STRATEGIC REPORT

OUR PORTFOLIO

Cairn's exploration activities are focused on North West Europe, West Africa and Latin America. Our production assets are located in the UK North Sea. Cairn's headquarters are in Edinburgh, Scotland supported by operational offices in London and Mexico.

EXPLORATION AND APPRAISAL

4-8 years

Identify — Explore

DEVELOPMENT

2-5 years

Appraise — Develop

PRODUCTION

10-25 years

Produce — Return & reinvest

CREATING VALUE →

Exploration activity, including seismic surveying and drilling, can **create material value**.

ADDING VALUE →

Moving exploration success into development, or acquiring development assets, **adds value**.

REALISING VALUE

Progressing development assets into production results in cash flow to reinvest or return to shareholders, **realises value**.

Where we operate

Suriname

1 licence
13,080 km² acreage

Mexico

3 licences
1,648 km² acreage

Israel

8 licences
2,698 km² acreage

Côte d'Ivoire

3 licences
3,975 km² acreage

UK

13 licences
3,179 km² acreage

2 producing fields
(Catcher & Kraken)

Note: Post 2020 year end, Cairn no longer holds interests in UK licences P1763 and P2312.

RESPONSIBLE PORTFOLIO MANAGEMENT

Nicoletta Giadrossi
Chair

I have taken on the role of Chair at Cairn Energy at a very exciting time. Our industry is in transition, with structural changes that represent challenges but also opportunities. As we look to the future, we do so from a position of strength and with all the building blocks for success in place: we are a resilient, flexible company with a breadth of technical knowledge and a great team. We have shown our capacity to deliver value to our shareholders and to integrate the expectations of our stakeholders in our everyday work.

This is testament to my predecessor Ian Tyler and I would like to thank him for his service to Cairn. It is due to Ian and the strength of the Executive Team that the Company can look to the future with confidence.

The External Environment

I believe that there are two key issues that we have to face: we have to define how we play in the landscape of the energy transition, balancing the expectations of our stakeholders, and we have to continue to deliver value for our shareholders. Against a backdrop of changing risk appetite in capital markets, it will be increasingly important to differentiate ourselves, providing a unique value proposition based on solid financial management, technical know-how and active portfolio management.

Partnerships and Responsible Governance

It is becoming increasingly important to describe how we integrate environmental, social and governance (ESG) considerations into everything we do. ESG considerations have always been an integral element of Cairn's thinking and approach and as a result we have 30 years of experience in stakeholder management on these issues. For Cairn, this means finding the best ways to work closely with key partners, for example in our production sharing contracts and Joint Ventures, furthering our goals through influence and dialogue and continuously engaging with governments, local communities, environmental organisations or regulators. Recognising the importance of these priorities, ESG considerations are now a standing agenda item for the Board, as well as an important KPI in the determination of Management Variable Remuneration.

I take on this role as the Company further develops as a sustainable hydrocarbon operator that must acknowledge ongoing change and play a responsible part in the energy transition. I look forward to supporting the Company in this area and building on an existing strong track record, for example: the Environmental Impact Assessments carried out prior to beginning new operations; our recent involvement in Carbon Capture, Utilisation and Storage; our endeavours to build sustainable supply chains; as well as our commitment to comply with the Task Force on Climate-related Financial Disclosures (TCFD) framework. It is critical that we explain effectively to our stakeholders what we are doing and what we plan to do to improve in these areas. This is a journey, and my job will be to ensure that the business continues to be positioned for sustainable success.

It is ever more important to make sure that we understand different stakeholder views. I see part of my role as ensuring we integrate these different voices in our thinking. It has helped me to be leading the Employee Voice Forum where I have gained insight into our employees' priorities going forward. I have also been close to our engagement initiatives with local communities, having worked in several of our exploration geographies such as Africa and Latin America. What is critical to them? How do we respond to that and make sure that we can do it in a way that is successful both for them and for the Company?

Establishing what local communities need is vital if we are to work successfully in partnership. It helps us to demonstrate the value that Cairn can bring and the positive impact that we can have, through sustainable long-term local programmes. For example, in Suriname during 2020 we were delighted to participate in a sector wide initiative to improve technical skills and prospects in the oil industry through our support of educational establishments in the capital Paramaribo, alongside support for a mangrove rehabilitation programme designed to protect low lying regions and communities along the coast.

As a mid-sized company, some people may question how much influence we can truly have, but by playing on our own experience and skills, and effectively focusing our initiatives, we can and do have real impact.

Capital

Cairn's ability to compete for capital will become increasingly important in a more selective investors base. I believe we are differentiated in the way that we have been able to deliver value. We have always ensured that we retain balance sheet strength and flexibility, and that has enabled us to be one of the few of our peers to be able to return capital to shareholders

> "I think that the role of any leader is to get the best out of people in the pursuit of a common goal. That is my focus at Cairn. I want to build on a great foundation to ensure the Board continues to engage, challenge and support."

in recent times. This comes from making sure that we have got the risk equation right and that we remain an active and responsible steward of our shareholders' funds.

Over time, that risk equation has changed. The energy transition and constrained commodity prices mean our efforts are increasingly focused on what we call 'advantaged barrel' exploration; targeting high value and/or low-cost resources, primarily through optimised development timelines, scale and supportive fiscal environments. Our focus is on basins where we can extract significant value, where we see a path to reduced environmental impact, and on the carbon footprint of potential new discoveries.

Read more about our flexible exploration portfolio on p40

People

Whatever challenges or opportunities we face, the key to our success in meeting them will be our people. Our employees are at the heart of Cairn and it is imperative that we continue to recognise this.

Our people are talented and skilled and have choices as to where they work. To retain their skills and expertise, we need to ensure that people see the broader value of the work they do by properly communicating our sense of purpose as a company and how we fit in a changing industry. We also need to continue being a workplace which recognises and promotes diversity in all its forms. We need to ensure our employees can own the mission of Cairn as a responsible hydrocarbon producer.

I joined Cairn as a Non-Executive Director in 2017 having worked in various executive roles within the industry at companies such as Technip, Aker Solutions, Siemens and GE, at different stages of the energy value chain. This has given me a view on how we can create value across this landscape and how it is important to engage with different stakeholders to enhance this.

I think that the role of any leader is to get the best out of people in the pursuit of a common goal. That is my focus at Cairn. I want to build on a great foundation to ensure the Board continues to engage, challenge and support. We bring different views and perspectives that are relevant and important to our operations: we are a diverse group with a variety of skills and expertise, whether those be geographic, strategic or functional.

The Future

It is an exciting time to be taking the Company to the next stage. We look forward to managing the portfolio with a continued focus on delivering value for all our stakeholders, with an emphasis on advantaged barrels and stable cash flow.

The past year was a difficult one for everyone, but I have been incredibly impressed with how the Company has responded to the COVID-19 crisis. It is a tribute to the management that whilst focusing on the safety of our people and those that we work with, we have kept the momentum on our main initiatives throughout: the sale of our Senegal interests demonstrated effective portfolio management, and the finalisation of the India arbitration resulted in a unanimous award in Cairn's favour. The Board has written to the Government of India regarding adherence to the ruling. These significant achievements have been delivered while our people have been adhering to all the health recommendations with the significant majority working from home since last March. We have not resorted to furlough or other government help and the feedback of our employees on our handling of the crisis has been very positive.

It is this resilience and adaptability that gives me confidence that we will be as successful in the future as we have been in the past.

