3 |

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2020 of 19% (2019: 19%).

The UK main rate of corporation tax is currently 19% (2019: 19%). In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The applicable UK statutory tax rate applying to North Sea oil and gas activities is 40% (2019: 40%).

The effect of special tax rates and reliefs applying to oil and gas activities of US$(16.9)m (2019: US$64.4m) comprises US$(8.5)m (2019: US$68.2m) in respect of differences between the average UK statutory rate and the special rates applying to oil and gas activities in the UK and US$(8.4)m (2019: US$(3.8)m) in respect of the UK ring fence expenditure supplement ("RFES") claimed in the year.

**5.2 Tax Charge on (Loss)/Profit for the Year** continued

**Factors Affecting Tax Charge for the Year** continued

The effect of temporary differences not recognised of US$37.3m (2019: US$(100.2)m) includes:

- a US$17.1m (2019: US$(125.9)m) movement in the year predominantly in respect of the unrecognised deferred tax asset on UK decommissioning liabilities;
- US$2.1m (2019: US$8.9m) unsuccessful exploration costs on which future tax relief is available but the expenditure has been expensed through the Income Statement;
- US$5.5m (2019:US$nil) in respect of UK temporary differences on which a deferred tax asset was recognised;
- US$nil (2019: US$6.7m) in respect of the carry forward of UK tax losses on which no deferred tax asset was recognised; and
- US$12.6m (2019: US$10.1m) on overseas tax losses and other temporary differences arising in the period on which no deferred tax was recognised.

**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 2019 | (243.1) | 243.1 | – | – |
| Deferred tax (charge)/credit through the Income Statement | (60.5) | (11.1) | 71.6 | – |
| At 31 December 2019 | (303.6) | 232.0 | 71.6 | – |
| Deferred tax credit/(charge) through the Income Statement | 53.3 | (40.5) | (12.8) | **–** |
| **At 31 December 2020** | **(250.3)** | **191.5** | **58.8** | **–** |
| **Deferred tax liabilities** | | | | |
| At 1 January 2019 | (89.8) | 21.9 | 1.4 | (66.5) |
| Foreign exchange | 5.7 | (1.4) | (0.1) | 4.2 |
| Deferred tax credit/(charge) from discontinued operations | 84.1 | (20.5) | (1.3) | 62.3 |
| **At 31 December 2019 and 2020** | **–** | **–** | **–** | **–** |

# Section 5 – Taxation continued

### 5.3 Deferred Tax Assets and Liabilities continued

**Recognised Deferred Tax Assets**

As at the balance sheet date, no net deferred tax asset or liability has been recognised in the UK (2019: no net UK deferred tax asset or liability recognised) as other temporary differences and tax losses are only recognised to the extent that they offset the UK deferred tax liability arising on business combinations and carried interests attributable to UK ring fence trading activity, as it is not considered probable that future profits will be available to recover the value of the asset.

The applicable UK statutory tax rate applying to North Sea oil and gas activities of 40% is made up of Ring Fence Corporation Tax ("RFCT") of 30% and Supplementary Charge Tax ("SCT") of 10%. At the balance sheet date the Group has US$486.3m RFCT losses which can be offset against RFCT of 30% on future ring fence trading profits and US$409.8m SCT losses which can be offset against SCT of 10% on future ring fence trading profits.

In 2019 the Group had US$601.0m of RFCT and US$516.7m of SCT losses carried forward to offset against future ring fence trading profits.

A deferred tax asset has been recognised in respect of all of the RFCT and SCT losses and activated UK investment allowance and decommissioning liabilities of US$579.2m and US$2.3m respectively, offsetting in full a deferred tax liability on ring fence temporary differences in respect of non-current assets. No deferred tax asset has been recognised on other ring fence temporary differences of US$148.7m (2019: US$105.2m) relating to decommissioning liabilities as it is not considered probable that these amounts will be utilised in future periods.

The deferred tax liability recognised on UK ring fence asset temporary differences in respect of non-current assets of US$245.7m (2019: US$303.6m) includes temporary differences in respect of investment allowances (previously field allowances) of US$(21.7)m (2019: US$20.2m) on the Laverda and Kraken developments which will reduce future ring fence profits subject to SCT.

**Unrecognised Deferred Tax Assets**

No deferred tax asset has been recognised on the following as it is not considered probable that it will be utilised in future periods:

| | **At 31 December 2020 US$m** | At 31 December 2019 US$m |
|---|---|---|
| UK fixed asset temporary differences | **24.3** | 408.4 |
| UK other ring fence temporary differences | **148.7** | 105.2 |
| UK non-ring fence trading losses | **3.7** | 3.7 |
| UK non-ring fence pre-trade losses | **–** | 3.0 |
| UK excess management expenses | **331.7** | 329.2 |
| UK non-trade deficits | **79.6** | 61.6 |
| UK temporary differences on share-based payments | **38.5** | 11.8 |
| Mexico tax losses and temporary differences | **127.0** | 55.6 |
| Brazil tax losses | **0.6** | 0.3 |
| Nicaragua fixed asset temporary differences | **–** | 30.4 |
| Senegal fixed asset temporary differences | **–** | 5.9 |

# Section 6 – Discontinued Operations

### 6.1 Loss from Discontinued Operations

**Sale of Capricorn Norge AS ('Norway')**

Cairn's sale of Capricorn Norge AS to Sval Energi AS completed on 28 February 2020. Norwegian assets and liabilities were classified as held-for-sale at 31 December 2019.

The financial performance of the Norwegian subsidiary was presented as discontinued operations in the Financial Statements for the year ended 31 December 2019.

**Sale of Working Interests in Senegal**

Cairn disposed of its entire 40% working interest in its Senegal exploration and development assets in December 2020.