Nicoletta Giadrossi, Chair

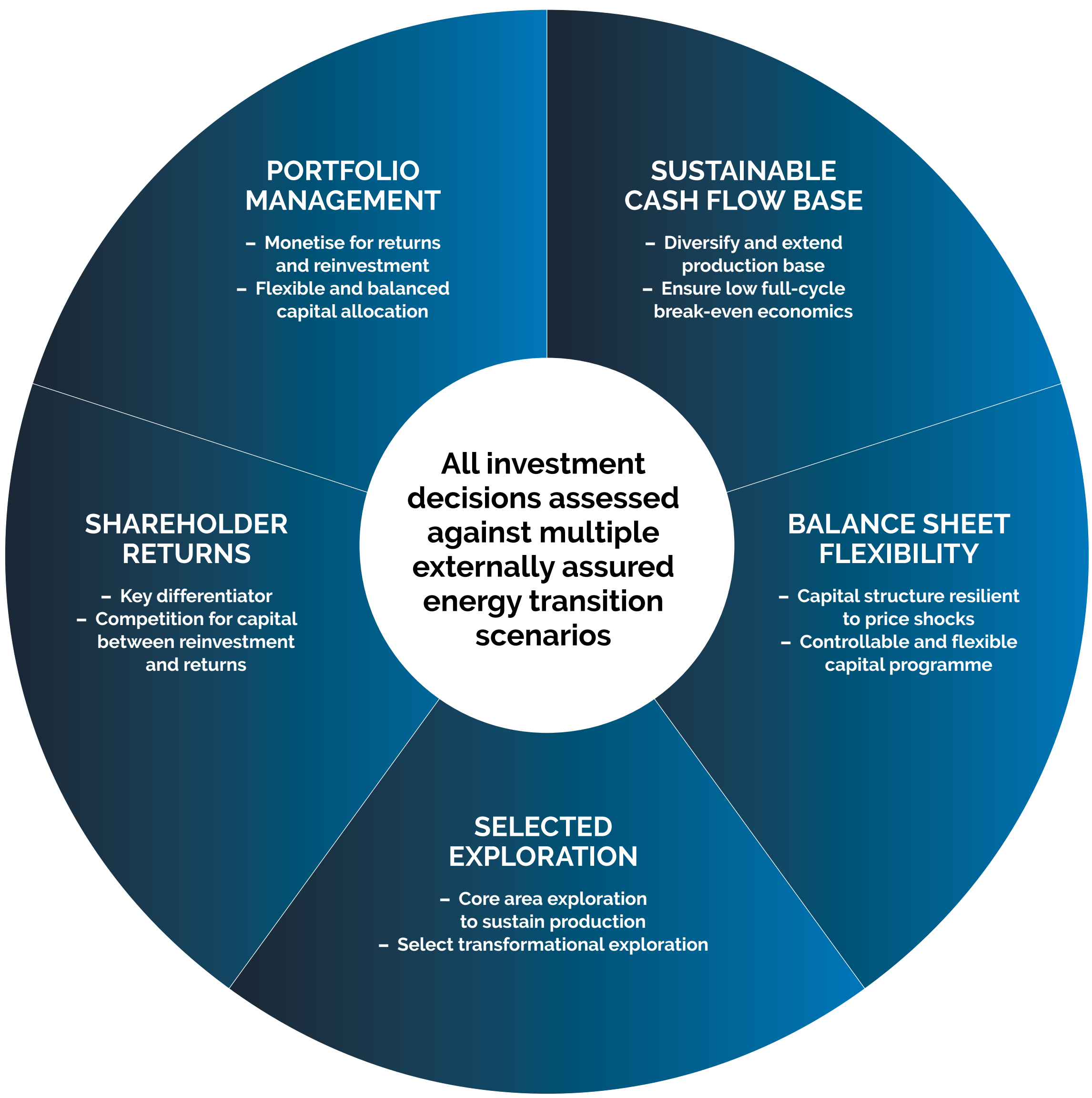
Nicoletta Giadrossi was appointed Chair from 1 January 2021, having first been appointed to the Cairn Energy Board in January 2017.

Nicoletta has extensive experience in oil, gas and other energy markets in both executive and non-executive roles, including wide engagement on environmental, social and governance issues.

Read more about Nicoletta in Board of Directors p72

Our Strategy

Our key strategic goals are all about driving shorter investment cycles and ensuring low break-even costs across our asset base. In order to deliver this, we maintain a balance sheet that is resilient to price shocks and volatility; we invest to target resources that can be competitive and relevant through the energy transition; and, ultimately, we differentiate ourselves by returning capital to shareholders.



Cairn has always sought to be a proactive portfolio manager in order to optimise capital allocation and retain the appropriate flexibility in its portfolio. This enables us to do two things: firstly, to return cash to shareholders which we see as a key differentiator of the Cairn investor story. We will continue to ensure that every major capital allocation decision is a competition between reinvesting in the business and returning cash to shareholders. Secondly, it enables us to invest in the sustainability of our cash flow-generating asset base. That is a key strategic focus for us – there are follow-on opportunities in our existing producing assets, but we will also actively seek to diversify and bolster our production base, ultimately putting us in the best position to support future shareholder returns.

We seek to build the portfolio in a way that maintains balance sheet flexibility. We have, and we will maintain, a capital structure that is resilient, and we aim to ensure we are in control of our capital programme so that we can focus on delivering value to the equity side of the balance sheet.

Exploration will remain a core part of Cairn's DNA, both to support the future cash flow base through organic reserves replacement, and to generate the potential for transformational events to create further shareholder value. Our allocation of capital to exploration will absolutely be with energy transition relevance as a core focus. We need to ensure that the resources we are targeting through exploration can have a competitive role in a future where global oil demand is projected to be lower than today.

We are positioning ourselves for growth and expansion, but we are committed to doing so in a way that is disciplined, sustainable and relevant against the backdrop of a changing energy mix over time.

EXECUTING OUR STRATEGY RESPONSIBLY

At Cairn, working responsibly means striving to deliver value in a safe, secure and environmentally responsible manner for all our stakeholders. Cairn's Corporate Responsibility strategy spans efforts to protect the environment and transition to more sustainable energy sources; support society by creating value for employees, suppliers, shareholders and communities; and use sound governance structures to ensure we conduct our business ethically and manage risks effectively. Our long-established set of Business Principles is integrated into our systems and processes. They determine how we work, helping us to behave responsibly to people, to the environment and to society.

RESPONSIBLE GOVERNANCE

Read more on p74

BUSINESS PRINCIPLES

- **We manage risk and seek to continually improve.**
- **We behave honestly, fairly and with integrity.**

RELEVANT MATERIAL ISSUES

3 5 9 10 11 12 14 15 16 17 18 19

Read more about our material corporate responsibility issues on p15

CONTRIBUTION TO SDGS

8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 17 PARTNERSHIPS FOR THE GOALS

RISKS

Read more on p42

To behave responsibly, we seek to identify and effectively manage the risks that are most significant to our business. These are recorded in a risk register which, along with stakeholder engagement, help us to prioritise issues.

BEHAVING RESPONSIBLY TO PEOPLE

BUSINESS PRINCIPLES

- **We develop the potential of our people.**
- **We foster a workplace that respects personal dignity and rights, is non-discriminatory and provides fair rewards.**
- **We provide a healthy, safe and secure work environment.**

Read more on p52

RELEVANT MATERIAL ISSUES

31 36 37 39 42

CONTRIBUTION TO SDGS

3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY

BEHAVING RESPONSIBLY TOWARDS THE ENVIRONMENT

BUSINESS PRINCIPLES

- **We take a precautionary approach to our effect on the environment.**
- **We strive to prevent and minimise our impact on the environment.**

Read more on p56

RELEVANT MATERIAL ISSUES

21

CONTRIBUTION TO SDGS

7 AFFORDABLE AND CLEAN ENERGY; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION; 14 LIFE BELOW WATER; 17 PARTNERSHIPS FOR THE GOALS

BEHAVING RESPONSIBLY TO SOCIETY

BUSINESS PRINCIPLES

- **We seek to make a positive social impact in every area where we work.**
- **We respect the rights and acknowledge the aspirations and concerns of the communities in which we work.**

Read more on p59

RELEVANT MATERIAL ISSUES

52

CONTRIBUTION TO SDGS

1 NO POVERTY; 2 ZERO HUNGER; 3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 10 REDUCED INEQUALITIES; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

EXTERNAL FRAMEWORKS

CDP EITI GRI IFC IOGP SASB Oil & Gas Authority TCFD United Nations Global Compact

Business Model

We are an oil and gas company focused on driving down emissions in our operations. Cairn's business model is to hold assets within the oil and gas life cycle in order to create, add and deliver value for stakeholders. The cash flow from production assets funds exploration, appraisal and development activity. Assets can be monetised at different stages of hydrocarbon exploration, development and production in order to optimise the portfolio and create the opportunity for further cash returns to shareholders.

OUR STRENGTHS AND CAPABILITIES

#1 Self-funding business model

Our production assets provide the cash flow to sustain exploration, appraisal and development activity. This is delivered by our non-operated interests in two UK North Sea assets, Kraken and Catcher, which began production in 2017. As this production continues to deliver over time, we will seek to add production from new assets to replace it.

#2 Financial flexibility

Operating a full cycle exploration, development and production business gives us financial flexibility to deliver our strategic objectives, year on year. We maintain a strong funding position through cash flow from our production assets, cash in hand and undrawn debt capacity. This allows us to actively assess new venture opportunities and deliver immediate activity. We apply strict capital discipline to our investment decisions and actively manage our portfolio to optimise capital allocation.

#3 Exploration

The energy transition and constrained commodity prices mean our activity increasingly focuses on 'advantaged barrel' exploration alongside exposure to select large, more frontier opportunities with transformational potential. The resources we target must be able to be discovered, developed and produced competitively in a lower oil demand future, with alignment to our ESG priorities.

#4 Life cycle approach and operating capability

Our employees, contractors and suppliers provide the necessary expertise and resources to deliver our work programmes agreed within our Joint Ventures. Over the last decade, the company has operated multiple 2D & 3D seismic and geotechnical surveys, drilled over 19 exploration and appraisal wells in mid and deepwater settings and has successfully participated in development planning to take five major projects to Final Investment Decision (FID). Through these projects, our subsurface, operational, commercial and financial teams have further developed their skillsets and capabilities for future application.

#5 Responsible culture

Our established, highly experienced and respected leadership team is committed to working responsibly in delivering Company strategy. We never compromise our operating standards. Our focus on delivering value in a safe, secure and environmentally and socially responsible manner is one of our strategic objectives and is measured through our Company Key Performance Indicators. Contractors and suppliers are required to work to the same high standards as our employees.

WHY CAIRN ENERGY?

Our expertise and agility

We pride ourselves on seeing value where others might not. We have the ability to move quickly and responsibly to pursue opportunities, underpinned at all times by our financial flexibility.

Our experience

With more than 30 years' experience as an operator and partner at all stages of the upstream oil and gas life cycle, we have successfully discovered and developed oil and gas reserves in a number of international locations in partnership with host governments.

Our responsible approach

We commit to working responsibly across all our activities. This means working in a safe, secure, environmentally and socially responsible manner.

CREATING VALUE RESPONSIBLY FOR STAKEHOLDERS

We are committed to making a positive contribution, wherever we operate, by delivering tangible benefits to our stakeholders. This includes the value distributed through salaries, taxes, payments to authorities, contractors and suppliers, capital spending and social investment.

Investors

Our established track record of creating significant growth and value was demonstrated most recently through our basin opening discoveries offshore Senegal, including the world's largest oil discovery of 2014. A multi-billion dollar development project is now underway. Following the sale of its Senegal assets, Cairn returned US$250m to shareholders.

Oil and gas sales revenue

US$324m

Employees

Employee salaries and benefits

US$49m

Business partners and suppliers

We have a track record of safe and effective operations and extensive experience operating both onshore and offshore, in shallow and deep water locations, in remote and frontier locations and in benign and harsh weather environments. Our industry experience has included opening new oil basins, creating value through exploration success, as well as taking assets to production and development across South Asia and most recently, in West Africa.

Capital expenditure

US$125m

Governments and regulators

Our approach to working responsibly is embedded throughout our business in our management systems and enshrined in our policies and principles. We operate to international, leading industry standards in health, safety and environmental management. We never compromise our standards and we look for partners who share our commitment to international good practice, ensuring projects are managed in a responsible and respectful manner.

Payments to governments

US$19.9m

Local Community/ Interest Groups

Social investment

US$0.9m

For more information please see our Corporate Responsibility Report: www.cairnenergy.com/working-responsibly

In a year dominated by a global pandemic, Ben Conley, Cairn's Strategy and Business Development Director, examines the context and impacts on the oil and gas industry.

Oil Price, COVID-19 and Demand Impact

The short-term disruption to commodity prices caused by the COVID-19 pandemic was extreme, even in the context of heightened commodity price volatility over the past decade. The reaction of commodity prices to governmental pandemic responses is instructive as to the role of hydrocarbons in the interconnected global economy. While the commodity price dip caused by the pandemic has been swift and severe, its impact will be limited on energy system capital allocation decisions which are taken on multi-year, multi-decade planning horizons. Long-term energy demand fundamentals, coupled with the climate and energy transition challenges are of greater relevance to Cairn and its shareholders.

Governmental actions in 2020 to reduce global mobility temporarily removed an estimated 20 million barrels per day of oil demand from the market[1]. At the same time, OPEC+ failed to agree supply cuts and appeared to switch to a market share versus non-OPEC supply strategy[2]. The challenge of finding a new equilibrium oil price saw Brent prices decline by 80% from US$69/bbl in early January to US$14/bbl in mid-April 2020 and saw West Texas Intermediate moving into negative territory. Whilst a more stable pattern was established through the second half of 2020, the volatility of spot oil prices reinforces the importance of Cairn's prudent approach to balance sheet risk management to be able to weather and possibly benefit from extreme short-term cycles.

Forecasters offer a range for the expected return to pre-pandemic oil demand levels, between H2 2021 and mid 2022, with a best case of recovery similar to that shown in China, which reached pre-lockdown air travel and oil demand levels by October 2020[3] and has seen a return to accelerating economic growth[4] to a more gradual recovery[5]. Significant spare oil supply capacity is available to meet near-term demand recovery and to dampen possible price spikes. Protecting the price at the bottom of the range is likely to come from continuing OPEC+ cohesion for a price support strategy, rather than market share strategy. OPEC's Secretary General Barkindo stated in October 2020, that compliance with production targets was at record highs and that members had learned that there is more to gain from cohesion than competition[6].

Where the impact of the COVID-19 pandemic on supply/demand fundamentals appears relatively short lived, the large fiscal stimulus deployed by governments and central banks may be more significant. The immediate impact has been increasing financial asset prices, particularly those with long-term growth potential. However, the unprecedented scale and timing of this stimulus may also drive inflationary pressures, in turn supporting commodity and related asset prices.

When considering the fundamental market outlook over a four to seven-year period, the supply/demand picture appears more constructive for oil prices. Recent industry reinvestment rates are estimated to be materially below that required to sustain current production levels. Analysts model 2019 reinvestment in upstream capacity, being the capital investment required to sustain production rates given natural decline, of 64% compared to a long-term average of ~87%[7]. JP Morgan estimated in October 2020 that the upstream industry has under-invested by some US$650billion in the capacity required to sustain current production of ~90 mmbpd, or by up to US$1trillion in the capacity required to sustain peak 2019 production rates of 105 mmbpd[8]. The medium-term supply/demand balance suggests that underinvestment may leave the oil market structurally short through the 2020s, with analysts suggesting that prices in the range of US$60-65/bbl are needed to support investment levels that can balance supply with demand[9].

Demand for gas in specific growth markets will continue to drive strong regional investment levels, especially where there is a need for gas to replace other fuels such as coal in order to reduce carbon intensity, albeit the scale of large gas discoveries globally in recent years may mean a near-term oversupply in LNG markets, before gas demand ramps up as part of the energy transition. Current investment trends illustrate a balance between the needs of future energy systems alongside the need to meet affordable energy needs of the coming decade and beyond, providing ongoing opportunity for nimble, responsible producers of hydrocarbons such as Cairn.

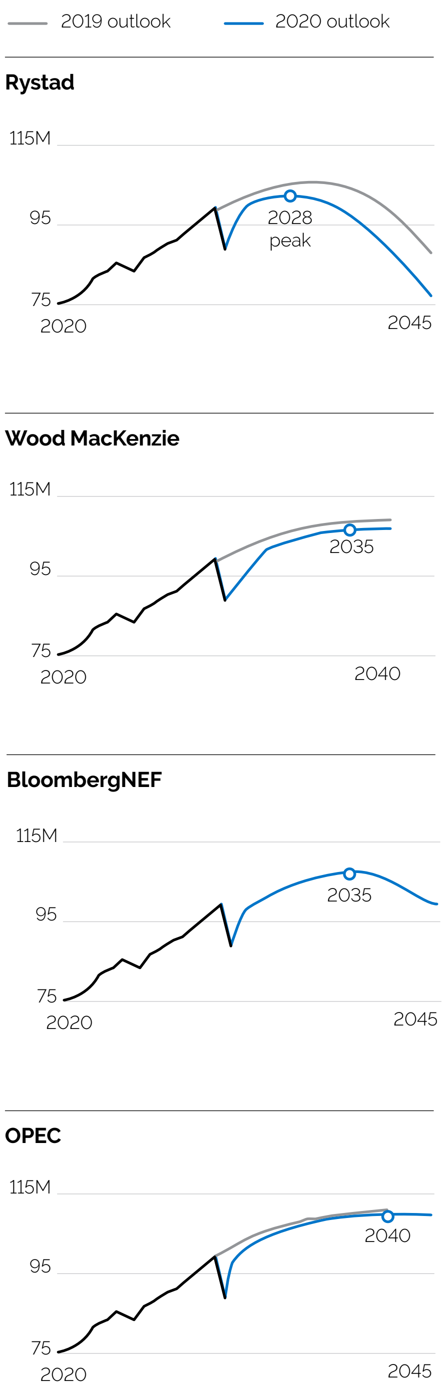
Energy Transition and Medium-term Market Outlook

2020 provided several interesting perspectives and milestones on the journey to a low carbon energy system required to mitigate climate risks. The scale of emissions reduction associated with the pandemic response was estimated to match the annual reduction required to meet the Paris aspiration of a 1.5°C warming scenario[10]. The IEA also published a Net Zero Emissions 2050 scenario for the first time which showed that low carbon electricity equal to the entire demand of India, the world's fourth largest power market, must be added to the energy system every three years to achieve net zero energy emissions by 2050[11]. Such data points make clear the true scale of the challenge ahead. Perhaps the most significant milestone during the year was China's September 2020 statement that it would seek to reach net zero emissions by 2060. With the largest emitter making this commitment, and the second largest emitter, the US, re-joining the Paris Agreement upon President Biden's inauguration, there should be renewed emphasis and focus on how to deliver the transition.