The financial performance of the discontinued operations is expanded in the tables below.

| | Norway[1] US$m | Senegal[2] US$m | Year ended 31 December 2020 US$m | Norway US$m | Senegal US$m | Year ended 31 December 2019 US$m |
|---|---|---|---|---|---|---|
| **Gross Profit** | – | – | – | – | – | – |
| Pre-award costs | (1.5) | – | (1.5) | (4.0) | – | (4.0) |
| Unsuccessful exploration costs | – | – | – | (38.7) | – | (38.7) |
| Administrative expenses | (0.3) | – | (0.3) | (1.5) | – | (1.5) |
| Gain on disposal of property, plant & equipment – development assets (note 6.4) | – | – | – | 0.7 | – | 0.7 |
| Impairment of disposal group | – | – | – | (65.7) | – | (65.7) |
| **Operating loss** | (1.8) | – | (1.8) | (109.2) | – | (109.2) |
| Finance income | – | – | – | 0.4 | – | 0.4 |
| Finance costs | (0.3) | – | (0.3) | (6.8) | – | (6.8) |
| **Loss before tax from discontinued operations** | (2.1) | – | (2.1) | (115.6) | – | (115.6) |
| **Taxation** | | | | | | |
| Current tax credit | 2.4 | – | 2.4 | 27.7 | – | 27.7 |
| Deferred tax credit | 0.2 | – | 0.2 | 26.9 | – | 26.9 |
| Deferred tax credit on disposal of development assets (note 6.4) | – | – | – | 35.4 | – | 35.4 |
| **Profit/(loss) from discontinued operations prior to disposal** | 0.5 | – | 0.5 | (25.6) | – | (25.6) |
| **Loss on disposal of discontinued operations before tax** | (39.5) | (237.3) | (276.8) | – | – | – |
| **Tax charge on disposal of discontinued operations** | – | – | – | – | – | – |
| **Loss from discontinued operations** | (39.0) | (237.3) | (276.3) | (25.6) | – | (25.6) |

1 Period ended 28 February 2020
2 Period ended 22 December 2020

The loss on disposal of Senegal oil and gas assets is calculated as follows:

| | US$m |
|---|---|
| Gross cash proceeds | 524.8 |
| Costs of disposal | (7.7) |
| **Net proceeds** | 517.1 |
| **Derecognition of assets and liabilities:** | |
| Intangible exploration/appraisal assets | (145.7) |
| Property, plant and equipment – development/producing assets | (602.0) |
| Joint operation receivables | (24.1) |
| Joint operation payables | 17.4 |
| **Loss on disposal of Senegal oil and gas assets** | (237.3) |

Deferred consideration of up to US$100.0m is receivable dependent upon the first oil date and the oil price at that time. In accordance with IFRS15, no amount is recognised at the balance sheet date as there is no reasonable certainty that it would not reverse in future periods. At 31 December 2020, the risk-weighted fair value of the deferred consideration was US$27.2m.

The costs of disposal of US$7.7m include amounts accrued at the balance sheet date of US$6.0m.

# Section 6 – Discontinued Operations continued

### 6.1 Loss from Discontinued Operations continued

The loss on disposal of Capricorn Norge AS is calculated as follows:

| | US$m |
|---|---|
| Gross cash proceeds | 105.2 |
| Costs of disposal | (0.5) |
| **Net proceeds** | **104.7** |
| **Disposal of cash and cash equivalents** | **(2.2)** |
| **Disposal of assets and liabilities held-for-sale:** | |
| Intangible exploration/appraisal assets | (24.3) |
| Property, plant and equipment – development/producing assets | (74.3) |
| Other property, plant & equipment and intangible assets | (1.4) |
| Trade and other receivables | (7.6) |
| Income tax asset | (28.1) |
| Loans and borrowings | 22.9 |
| Lease liability | 0.5 |
| Trade and other payables | 12.4 |
| Provisions – decommissioning | 2.5 |
| | **(97.4)** |
| Translation loss recycled from Other Comprehensive Income | **(44.6)** |
| **Loss on disposal of Capricorn Norge AS** | **(39.5)** |

On completion of the sale, the merger reserve of US$255.9m relating to the acquisition of Capricorn Norge AS was transferred to retained earnings.

### 6.2 Cash Flow Information for Discontinued Operations

| | Norway[1] US$m | Senegal[2] US$m | Year ended 31 December 2020 US$m | Norway US$m | Senegal (restated)[3] US$m | Year ended 31 December 2019 (restated)[3] US$m |
|---|---|---|---|---|---|---|
| Net cash flows from/(used in) operating activities | 1.5 | (0.2) | 1.3 | (3.6) | – | (3.6) |
| Net cash flows (used in)/from investing activities | (6.4) | 284.5 | 278.1 | 19.2 | (48.2) | (29.0) |
| Net cash flows used in financing activities | (0.4) | (5.4) | (5.8) | (4.3) | (21.4) | (25.7) |
| **Net (decrease)/increase in cash and cash equivalents** | **(5.3)** | **278.9** | **273.6** | 11.3 | (69.6) | (58.3) |

1 Period ended 28 February 2020
2 Period ended 22 December 2020
3 2019 comparatives have been restated to include Senegal cash flows (note 1.3)

In 2020 US$2.2m cash and cash equivalents was disposed of on the sale of Capricorn Norge AS. There was no cash and cash equivalents disposed of on the sale of Senegal assets.

During 2019, a cash tax refund of US$30.9m was received on prior year qualifying expenditure on exploration activities, new venture costs and administrative expenses. US$2.3m of the refund is allocated against operating activities in the Cash Flow Statement where it relates to pre-award and administrative costs and the remaining US$28.6m included as a refund in investing activities where it relates to costs initially capitalised within intangible exploration/appraisal assets.

### 6.3 Assets and Liabilities Held-For-Sale

At 31 December 2020 there were no assets or liabilities held-for-sale. At 31 December 2019 the assets and liabilities of Capricorn Norge AS were reclassified as held-for-sale, forming a single disposal group.

| | Transferred to held-for-sale US$m | Impairment of disposal group US$m | At 31 December 2019 US$m |
|---|---|---|---|
| **Assets Held-For-Sale:** | | | |
| Goodwill | 46.0 | (46.0) | – |
| Intangible exploration/appraisal assets | 30.1 | (4.9) | 25.2 |
| Property, plant & equipment – development assets | 89.0 | (14.4) | 74.6 |
| Other property, plant & equipment and intangible assets | 2.2 | (0.4) | 1.8 |
| Cash and cash equivalents | 7.2 | – | 7.2 |
| Trade and other receivables | 7.3 | – | 7.3 |
| Income tax asset | 27.4 | – | 27.4 |
| At 31 December 2019 | 209.2 | (65.7) | 143.5 |
| **Liabilities Held-For-Sale:** | | | |
| Loans and borrowings | 23.9 | – | 23.9 |
| Lease liability | 0.6 | – | 0.6 |
| Trade and other payables | 10.4 | – | 10.4 |
| Provisions – decommissioning | 2.7 | – | 2.7 |
| At 31 December 2019 | 37.6 | – | 37.6 |

As the net assets of the subsidiary were realised through sale rather than recovered through use, and the gain was not taxable in either the UK or Norway, the remaining deferred tax provision in Capricorn Norge AS was released before reclassifying liabilities as held-for-sale.

On the date of transfer of the assets and liabilities into the disposal group, an impairment test was performed comparing the carrying value of the disposal group against its realisable value, based on fair value less cost of disposal. As the carrying value exceeded the fair value less costs of disposal, forecast to be US$105.9m at that time, an impairment was recorded. In accordance with applicable IFRS, this impairment was allocated firstly against goodwill until fully eliminated, then on a pro-rata basis across remaining non-current assets to bring the carrying value of the disposal group equal to its fair value less costs of disposal.

The cumulative foreign exchange loss recognised in other comprehensive income in relation to Capricorn Norge AS at 31 December 2019 was US$37.7m. The cumulative foreign exchange loss at the date of completion of the sale in 2020 of US$44.6m was recycled to the Income Statement.

### 6.4 Gain on Disposal of Property, Plant & Equipment – Development Assets

In November 2019, Cairn completed the disposal of a 10% working interest share in the Nova development asset to ONE-Dyas Norge AS. Consideration for the sale was US$59.5m plus working capital adjustments and notional interest from the economic effective date of 1 January 2019 to the date of completion, totalling US$80.2m. The post-tax gain on sale was US$36.1m, calculated as follows:

| | US$m |
|---|---|
| Proceeds on disposal | 80.2 |
| Costs of disposal | (3.1) |
| Net proceeds | 77.1 |
| Development assets – disposals | (82.1) |
| Working capital balances at date of completion | 3.9 |
| Decommissioning provision released | 1.8 |
| Gain on disposal of property, plant & equipment – development assets | 0.7 |
| Tax credit on disposal | 35.4 |
| Post-tax gain on disposal | 36.1 |

# Section 7 – Capital Structure and Other Disclosures

This section includes details of Cairn's issued share capital and equity reserves.

Other disclosures include details on the auditors' remuneration. Details on the Group's policy on the award of non-audit work to the auditors can be found in the Report of the Audit Committee.

**Significant Accounting Judgements in This Section:**
There are no significant accounting judgements in this section.

**Key Estimates and Assumptions in This Section:**
There are no key estimates or assumptions in this section.

### 7.1 Issued Capital and Reserves

**Called-Up Share Capital**

| | Number 231/169p ordinary '000 | 231/169p ordinary US$m |
|---|---|---|
| **Allotted, issued and fully paid ordinary shares** | | |
| At 1 January 2019 | 589,502 | 12.6 |
| Issued and allotted for employee share options | 51 | – |
| At 31 December 2019 | 589,553 | 12.6 |
| Issued and allotted for employee share options | **165** | **–** |
| **At 31 December 2020** | **589,718** | **12.6** |

**Share Premium**

| | 2020 US$m | 2019 US$m |
|---|---|---|
| At 1 January | **489.8** | 489.7 |
| Arising on shares issued for employee share options | **0.3** | 0.1 |
| **At 31 December** | **490.1** | 489.8 |

The Company does not have a limited amount of authorised share capital.

Subsequent to the year end, Cairn undertook a share consolidation where the existing ordinary shares of 231/169 pence each were replaced with ordinary shares of 21/13 pence each. See note 9.1.

**a) Shares held by ESOP Trust**
The cost of shares held by the ESOP Trust at 31 December 2020 was US$4.4m (2019 US$7.4m). The number of shares held by the Trust at 31 December 2020 was 2,788,271 (2019 4,293,341) and the market value of these shares was £5.8m/US$8.0m (2019: £8.8m/US$11.7m). During 2020, the Group purchased 1,028,000 shares at a cost of US$1.0m. During 2019 no shares were purchased for or allotted to the ESOP Trust. During 2020, 1,708,070 (2019: 1,950,797) shares vested and 825,000 (2019: 500,000) shares were transferred from the ESOP Trust to the SIP Trust.

**b) Shares held by SIP Trust**
The cost of shares held by the SIP Trust at 31 December 2020 was US$9.0m (2019: US$8.4m). The number of shares held by the Trust at 31 December 2020 was 3,177,717 (2019: 2,562,975) and the market value of these shares was £6.7m/US$9.1m (2019: £5.3m/US$7.0m).

**c) Foreign currency translation**
Unrealised foreign exchange gains and losses arising on consolidation of non-US$ functional currency subsidiary undertakings are taken directly to reserves. Foreign exchange differences arising on intra-group loans are not eliminated on consolidation; this reflects the exposure to currency fluctuations where the subsidiaries involved have differing functional currencies. These intra-group loans are not considered to be an investment in a foreign operation. The foreign currency translation reserve includes US$52.8m which is expected to be recycled to the Income Statement in 2021 on the completion of liquidation of various subsidiaries.

**d) Merger and capital reserves**
The merger reserve of US$255.9m arose in 2012 on shares issued by Cairn on the acquisition of Capricorn Norge AS. On completion of the sale of the subsidiary in February 2020, the merger reserve was transferred to retained earnings.

Capital reserves of US$40.8m include amounts arising on various Group acquisitions and transactions and the capital redemption reserve arising from the 2013-2014 share buy-back programme. US$0.7m of capital reserves relates directly to Cairn Energy PLC, the Company.