A critical consideration for energy companies and governments is how to marry the transition with competing priorities of developing nations' societal ambitions, including those targeted in the UN Sustainable Development Goals (SDGs). The availability of affordable energy, including from indigenous hydrocarbon resources, will be central to the delivery of these goals. Therefore, responsible stewardship of hydrocarbon production, including reduction of Scope 1 and 2 emissions and eventually sequestration of their combustion emissions, will remain a critical component of energy systems. Whilst companies, investors and lenders seek to prioritise low carbon energy, it will also be critical to recognise the need to maintain responsible stewardship of certain hydrocarbon production to provide the energy and economic bridge to a low carbon energy system.

1 Goldman Sachs, August 2020 International Energy Agency (2020), World Energy Outlook 2020, IEA, Paris.
2 Reuters: www.reuters.com/article/uk-oil-opec-survey/opec-april-oil-output-surges-to-13-month-high-before-new-cut-deal-idUKKBN22C2NK.
3 Commodities Trading Corporation.
4 FT 18.1.21; China's economy expands at faster rate than before coronavirus.
5 International Energy Agency (2020), World Energy Outlook 2020, IEA, Paris.
6 OPEC Secretary General Barkindo, at JP Morgan conference.
7 Bernstein Energy; 2020 Global Marginal Cost.
8 JP Morgan.
9 Bernstein Energy; 2020 Global Marginal Cost.
10 Le Quere et al; Temporary reduction in daily global CO_2 emissions during the COVID-19 forced confinement; Nature; www.nature.com/articles/s41558-020-0797-x.

Forecasters see a different future for oil demand after 2020 (barrels/day)[12]



Note: No 2019 forecast available for BloombergNEF.
Sources: Rystad Energy, Wood MacKenzie, BloombergNEF, OPEC.

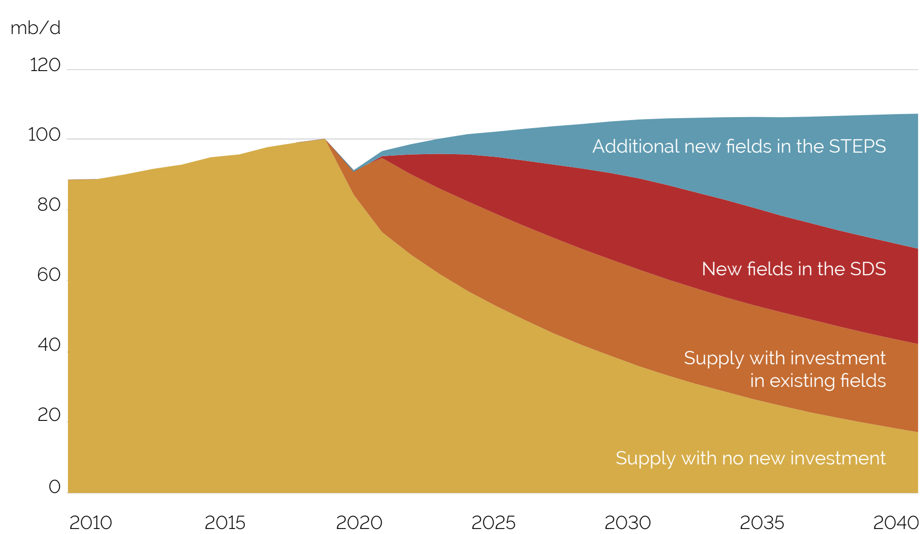
Regardless of the specific date or rate of peak oil demand[12] (see chart from BloombergNEF), forecast natural decline rates of existing oil production means that approximately one third of global oil supply by 2035 (see chart below)[13] will come from new, currently unsanctioned projects, likely requiring equilibrium oil prices between US$55-65/bbl[14].

Forecasters expect gas to roughly maintain its relative share of energy demand up to 2050, therefore probably increasing in absolute terms[15,16]. The expectation that gas plays a key transition role has driven an expansion of global LNG capacity, with LNG likely to have spare capacity through much of the 2020s[17]. Thereafter, consensus expectations are that gas demand will catch up with supply, potentially with additional demand for the provision of steam reformed hydrogen, which may provide an alternate route to market.

The expectation that significant additional liquid and gas hydrocarbon resources will be required over the coming decades places a responsibility on upstream companies to provide a differentiated proposition to investors and creditors to facilitate the required capital investment. As well as maintaining the capital discipline required to deliver sustainable returns to all investor groups, businesses will need to target those hydrocarbon resources that can be produced responsibly and in fulfilment of multiple UN SDGs. Companies will increasingly target projects which meet the so-called 'advantaged barrels' criteria, defined by Wood Mackenzie as those barrels of oil or molecules of gas, that can be produced economically with low associated emissions in stable regimes. In delivering affordable and reliable energy, best efforts must be made to reduce the emissions intensity of upstream operations and to facilitate solutions that allow all economies to sequester CO_2 emissions both from upstream operations and also in future from industrial combustion sources.

As well as continuing with a selective approach to exploration and production, targeting advantaged barrels in support of the UN SDGs, Cairn is evaluating potential CO_2 capture and sequestration schemes (CCUS), to understand how these can be built up and deployed beyond the current areas of focus.

Continued upstream investment required to offset declines from existing oilfields[13].



Note: mb/d = million barrels per day.

11 International Energy Agency (2020), World Energy Outlook 2020, IEA, Paris.
12 BloombergNEF.
13 International Energy Agency (2020), World Energy Outlook 2020, IEA, Paris. STEPS is the IEA Stated Policies scenario: SDS is the IEA Sustainable Development scenario.
14 Bernstein, McKinsey, proprietary forecasts.
15 International Energy Agency (2020), World Energy Outlook 2020, IEA, Paris.
16 Shell; Future Energy Scenarios.
17 International Energy Agency (2020), World Energy Outlook 2020, IEA, Paris.

Climate Risk and Energy Transition

Climate risk and energy transition is considered a principal risk to our business. During 2020, we examined our business model and actions to date, to improve our strategy and set a clearer path towards net zero.

Global Energy Transition
In 2021, we anticipate a greater emphasis on global energy transition, with investors and businesses increasingly acting to limit temperature rise and governments furthering their commitments under the Paris Agreement. Nonetheless, the continued use of hydrocarbon fuels will be required for decades to come, albeit with technologies and mechanisms for reducing the emissions associated with their use.

We assess the resilience of our key assets against several transition scenarios, including the International Energy Agency's Sustainable Development Scenario. In 2020 we reviewed the likely impact of COVID-19 on demand and oil price. We also analysed the medium-term market outlook as a result of energy transition including implications of the IEA Net Zero Emissions 2050 scenario which points to the scale of the carbon reduction challenge ahead.

Governance
Our new Executive Committee, which replaces the Senior Leadership Team, reviews climate and energy transition issues, including the overall understanding of Cairn's position, as well as international and stakeholder drivers, and risk and opportunities.

We remain committed to reporting consistently and meeting investor needs. In 2020, we conducted an independent review of our Corporate Responsibility (CR) reporting as part of our continual improvement process and agreed with the Board that greater transparency on compliance with requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainable Accounting Standards Board (SASB) will be included in future years. As part of this journey, this year we have prepared a TCFD and SASB Index which signposts all relevant available disclosures within our reporting. Read more at www.cairnenergy.com/working-responsibly

We continue to make annual disclosures on climate change-related matters to CDP, improving our rating in 2020 from B- to B (management band), and we also submitted the CDP Water Security questionnaire at a basic level for the first time.

Strategy
Our responsible approach remains fundamentally unchanged, although our Corporate Responsibility philosophy now more closely embraces initiatives that contribute to the UN SDGs, including Affordable Clean Energy (SDG 7), Climate Action (SDG 13) and other climate-related goals.