**e) Hedge reserve**
The hedge reserve at 31 December 2020 of US$(3.4)m (2019: US$0.4m) is a consequence of the Group's commodity price hedging (note 3.5). The hedge reserve is used to recognise the effective portion of gains or losses on the derivatives that are designated for, and qualify as, cash flow hedges.

# Section 7 – Capital Structure and Other Disclosures continued

### 7.2 Capital Management

The objective of the Group's capital management structure is to ensure that there remains sufficient liquidity within the Group to carry out committed work programme requirements. The Group monitors the long-term cash flow requirements of the business in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility. The Group is subject to quarterly forecast liquidity tests as part of the RBL facility. The Group has complied with the capital requirements of this test at all times during the year.

Cairn manages the capital structure and makes adjustments to it in light of changes to economic conditions. To maintain or adjust the capital structure, Cairn may buy back shares, make a special dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or undertake other such restructuring activities as appropriate. No significant changes were made in the objectives, policies or processes during the year ended 31 December 2020.

Capital and net debt, including lease liabilities, was as follows:

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| Lease liabilities | 240.0 | 282.9 |
| Less cash and cash equivalents | (569.6) | (146.5) |
| Net (funds)/debt | (329.6) | 136.4 |
| Equity | 1,125.6 | 1,455.5 |
| Capital and net (funds)/debt | 796.0 | 1,591.9 |
| Gearing ratio | – | 9% |

As detailed in note 9.1 Cairn returned cash of approximately US$250m to shareholders in January 2021. This dividend was paid out of retained earnings at 31 December 2020 but was not recognised as a liability at the year end.

2019 balances in the table above relate only to continuing operations.

### 7.3 Guarantees

It is normal practice for the Group to issue guarantees in respect of obligations during the normal course of business.

Details of the Group's RBL facility can be found in note 3.2. On entering into the facility certain subsidiaries granted cross-guarantees to each of the lenders.

The Group also provided the following guarantees at 31 December 2020:

- Various guarantees under the RBL facility for the Group's operational commitments for the current year of US$45.1m (2019: US$52.3m);
- Parent Company Guarantees for the Group's obligations under joint operating agreements and other contracts.

# Section 7 – Capital Structure and Other Disclosures continued

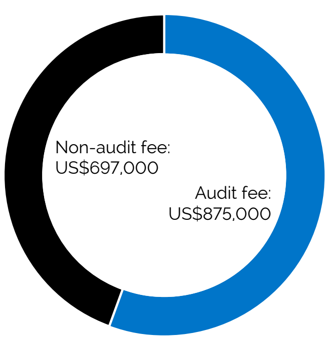
### 7.4 Auditors' Remuneration

| | Year ended 31 December 2020 US$'000 | Year ended 31 December 2019 US$'000 |
|---|---|---|
| **Fees payable to the Group's external auditors (including associate firms) for:** | | |
| *Audit fees:* | | |
| Auditing of the Financial Statements of the Group and the Company | **396** | 335 |
| Auditing of the Financial Statements of subsidiaries | **479** | 488 |
| | **875** | 823 |
| *Non-audit fees:* | | |
| Audit-related assurance services | **267** | 397 |
| Other assurance services relating to corporate finance transactions | **424** | – |
| Non-audit services not included above | **6** | 6 |
| | **697** | 403 |
| **Total fees** | **1,572** | 1,226 |

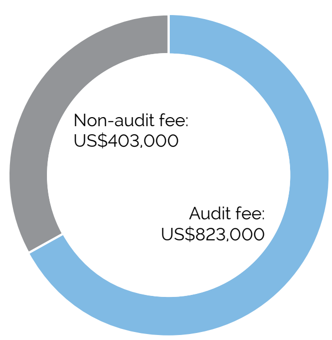
The Group has a policy in place for the award of non-audit work to the auditors which requires Audit Committee approval (see the Audit Committee Report on page 90).

The split of audit fees to non-audit fees payable to the auditors is as follows:

**2020 Fees to the Auditors**




**2019 Fees to the Auditors**



# Company Balance Sheet
## As at 31 December 2020

| | Note | 2020 US$m | 2019 US$m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 8.2 | **1,146.4** | 1,994.6 |
| Long-term intercompany receivables | | **3.0** | 4.6 |
| | | **1,149.4** | 1,999.2 |
| **Current assets** | | | |
| Cash and cash equivalents | 8.3 | **251.9** | 2.2 |
| Other receivables | | **2.3** | 5.7 |
| Derivative financial instruments | 8.4 | **3.4** | 4.1 |
| | | **257.6** | 12.0 |
| **Total assets** | | **1,407.0** | 2,011.2 |
| **Current liabilities** | | | |
| Lease liability | | **1.7** | 1.5 |
| Derivative financial instruments | 8.4 | **3.4** | 4.1 |
| Trade and other payables | 8.5 | **10.7** | 90.2 |
| | | **15.8** | 95.8 |
| **Non-current liabilities** | | | |
| Lease liability | | **3.0** | 4.6 |
| | | **3.0** | 4.6 |
| **Total liabilities** | | **18.8** | 100.4 |
| **Net assets** | | **1,388.2** | 1,910.8 |
| **Equity** | | | |
| Called-up share capital | 7.1 | **12.6** | 12.6 |
| Share premium | 7.1 | **490.1** | 489.8 |
| Shares held by ESOP/SIP Trusts | 7.1a,b | **(13.4)** | (15.8) |
| Capital reserves | 7.1d | **0.7** | 0.7 |
| Merger reserve | 7.1d | **-** | 255.9 |
| Retained earnings: | | | |
| At 1 January | | **1,167.6** | 1,708.0 |
| Loss for the year | | **(531.0)** | (548.5) |
| Other movements in retained earnings | | **261.6** | 8.1 |
| | | **898.2** | 1,167.6 |
| **Total equity** | | **1,388.2** | 1,910.8 |

The Financial Statements on pages 178 to 188 were approved by the Board of Directors on 8 March 2021 and signed on its behalf by:

**James Smith**
Chief Financial Officer

**Simon Thomson**
Chief Executive

# Company Statement of Cash Flows
## For the year ended 31 December 2020

| | Note | 2020 US$m | 2019 US$m |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Loss before taxation | | **(531.0)** | (548.5) |
| Share-based payments charge | | **1.6** | 4.3 |
| Impairment of investment in subsidiary | | **855.7** | 534.8 |
| Waiver of intercompany loan | | **138.7** | – |
| Finance income | | **(486.6)** | (4.5) |
| Finance costs | | **12.8** | 3.9 |
| Other receivables movement | | **4.9** | 4.6 |
| Trade and other payables movement | | **(7.4)** | 1.1 |
| **Net cash used in operating activities** | | **(11.3)** | (4.3) |
| **Cash flows from investing activities:** | | | |
| Dividend received | | **183.3** | – |
| Group funding | | **82.1** | – |
| Interest received and other finance income | | **2.0** | 4.6 |
| **Net cash flows from investing activities** | | **267.4** | 4.6 |
| **Cash flows from financing activities:** | | | |
| Facility fees, other interest and charges | | **(4.3)** | (3.1) |
| Cost of shares purchased | 7.1a | **(1.0)** | – |
| Proceeds from exercise of share options | | **0.3** | 0.1 |
| Lease payments | | **(1.4)** | (1.4) |
| **Net cash flows used in financing activities** | | **(6.4)** | (4.4) |
| Net increase/(decrease) in cash and cash equivalents | | **249.7** | (4.1) |
| Opening cash and cash equivalents at beginning of year | | **2.2** | 6.3 |
| **Closing cash and cash equivalents** | | **251.9** | 2.2 |

# Company Statement of Changes in Equity
## For the year ended 31 December 2020

| | Equity share capital and share premium US$m | Shares held by ESOP/SIP Trusts US$m | Merger and capital reserves US$m | Retained earnings US$m | **Total equity US$m** |
|---|---|---|---|---|---|
| At 1 January 2019 | 502.3 | (19.6) | 256.6 | 1,708.0 | 2,447.3 |
| Loss for the year | – | – | – | (548.5) | (548.5) |
| Total comprehensive expense | – | – | – | (548.5) | (548.5) |
| Share-based payments | – | – | – | 11.9 | 11.9 |
| Exercise of employee share options | 0.1 | – | – | – | 0.1 |
| Cost of shares vesting | – | 3.8 | – | (3.8) | – |
| At 31 December 2019 | 502.4 | (15.8) | 256.6 | 1,167.6 | 1,910.8 |
| Loss for the year | – | – | – | (531.0) | **(531.0)** |
| **Total comprehensive expense** | **–** | **–** | **–** | **(531.0)** | **(531.0)** |
| Merger reserve transferred to retained earnings (note 7.1d) | – | – | (255.9) | 255.9 | **–** |
| Share-based payments | – | – | – | 9.1 | **9.1** |
| Exercise of employee share options | 0.3 | – | – | – | **0.3** |
| Cost of shares purchased | – | (1.0) | – | – | **(1.0)** |
| Cost of shares vesting | – | 3.4 | – | (3.4) | **–** |
| **At 31 December 2020** | **502.7** | **(13.4)** | **0.7** | **898.2** | **1,388.2** |

# Section 8 – Notes to the Company Financial Statements

This section contains the notes to the Company Financial Statements.

The issued capital and reserves of the Company are largely consistent with the Cairn Energy PLC Group Financial Statements, as per note 7.1

**Key Estimates and Assumptions in This Section:**
**Impairment Testing of Investments in Subsidiaries**
The Company's investment in Capricorn Oil Limited has been tested for impairment by comparison against the fair value of intangible exploration/appraisal assets, property, plant & equipment – development/producing assets and working capital, including cash and cash equivalents and intercompany receivables, held within the Capricorn Oil Limited sub-group. The fair value of oil and gas assets is calculated using the same assumptions as noted in section 2.

### 8.1 Basis of Preparation

The Financial Statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Company applies accounting policies consistent with those applied by the Group. To the extent that an accounting policy is relevant to both Group and Company Financial Statements, refer to the Group Financial Statements for disclosure of the accounting policy. Material policies that apply to the Company only are included as appropriate.

Cairn has used the exemption granted under s408 of the Companies Act 2006 that allows for the non-disclosure of the Income Statement of the Parent company.

### 8.2 Investments in Subsidiaries

**Accounting Policy**
The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment the carrying value of the investment is compared to its recoverable amount, being its fair value less costs of disposal. The fair value includes the discounted future net cash flows of oil and gas assets held by the subsidiary, using estimated cash flow projections over the licence period. For exploration assets, estimated discounted cash flows are risk-weighted for future exploration success.

Discounted future net cash flows are calculated using an estimated short-term oil price based on the forward curve and long-term oil price of US$55/bbl unescalated (2019: long-term oil price of US$65/bbl escalated at 2.0%), escalation for costs of 0.5% (2019: 2.0%) and a discount rate of 10% (2019: 10%). Full details on the assumptions used for valuing oil and gas assets can be found in section 2.

### 8.2 **Investments in Subsidiaries** continued

| | Subsidiary undertakings US$m | **Total US$m** |
|---|---|---|
| **Cost** | | |
| At 1 January 2019 | 3,685.9 | 3,685.9 |
| Additions | 7.6 | 7.6 |
| At 31 December 2019 | 3,693.5 | 3,693.5 |
| Additions | 7.5 | **7.5** |
| **At 31 December 2020** | **3,701.0** | **3,701.0** |
| **Impairment** | | |
| At 1 January 2019 | 1,164.1 | 1,164.1 |
| Impairment charge | 534.8 | 534.8 |
| At 31 December 2019 | 1,698.9 | 1,698.9 |
| Impairment charge | 855.7 | **855.7** |
| **At 31 December 2020** | **2,554.6** | **2,554.6** |
| **Net book value** | | |
| At 31 December 2018 | 2,521.8 | 2,521.8 |
| At 31 December 2019 | 1,994.6 | 1,994.6 |
| **At 31 December 2020** | **1,146.4** | **1,146.4** |

Additions during the year of US$7.5m (2019: US$7.6m) relate to the Company's investment in Capricorn Oil Limited. These represent share awards made by the Company to the employees of Capricorn Energy Limited (a principal subsidiary of Capricorn Oil Limited).

At the year end, investments in subsidiaries were reviewed for indicators of impairment and impairment tests conducted where indicators were identified. Following this review, the Company's investment in Capricorn Oil Limited was impaired to reflect the fair value of the underlying assets of the Capricorn Oil Group. A charge of US$855.7m was made to the Income Statement in 2020 (2019: US$534.8m). The fall in the value of the investments in the Capricorn Oil Group principally reflects a reduction due to distributions by the subsidiary and a reduction in the valuation of the Group's producing assets.

The recoverable value of the assets of Capricorn Oil Limited used in the impairment test is based on the market value of tangible assets held by its subsidiaries, cash and cash equivalents held and an assumption that the recoverable value of exploration assets is broadly aligned to the carrying value. Removing the value attributed to future exploration success would increase the impairment recognised by US$112.2m.

# **Section 8 – Notes to the Company Financial Statements** continued

### 8.2 Investments in Subsidiaries continued

The Company's subsidiaries as at the balance sheet date are set out below. The Company holds 100% of the voting rights and beneficial interests in the ordinary shares of the following companies:

**Direct Holdings**

| | Business | Country of incorporation | Country of operation | Registered office address |
|---|---|---|---|---|
| Capricorn Oil Limited | Holding company | Scotland | Scotland | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Senegal (Holding) Limited | Holding company | England | Scotland | Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP |
| Cairn UK Holdings Limited | Holding company | Scotland | Scotland | 50 Lothian Road, Edinburgh, EH3 9BY |

**Indirect Holdings**

| | Business | Country of incorporation | Country of operation | Registered office address |
|---|---|---|---|---|
| Agora Oil and Gas (UK) Limited | Exploration | Scotland | UK | 50 Lothian Road, Edinburgh, EH3 9BY |
| Alba Resources Limited[2] | Exploration | Scotland | UK | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Americas Limited | Holding company | Scotland | Scotland | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Americas Mexico S. de R.L. de C.V. | Exploration | Mexico | Mexico | Torre Mayor, Av. Paseo de la Reforma 505, Cuauhtémoc, CP 06500, CDMX, México |
| Capricorn Brasil Petróleo e Gás Ltda | Exploration | Brazil | Brazil | Praia de Botafogo 228, 16th floor, suite 1601 Zip Code 22250-040 Rio de Janeiro, Brazil |
| Cairn Côte d'Ivoire Limited | Exploration | Scotland | Côte d'Ivoire | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Egypt (Holding) Limited | Holding | England | UK | Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP |
| Capricorn Egypt Limited | Exploration | England | UK | Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP |
| Capricorn Energy Limited | Holding company | Scotland | Scotland | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Energy Mexico S. de R.L. de C.V. | Exploration | Mexico | Mexico | Av. Paseo de la Reforma 295, Cuauhtémoc, CP 06500, CDMX, México |
| Capricorn Energy Search Limited | Exploration | Scotland | Scotland | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Exploration and Development Company Limited | Exploration | Scotland | Morocco | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Exploration Limited[1] | Non-trading | Scotland | Non-trading | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Greenland Exploration 1 Limited[2] | Holding company | Scotland | Scotland | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Ireland Limited | Exploration | Scotland | Republic of Ireland | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Malta Limited[2] | Exploration | Scotland | Malta | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Mauritania Limited | Exploration | Scotland | Mauritania | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Nicaragua BV | Exploration | The Netherlands | Non-trading | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Offshore Exploration Limited | Exploration | Scotland | Israel | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Oil and Gas Tunisia GmbH[2] | Non-trading | Switzerland | Non-trading | Gubelstrasse 5, Postfach 1524, CH-6301 Zug, Switzerland |
| Capricorn Petroleum Limited | Holding company | Scotland | Scotland | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Resources Management Limited | Royalty interest | Scotland | Mongolia | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Senegal Limited | Exploration | Scotland | Senegal | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Spain Limited | Exploration | Scotland | Spain | 50 Lothian Road, Edinburgh, EH3 9BY |
| Capricorn Suriname BV | Exploration | The Netherlands | Suriname | 50 Lothian Road, Edinburgh, EH3 9BY |
| Nautical Holdings Limited | Holding company | England | UK | Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP |
| Nautical Petroleum AG[2] | Production | Switzerland | UK | Baarerstrasse 8, 6300 Zug, Switzerland |
| Nautical Petroleum Limited | Exploration and production | England | UK | Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP |
| UAH Limited | Holding company | England | UK | Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP |

1 Exempt from audit under Section 480 of the Companies Act
2 Company is in the process of liquidation

### 8.3 Cash and Cash Equivalents

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| Cash at bank | **1.9** | 2.2 |
| Money market funds | **250.0** | - |
| | **251.9** | 2.2 |

### 8.4 Derivative Financial Instruments

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| **Current assets** | | |
| Financial assets – hedge options maturing within one year | **3.4** | 4.1 |
| **Current liabilities** | | |
| Financial liabilities – hedge options maturing within one year | **(3.4)** | (4.1) |
| | **–** | – |

Mark-to-market gains and losses on commodity derivatives are recorded as financial assets and liabilities. Cairn Energy PLC enters into option contracts with third parties and back-to-back contracts with a subsidiary on the same date, with the same terms. Therefore there are equal financial assets and liabilities. Details of Group hedging can be found in note 3.5.

### 8.5 Trade and Other Payables

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| Trade and other payables | **0.5** | 0.4 |
| Amounts payable to subsidiary undertakings | **8.1** | 86.9 |
| Accruals | **2.1** | 2.9 |
| | **10.7** | 90.2 |

### 8.6 Financial Instruments

Set out below is the comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the Financial Statements. The fair value of financial assets and liabilities, other than those relating to hedge options, has been calculated by discounting the expected future cash flows at prevailing interest rates. Hedge options are valued using models with observable inputs.