Strategically, we are focused on driving down emissions in our operations over the short, medium and long term, and expect to play a meaningful role in energy transition by producing hydrocarbons responsibly, dedicating resources to emissions reduction opportunities and investigating investment opportunities in carbon capture, utilisation and storage (CCUS).

Risk and Opportunity Management
Each project, department and corporate group assesses risks and opportunities using the Cairn risk procedure over the short, medium and long-term. These are assimilated into a risk register and used to assess material issues for reporting purposes. In 2020, climate risk and energy transition was considered 'high' in terms of overall materiality assessment.

Where fixed installations are in place for production, modelling helps our understanding of physical risks and impacts associated with climate change and predicted severe weather events with safety implications. We had no operated fixed production installations in 2020, but our partners who operate in the UKCS apply a similar approach in both design and operation. Cairn's standard operating procedures can also be adapted to mitigate these physical risks, such as by using mobile drilling units capable of performing in the expected environmental conditions.

We continue to challenge our partners on emission reduction opportunities, and in 2020, we joined NECCUS, an alliance of industry, government, technology providers and academic experts committed to driving change and supporting the programmes needed to reduce carbon emissions from industrial sources in Scotland and beyond. We also help our communities adapt to physical risks, for example, through our investment in a mangrove rehabilitation project in Suriname, see page 60.

Current and emerging legislation continues to present both risks and opportunities. In the UK, our non-operated assets were subject to the EU Emissions Trading Scheme (ETS) and, after Brexit, the new UK ETS. No compliance issues were raised during the year.

Read more about these topics, metrics and targets, carbon intensity and energy efficiency benchmarking in our Corporate Responsibility Report: www.cairnenergy.com/working-responsibly

Facilitating the development of cost effective CCUS systems that can partner with the electrification of upstream operations in support of the responsible development of emerging market hydrocarbon resources will be a key enabler to sustainable growth. As the wider debate on delivering the energy transition matures and evolves, it is likely that the challenges and costs of rapidly growing alternative energy systems will become more widely understood and the critical requirement to find, develop and responsibly produce hydrocarbons to provide a bridge to a lower carbon future will become clearer.

Cairn is committed to transparency and we assess our reporting against the recommendations of the Task Force on Climate-related Financial Disclosure.

Identifying Material Corporate Responsibility Issues

To manage risk effectively and to operate with the support of our stakeholders, we need to understand the corporate responsibility issues that matter to them and are most significant to our business. We do this by conducting an annual assessment.

This assessment considers and classifies relevant issues, determined from international reporting frameworks including IPIECA[18], GRI[19] and SASB[20]. Issues are classified to indicate their importance to Cairn based on risk and their importance to stakeholders based on stakeholder and investor engagement.

The results of this materiality assessment are presented to the Board on an annual basis and reviewed in detail by Executive Board members.

The issues identified as material to both stakeholders and Cairn are shown in the matrix below.

We address the issues deemed to be of 'high', 'significant' and 'medium' importance in our Corporate Responsibility Report at www.cairnenergy.com/working-responsibly.

WHAT'S IMPORTANT TO OUR STAKEHOLDERS

The 60 issues identified as material to both stakeholders and Cairn are shown in the matrix below. This represents their relative positions after any adjustments were made to our assessment of the 'importance to stakeholders', in line with expert review.

Governance

1. Advocacy and Lobbying
2. Anti-Competitive Behaviour
3. Business Partners Alignment on CR Issues
4. Cairn ABC Practices
5. Climate Change Policy and Planning
6. Contractors and suppliers ABC
7. CR Governance
8. Data Protection
9. Fines and Prosecutions
10. Funding
11. Global Energy Transition
12. Government ABC Practices
13. Ineffective Whistleblowing
14. Investment (Home & Overseas)
15. JV Partners and Funding
16. Management of Material Issues
17. Operations in Sensitive and Complex Locations
18. Remuneration
19. Reserves Valuations & Capital Expenditure
20. Tax and Payments to Governments

Environment

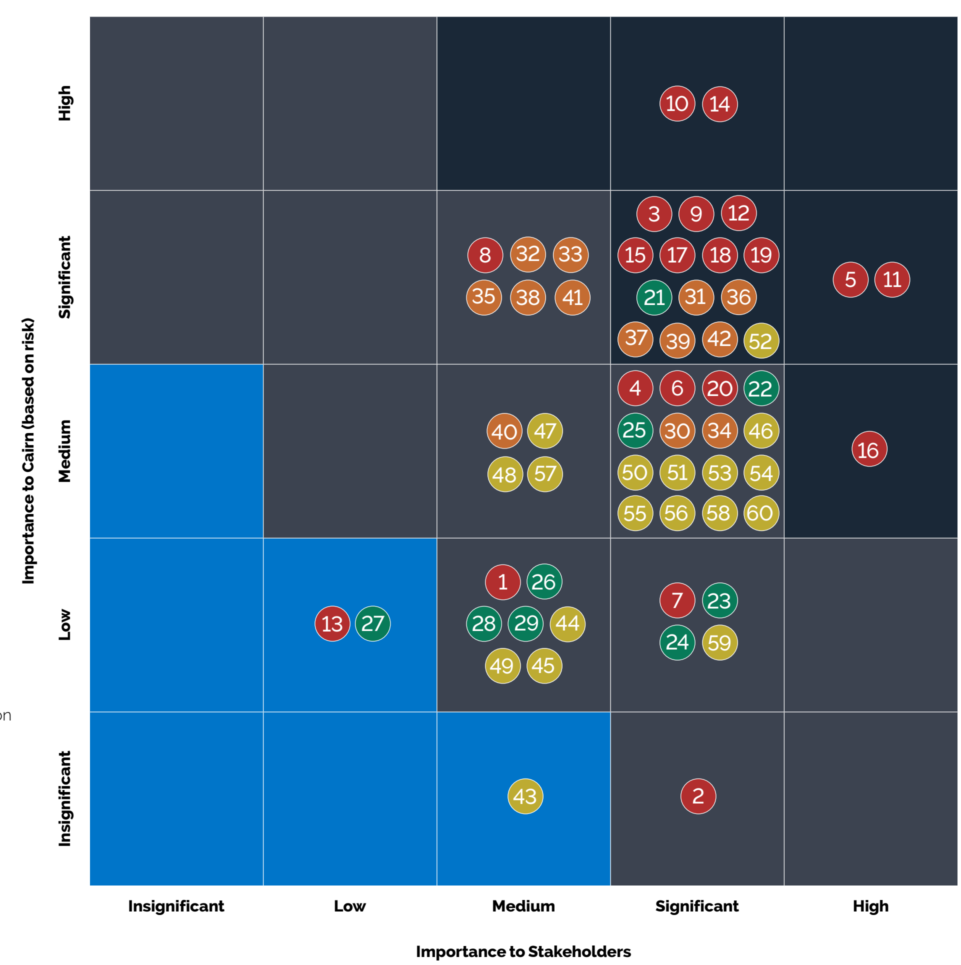
21. Biodiversity and Sensitive Areas
22. Discharges to Sea, Land and Sound
23. Energy Use and Alternative Sources
24. Freshwater Use
25. GHG Emissions (Including Venting and Flaring)
26. Materials Use
27. Product Stewardship
28. Reuse, Recycle and Waste Management
29. Use of Local Resources

People

30. Anti-discrimination
31. Assets Security
32. Contractor Selection, Capacity and Leadership
33. Cyber Security
34. Equal Pay, Equal Opportunity
35. Human Capital Development
36. Infectious Diseases
37. Major Accident Prevention
38. Office Security
39. Personnel Security and Travel
40. Talent Attraction
41. Workplace Health and Well-Being
42. Workplace Safety

Society

43. Anti-Discrimination (Beyond Employees)
44. Community Health
45. Cultural Heritage
46. Demonstrating Value Created
47. Economic or Physical Displacement
48. Freedom of Association
49. Grievances and Grievance Mechanisms
50. Human Rights Management
51. Indigenous People's Rights
52. Local Community Stakeholders
53. Local Content and Local Procurement
54. Local Energy Access
55. Local Hiring Practices
56. Local Workforce Development
57. Modern Slavery
58. Security and Human Rights
59. Social Investment
60. Working Conditions/ Ts and Cs



Theme Governance Environment People Society

Materiality High Medium Low

18 IPIECA Oil and Gas Industry Voluntary Guidance on Sustainability Reporting, 3rd edition, 2016.
19 Global Reporting Initiative.
20 Sustainability Accounting Standards Board.

Stakeholders and S172 Statement

Continuous engagement with stakeholders is an integral part of our day to day business. Their support is a fundamental component of our ability to operate.

Following the review of our Corporate Responsibility Management System (CRMS) and reporting in relation to the AA1000 Accounting Principles (2018), we have strengthened the link between our stakeholder engagement activities, our materiality process and our decisions and strategy. To ensure that the Directors are aware of stakeholder engagement activities carried out by senior management and other employees, regular updates are given to the Board both through the Board meeting process and ongoing Board communications from the Executive Directors. This allows the Directors to be assured that they are aware of stakeholder considerations when making key decisions.

The Board is aware of the importance of their role in: understanding stakeholder interests and concerns; balancing these fairly between the stakeholders of the company; and responding to them as part of their Board responsibilities. Importantly, we use stakeholder engagement to help us identify and prioritise issues most material to the business.

Stakeholder	Why it is important to engage?	How management and/or Directors engaged

Investors	– Our strategic and operational decision-making is influenced by our investors' views
	– We are dependent on access to funding
	– We are accountable to our shareholders
		– Comprehensive annual investor programme, which during 2020 was predominantly managed using virtual technologies, and included:
		  – Holding 164 investor meetings including one to ones and attending five roadshows or conferences. This number was lower than previous years due to the COVID-19 pandemic
		  – Conducting regular financial reporting
		  – Responding in a timely manner to investor and analyst enquiries
		  – As the AGM in 2020 was a closed meeting in accordance with measures put in place by the UK and Scottish Governments to help tackle the COVID-19 pandemic, shareholders were offered the opportunity to submit any questions by email in advance of the meeting

Governments	– We are responsible to them for compliance with local and/or international laws – Their permissions are required for us to access acreage and operate	– Meetings with Heads of State, UK and Country Ambassadors, Ministers and Civil Servants
Business partners, peers and contractors	– Their performance directly impacts our financial, operational and responsible performance – We are reliant on viable partners in joint ventures – We are commercially responsible to contractors, suppliers and partners	– For the majority of 2020, engagement was carried out using virtual technologies and included meetings with partners, peers and contractors with Board members and senior executives in addition to regular joint venture and operations planning meetings – Maintaining membership of industry bodies – Active management of key projects and assets (including alignment of project deliverables)

Supporting Section 172

Section 172 of the Companies Act 2006 sets out that a director should have regard to stakeholder interests when discharging their duty to promote the success of the Company.

The Directors of Cairn, both individually and together, consider, in good faith, that they have acted in a way that would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172 (1)(a)-(f) of the Companies Act 2006 (set out in the table below) in the decisions taken.

This approach ensures that all decision-making is adequately informed and is supportive of a Director's duty under Section 172.

What were the key topics of engagement	Examples of the impact of such engagement and responses taken	COVID-19 considerations
– Strategy and performance – Corporate governance – ESG matters including energy transition – Board composition	– Presentation on 'ESG and the evolution of expectations from investors and the public' provided at the Board meeting in June 2020 (discussed on page 80) – Board position changes (discussed on page 92) – Regular reviews of corporate objectives	Communication and transparency of our COVID-19 strategic response: capital and portfolio management and reassurance on business continuity
– Legal Compliance – Major accident prevention – Investment and economic growth – ESG matters	– Continued monitoring of responsible performance at Board meetings and annual review of CRMS and objective KPI setting – KPIs include performance against leading and lagging indicators for health, safety and environmental protection and are reviewed at all Board meetings (discussed on pages 30 to 33) – Reviewing feedback and commentary from government and regulatory bodies regarding performance expectation (see our responsible approach discussed on page 10)	Building on our longstanding pandemic and crisis response plan, we deployed a nine-step plan in April 2020 to ensure all business-critical activities were unaffected, in line with the controls and advice set out by host governments in our operating locations and multi-national organisations such as the WHO. The pandemic steering group of Oil and Gas UK (advised by Health Protection Scotland) has also proved to be a useful source of industry-driven information and recommendations
– Policies and standards – Industry reputation – Investment opportunities for growth – Long-term relationships – ESG matters	– Working with peers and partners by joining NECCUS, the alliance committed to driving the changes needed to reduce carbon emissions (discussed on page 37) – Careful selection of contractors (discussed on page 55) – Continued membership of IOGP Security Committee (performance against IOGP benchmarks discussed on page 54) – Ongoing close collaboration with JV partners to successfully deliver objectives (discussed on page 50 in respect of operations on Kraken and Catcher)	With the help of local partners, all survey work and vessel inspections were managed remotely. We have also monitored how non-operating partners have conducted drilling campaigns during the pandemic, ensuring that best practice has been followed

Continuous engagement with stakeholders is an integral part of our day to day business. Their support is a fundamental component of our ability to operate.

Stakeholder	Why it is important to engage?	How management and/or Directors engaged
Local communities and interest groups	– We have an ethical responsibility to minimise impact on livelihoods and the environments in which we operate – They provide a diverse perspective leading to new understanding of situations and the mitigation of tensions	– Community meetings – Social investment (discussed on page 60 in respect of Suriname) – Senior management visits – Media monitoring
Employees	– We are dependent on employees' performance and that of the wider workforce – We have a legal and ethical responsibility to their well-being – They bring a diverse perspective to the identification of opportunities and ways of working	– Regular staff meetings – Monthly pulse surveys – Twice-yearly Employee Voice Forum (EVF) meetings (discussed on page 76) – General Meetings – Exit interviews – Staff focus groups

What were the key topics of engagement	Examples of the impact of such engagement and responses taken	COVID-19 considerations
– Protection of resources and livelihoods – Community development and social investment – Access to employment and business opportunities – Transparency of payments to government – Biodiversity	– Community investment focus to include adaption to climate change (discussed on page 60 in relation to Suriname) – Continued membership of the Extractive Industries Transparency Initiative (EITI) – Supporting Invest in Africa to build skills and capacity among SMEs in Senegal to increase their potential of being awarded contracts in the industry (discussed on page 61)	– As part of our efforts to support the communities where we operate, we made several financial donations to increase social and economic benefits – In Senegal, we provided US$50,000 through our joint venture to help the Ministry of Health combat the pandemic, while in Suriname we donated US$50,000 to a national fund focused on the provision of vital intensive care equipment. An additional US$50,000 donation went to Fundacion para la Salud (Funsalud), a healthcare not-for-profit organisation in Mexico, to support its comprehensive COVID-19 relief efforts
– Strategy – Ways of working – Lessons learned from projects – Internal communication – Collaboration across teams – Remuneration and benefits	– Enhanced communication of our strategic priorities and performance – Team workshops held to heighten cross-functional collaboration – Health and well-being initiatives developed and delivered	– We ensured our office-based workers had what they needed to operate efficiently from home and our CEO personally called every individual in the Company. When restrictions extended into 2021, he repeated this. Relevant policies were adapted, business travel restricted and COVID-19 safe office space inductions were provided to those unable to work from home, in line with government guidelines. Additionally, online channels were used to maintain dialogue and support good mental health. We established a Return to Office (RTO) Steering Committee to oversee the safe return for office-based employees, with risk assessments and new protocols regarding social distancing and deep cleaning implemented

CEO'S REVIEW

Simon Thomson
Chief Executive Officer

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

Energy transition

As an exploration and production business, Cairn's role in the transition to lower net carbon energy is to responsibly produce hydrocarbons in support of the UN Sustainable Development Goals. The company is committed to driving down emissions in its operations wherever possible and has committed to the World Bank global gas flaring reduction initiative. During 2020, Cairn invested in the NECCUS project, which is examining proof-of-concept industrial carbon capture projects: an engineered solution to helping businesses and governments achieve CO_2 abatement on the path to net zero. Cairn also assesses its reporting against the Task Force on Climate-related Financial Disclosure and is committed to complying with its framework.

Financial flexibility to rebuild a balanced portfolio

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

With balance sheet strength, Cairn is well positioned to fund growth and we announced in March 2021, the proposed acquisition of 50% of Shell's production, development and exploration upstream interests in the Western Desert, Egypt for a purchase price of US$323m net to Cairn, with additional contingent consideration of up to US$140m net to Cairn if certain requirements are met. The remaining 50% of the interests will be acquired by Cairn's consortium partner Cheiron, an experienced local operator. Cheiron will operate the production and development assets and two exploration concessions, with Cairn operating three exploration concessions.