**Financial assets**

| Carrying amount and fair value | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| *Financial assets at amortised cost* | | |
| Cash and cash equivalents | **251.9** | 2.2 |
| Other receivables – amounts receivable from subsidiary undertakings | **–** | 1.8 |
| Other receivables – other | **2.3** | 3.9 |
| Long-term intercompany receivables | **3.0** | 4.6 |
| *Derivative financial instruments* | | |
| Financial assets – hedge options | **3.4** | 4.1 |
| | **260.6** | 16.6 |

For all financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value.

# Section 8 – Notes to the Company Financial Statements continued

**8.6 Financial Instruments** continued

### Maturity analysis of financial assets

The expected financial maturity of the Company's financial assets at 31 December 2020 is as follows:

| | < 1 year US$m | 1–2 years US$m | 2–5 years US$m | >5 years US$m |
|---|---|---|---|---|
| *Financial assets at amortised cost* | | | | |
| Cash and cash equivalents | **251.9** | **–** | **–** | **–** |
| Other receivables – other | **2.3** | **–** | **–** | **–** |
| Long-term intercompany receivables | **–** | **3.0** | **–** | **–** |
| Financial assets – hedge options | **3.4** | **–** | **–** | **–** |
| | **257.6** | **3.0** | **–** | **–** |

The expected financial maturity of the Company's financial assets at 31 December 2019 was as follows:

| | < 1 year US$m | 1–2 years US$m | 2–5 years US$m | >5 years US$m |
|---|---|---|---|---|
| *Financial assets at amortised cost* | | | | |
| Cash and cash equivalents | 2.2 | – | – | – |
| Other receivables – amounts receivable from subsidiary undertakings | 1.8 | – | – | – |
| Other receivables – other | 3.9 | – | – | – |
| Long-term intercompany receivables | – | 1.6 | 3.0 | – |
| Financial assets – hedge options | 4.1 | – | – | – |
| | 12.0 | 1.6 | 3.0 | – |

### Financial liabilities

| Carrying amount and fair value | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| *Financial liabilities at amortised cost* | | |
| Trade and other payables | **0.5** | 0.4 |
| Amounts payable to subsidiary undertakings | **8.1** | 86.9 |
| Accruals | **2.1** | 2.9 |
| Lease liability | **4.7** | 6.1 |
| *Derivative financial instruments* | | |
| Financial liabilities – hedge options | **3.4** | 4.1 |
| | **18.8** | 100.4 |

### Maturity analysis of financial liabilities

The expected financial maturity of the Company's financial liabilities at 31 December 2020 is as follows:

| | < 1 year US$m | 1–2 years US$m | 2–5 years US$m | >5 years US$m |
|---|---|---|---|---|
| *Financial liabilities at amortised cost* | | | | |
| Trade and other payables | **0.5** | **–** | **–** | **–** |
| Amounts payable to subsidiary undertakings | **8.1** | **–** | **–** | **–** |
| Accruals | **2.1** | **–** | **–** | **–** |
| Lease liability | **1.7** | **3.0** | **–** | **–** |
| *Derivative financial instruments* | | | | |
| Financial liabilities – hedge options | **3.4** | **–** | **–** | **–** |
| | **15.8** | **3.0** | **–** | **–** |

### 8.6 **Financial Instruments** continued

The expected financial maturity of the Company's financial liabilities at 31 December 2019 was as follows:

| | < 1 year US$m | 1–2 years US$m | 2–5 years US$m | >5 years US$m |
|---|---|---|---|---|
| *Financial liabilities at amortised cost* | | | | |
| Trade and other payables | 0.4 | – | – | – |
| Amounts payable to subsidiary undertakings | 86.9 | – | – | – |
| Accruals | 2.9 | – | – | – |
| Lease liability | 1.5 | 1.6 | 3.0 | – |
| *Derivative financial instruments* | | | | |
| Financial liabilities – hedge options | 4.1 | – | – | – |
| | 95.8 | 1.6 | 3.0 | – |

**Financial Risk Management: Risk and Objectives**

The Company's financial risk management policies and objectives are consistent with those of the Group detailed in note 3.9.

The Company is not exposed to material foreign currency exchange rate risk.

### 8.7 **Capital Management**

Capital and net debt were made up as follows:

| | **At 31 December 2020 US$m** | At 31 December 2019 US$m |
|---|---|---|
| **Continuing operations** | | |
| Amounts payable to subsidiary undertakings | **8.1** | 86.9 |
| Lease liability | **4.7** | 6.1 |
| Less cash and cash equivalents | **(251.9)** | (2.2) |
| Net (funds)/debt | **(239.1)** | 90.8 |
| Equity | **1,388.2** | 1,910.8 |
| Capital and net (funds)/debt | **1,149.1** | 2,001.6 |
| Gearing ratio | **–** | 5% |

# Section 8 – Notes to the Company Financial Statements continued

## 8.8 Related Party Transactions

The Company's subsidiaries are listed in note 8.2. The following table provides the Company's balances which are outstanding with subsidiary undertakings at the balance sheet date:

| | At 31 December 2020 US$m | At 31 December 2019 US$m |
|---|---|---|
| Amounts payable to subsidiary undertakings | **(8.1)** | (86.9) |
| Amounts receivable from subsidiary undertakings | **–** | 1.8 |
| | **(8.1)** | (85.1) |

The amounts outstanding are unsecured, repayable on demand and will be settled in cash.

The following table provides the Company's transactions with subsidiary undertakings recorded in the loss for the year:

| | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| Amounts invoiced to subsidiaries | **13.7** | 10.4 |
| Amounts invoiced by subsidiaries | **56.8** | 10.6 |

### Directors' Remuneration

The remuneration of the Directors of the Company is set out below. Further information about individual Directors' remuneration is provided in the audited section of the Directors' Remuneration Report on pages 94 to 121.

| | Year ended 31 December 2020 US$m | Year ended 31 December 2019 US$m |
|---|---|---|
| Emoluments | **3.4** | 3.3 |
| Share-based payments | **0.4** | – |
| | **3.8** | 3.3 |

Pension contributions of US$0.2m (2019: US$0.2m) were made on behalf of Directors in 2020.

290,683 LTIP share awards to Directors vested during 2020 (2019: none). Share-based payments disclosed above represent the market value at the vesting date of these awards in that year.

### Other Transactions

During the year the Company did not make any purchases in the ordinary course of business from an entity under common control (2019: US$nil).

In December 2020 the Company received a dividend from its subsidiary, Capricorn Oil Limited, of US$484.6m, of which US$183.3m was settled in cash and US$301.3m by offset against previous borrowings.

The Company waived a loan of US$138.7m due from Capricorn Senegal (Holding) Limited in December 2020.

# Section 9 – Events After the Balance Sheet Date

**9.1 Return of Cash to Shareholders**
On 8 January 2021 Cairn received shareholder approval for the return of cash to shareholders of 32 pence per eligible ordinary share totalling £188m. US$250m of the proceeds from the sale of Senegal assets were converted to £ and the return was paid to shareholders on 25 January 2021. In conjunction with the cash return, shareholders also approved an 11 for 13 share consolidation to seek to maintain share price comparability. The share consolidation completed on 11 January where the existing ordinary shares of 589,816,826 ordinary shares of 231/169 pence each were replaced with 499,075,775 ordinary shares of 21/13 pence each.

The weighted average number of shares used in both basic and diluted earnings per share calculations, disclosed on the Income Statement and in note 4.6, was retrospectively adjusted for the current and prior year. The extent of the adjustment has been limited to the change in the number of ordinary shares outstanding without a corresponding change in the resources of the business.

**9.2 Proposed Acquisition of Exploration, Development and Production Interests in the Western Desert, the Arab Republic of Egypt**
On 8 March 2021, Cairn, together with Cheiron Energy (its consortium partner) entered into a sales and purchase agreement for the proposed acquisition of a portfolio of upstream oil and gas exploration, development and production interests from Shell in the Western Desert, onshore The Arab Republic of Egypt for a purchase price of approximately US$323m net to Cairn, with additional contingent consideration of up to US$140m net to Cairn if certain requirements are met.

Cairn will acquire 50% of the portfolio of interests being sold by Shell, comprising of 13 concessions (including 5 exploration concessions), with 21 development leases. The producing fields are split over four distinct areas, each with different characteristics and geographies: the Obaiyed Area; Badr El Din ("BED"); North East Abu Gharadig ("NEAG"); and Alam El Shawish West ("AESW").

Bapetco, a joint venture company currently owned 50:50 by the Sellers and the Egyptian General Petroleum Corporation ("EGPC"), is the operator of all of the producing concessions within the portfolio. Upon completion of the transaction, the interests to be acquired by Cairn will be as follows:

| Area | Concession & Exploration Blocks | Cairn working interest in Concession | Partners in Concession | Operating Company | Cairn working interest in Operating Company |
|---|---|---|---|---|---|
| Obaiyed Area | Obaiyed | 50% | Cheiron (50%) | Obaiyed Petroleum Company | 25% |
| | North Matruh | 50% | Cheiron (50%) | Obaiyed Petroleum Company | 25% |
| | North Um Baraka | 50% | Cheiron (50%) | North Um Baraka Petroleum Company | 25% |
| Badr El Din (BED) | Sitra | 50% | Cheiron (50%) | Sitra Petroleum Company | 25% |
| | BED | 50% | Cheiron (50%) | Bapetco | 25% |
| | BED 2 & 17 | 50% | Cheiron (50%) | Bapetco | 25% |
| | BED 3 | 50% | Cheiron (50%) | Bapetco | 25% |
| | North Alam El Shawish ("NAES") | 50% | Cheiron (50%) | NAES Petroleum Company | 25% |
| NEAG | NEAG Tiba and NEAG Extension | 26% | Cheiron (26%); Apache Egypt (48%) | Tiba Petroleum Company | 13% |
| AESW | AESW | 20% | Cheiron (20%); North Petroleum International Company SA (35%); Neptune (25%) | AESW Petroleum Company | 10% |
| Abu Sennan[1] | South Abu Sennan | 50% | Cheiron (50%) | - | - |
| Horus[1] | South East Horus | 50% | Cheiron (50%) | - | - |
| El Fayum[1] | West El Fayum | 50% | Cheiron (50%) | - | - |

1 It is intended that Cairn shall be appointed operator of the three newly awarded exploration concessions

The transaction is conditional, inter alia, on the approval of the Minister of Petroleum and Mineral Resources in The Arab Republic of Egypt. In addition, there are pre-emption rights outstanding for EGPC in relation to all Concessions and for Concession Contractors in relation to NEAG and AESW. If any of these pre-emption rights is exercised, the Consortium will not acquire the relevant Concessions as part of the Transaction. The proposed acquisition is a Class 1 transaction and subject to shareholder approval.

Cairn, together with Cheiron Energy, plans to finance the acquisition with a new joint acquisition reserve-based lending facility of up to US$350m (US$175m net to Cairn), joint junior debt facility of US$100m (US$50m net to Cairn) and existing cash on balance sheet.

**9.3 Sale of Cairn's Interests in the Catcher and Kraken Producing Assets**
On 8 March 2021, Cairn entered into an agreement that will result in the sale of its interests in the UK Catcher and Kraken producing assets to Waldorf Production Limited for a cash consideration of US$460m plus additional contingent consideration dependent principally on oil prices from 2021 to the end of 2025. The consideration is subject to adjustments for working capital and other customary interim period adjustments from the economic effective date of 1 January 2020. As at 31 December 2020, the interim period and working capital adjustments were approximately US$144m. On completion of the deal, derecognition of deferred tax assets, currently offsetting deferred tax liabilities, is expected to result in a loss after tax, which at the year-end was forecast to be approximately US$140m.

The transaction is conditional upon, inter alia, the release of guarantees by the Group in favour of the OGA and FPSO contractors and OGA confirmation that its power to revoke licences will not be exercised on the change of control of the interests. The disposal is a Class 1 transaction and subject to shareholder approval.