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

Transaction highlights:

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

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

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

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

India

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

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

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

Disposal of Senegal interests and return of cash to shareholders

The sale of Cairn's interests in Senegal to Woodside completed in Q4 2020, providing flexibility for future investment, enabling shareholder returns and avoiding significant long-term development capital expenditure. Cash received at completion was US$525m, comprising the US$300m acquisition consideration and a US$225m reimbursement of expenditure incurred on the sale assets since 1 January 2020. A further US$100m is payable to Cairn subject to certain conditions being met relating to the date of first production from the Sangomar development and the prevailing oil price at that time.

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

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

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

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

Simon Thomson
Chief Executive Officer

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

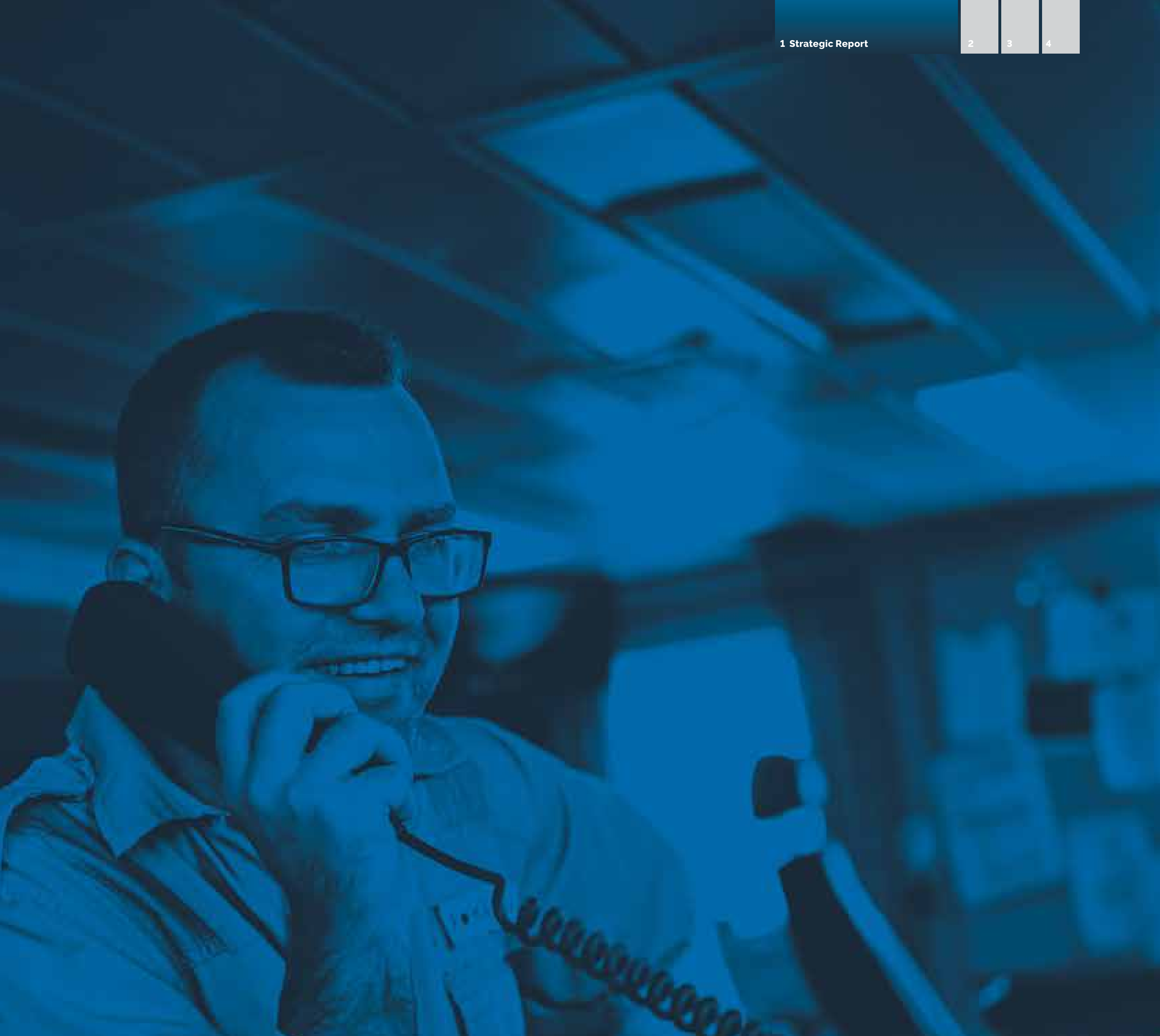
The proposed acquisition of Shell's Western Desert assets in Egypt is an important step in our strategic ambition to expand and diversify our producing asset base, bringing material reserve and production additions and offering exploration potential in a country with significant oil and gas growth opportunities.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

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

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

Cairn's sale of its interests in Norway and Senegal, together with swift re-alignment of its capital programme in early 2020, has given the Group strategic flexibility at a vital point in the commodity and industry cycle. We believe Cairn is strongly positioned to capture further opportunities for near term development, growth and cash flow. Cairn is focused on maintaining its track record of creating, capturing and returning value to shareholders.

RESPONSIBLE PORTFOLIO MANAGEMENT IS CORE TO OUR APPROACH



Strategic Disposals in 2020 Managing the Portfolio

We've always sought to be proactive portfolio managers in order to optimise our capital allocation and to retain the appropriate flexibility in our portfolio. Over the last year, we've monetised US$165 million from our Norwegian business, up to US$400 million of proceeds from the Senegal sale, and across those transactions we've avoided US$1.7 billion in capital commitments.

Proceeds from the Senegal sale

US$400m

Monetised from Norwegian business in 2020

US$165m

STRATEGIC DELIVERY FROM A RESILIENT PORTFOLIO

Simon Thomson
Chief Executive Officer

2020 was another year of strong strategic execution for the Company. Our financial flexibility sits at the core of that strategic execution, with an ongoing focus on retaining balance sheet strength and control over our own destiny.

The overarching philosophy of the business remains clear – to deliver value for all stakeholders in a responsible, disciplined and focused manner.

The best way of achieving this is for Cairn to maintain financial flexibility. It is that which enables us to remain in control of our destiny; to give us the freedom to pursue value creating opportunities.

That financial flexibility affords us a differentiated freedom to both actively manage the portfolio and to pursue accretive growth opportunities at what we believe is an attractive point in the cycle. Freedom to do the right things at the right time.

Cairn has long pursued a 'saw-tooth' strategy, which has seen the Company grow in size and value, then return capital to shareholders, before embarking on growth once again. That remains the case today, although the focus of the business may evolve to adapt to the changing market and economic cycle.

We recognise that the external environment will continue to be volatile with challenging conditions in the world, so whatever we do, we have to be able to demonstrate resilience and an ability to create value from it.

Active Portfolio Management
Having sold our interests in Senegal, where Cairn opened up a new basin with world class discoveries in 2014, and returned US$250million to shareholders, the focus now is to use our balance sheet strength and financial flexibility to actively manage Cairn's portfolio and seek out new opportunities for growth in our production base.

We have always wanted to increase our scale, not for the sake of it but for the additional flexibility that it provides. We've shown that it is possible to transact and manage the portfolio. This period is challenging but we have seen there are also opportunities and we need to make sure we seize them.

Attractive Opportunities to Grow
In terms of value growth, we can access attractive opportunities to grow and diversify the production base, reinforcing our sustainable business offering. These opportunities must enhance, not threaten, our financial flexibility, and must satisfy our strict investment criteria. They need to be robust and attractive no matter where we are in the cycle and take into account the needs of energy transition and decarbonisation. The portfolio also continues to offer transformational potential from opportunities with limited near-term capital commitments.

That means that while Cairn will continue frontier exploration and look closely at areas with transformational potential, it will always be balanced by strict risk, fiscal discipline and rigorous management processes.

We want to remain exposed to frontier positions; they just have to be the right options with the right level of risk exposure. We have to continue to have a laser focus on where we think we can add value on one hand, and a willingness to be pragmatic on the other.

That is one of the things that differentiates us; an ability and desire to still carry out exploration when others may not want to or be able to, but marry that with the discipline that we need to be successful. We have to constantly ask ourselves whether it is accretive to the business and ensure we are striking the right balance.

Read more on p40

Returned to shareholders through Senegal proceeds

US$250m

Responsibly Producing
The increased focus on the energy transition adds an extra layer of complexity to Cairn's risk management. We are obviously first and foremost an E&P company, and as such, our role is to responsibly produce hydrocarbons in support of the UN Sustainable Development Goals. Most research suggests that there will remain significant demand for fossil fuels over the near to medium term to supply the energy that the world needs.

The energy transition means that we need to be as good at assessing above-ground risks as we are with our below-ground assessment. We have to focus on each asset, what it brings to the portfolio, its overall emissions profile, and why it is better to continue with one above another. This requires a more detailed assessment of the risks than was perhaps carried out by companies ten years ago. We have to learn all the lessons we can and continue to improve because we are committed to minimising our impact on the environment.

Financial Flexibility
In the end, it is all underpinned by the financial flexibility that we want to maintain. It affords us the potential to make further shareholder returns as we balance capital discipline, growth opportunities and maintaining a responsible and sustainable business. These have always been our priorities, and these will not change.

The Cairn Approach

Our highly experienced leadership team has delivered transformational value for more than 20 years.

How We Create Value

We seek to create, add and realise value for stakeholders through the exploration, development and production of oil and gas within a self-funding business model. Production provides the cash flow to sustain the material value upside potential of exploration and development activity.

Read more on p8

Reshaping the Business

Our track record of effective portfolio management has provided significant returns to shareholders. The sale of our Indian business in 2012 enabled the rebuilding of our portfolio in the UK and Atlantic Margin. This successful approach to value continued in 2020 with the sale of Cairn's assets in Senegal and Norway. We have created a strong platform for future growth with active positions in a number of countries, providing significant acreage positions of technical and commercial value.

Exploration

Exploration is a core part of Cairn's DNA. Alongside continued exposure to select frontier opportunities with transformational value potential, we are increasingly focused on targeting high value and/or low cost resources, with optimal development timelines, scale and in supportive fiscal environments. We focus on basins where we can extract significant value, where we see a path to reduced environmental impact and on the carbon footprint of potential new discoveries.

Read more on p65

Development and Production

We aim to access attractive opportunities to grow and diversify the production base, reinforcing our sustainable business offering. New opportunities must enhance our financial flexibility, satisfy our strict investment criteria and remain robust in the face of ongoing commodity price volatility and against the longer-term backdrop of the energy transition.

Cairn's production assets in the mature and emerging basins of the UK provide balance to the exploration portfolio and deliver the cash flow to sustain future exploration.

Read more on p64

Financial Strength

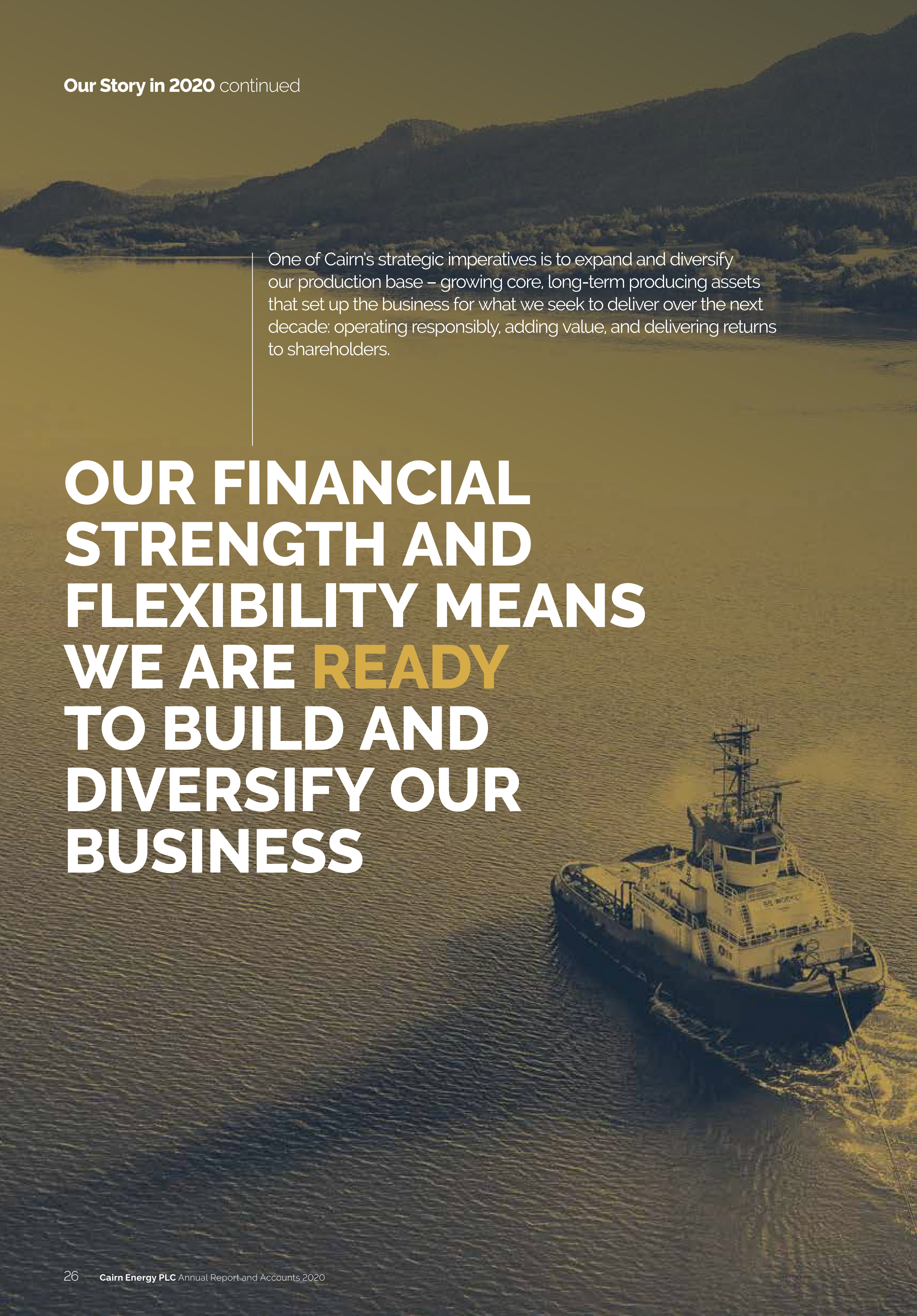
Our financial flexibility sits at the core of Cairn's strategic execution, with an ongoing focus on retaining balance sheet strength, liquidity, and control over our own destiny. That financial flexibility affords us a differentiated freedom to both actively manage the portfolio and to pursue accretive growth opportunities at what we believe is an attractive point in the cycle. Our financial flexibility also affords us the potential to make further shareholder returns as we balance capital discipline, sustainability and growth opportunities.

Read more on p66

Working Responsibly

Corporate responsibility remains at the heart of our business. We continue to prioritise the health, safety, security and well-being of our people, while promoting safe behaviours among contractors and partners. We remain committed to protecting the environment in the areas where we operate. Good governance is critically important, and we are committed to meeting all our obligations in a responsible and transparent manner.

Read more at www.cairnenergy.com/working-responsibly



One of Cairn's strategic imperatives is to expand and diversify our production base – growing core, long-term producing assets that set up the business for what we seek to deliver over the next decade: operating responsibly, adding value, and delivering returns to shareholders.

OUR FINANCIAL STRENGTH AND FLEXIBILITY MEANS WE ARE READY TO BUILD AND DIVERSIFY OUR BUSINESS

Strong track record of shareholder cash returns

US$4.9bn

Since 1999*

* figure includes Company purchase of own shares.

Flexibility and Discipline Underpinning Shareholder Returns

In a cyclical industry with high, often long-term capital commitments, a pillar of Cairn's sustained performance is balance sheet prudence. Supported by our active portfolio management, this has enabled us to deliver significant returns of cash to shareholders without jeopardising our ability to invest in creating the next leg of growth for the business. Decisions on capital allocation will continue to be a competition between reinvesting in the business and returning cash to shareholders.

Cairn Energy PLC
Shareholder returns

	Purchase of own shares (US$m)	Cash return to shareholders (US$m)
1999	43.1	–
2000	9.5	–
2007	–	935.7
2011	–	0.6
2012	–	3,575.2
2013	50.6	–
2014	50.3	–
2021	–	250
Total	**153.5**	**4,761.5**

FISCAL DISCIPLINE AND FINANCIAL FLEXIBILITY

James Smith
Chief Financial Officer

We have successfully managed the business through a challenging external environment. We took early action with significant reductions and deferrals to the capital programme. Alongside the sale of interests in Norway and Senegal, we have realigned the portfolio and demonstrated Cairn's continued commitment to shareholder returns. With a strong net cash position and limited capital commitments, Cairn is well-positioned to deliver further value for shareholders.

Given the nature of the industry we operate in, our core principle is, and always has been, flexibility. We aim to maintain the flexibility to pursue value creation options wherever we are in the investment cycle for oil and gas companies.

We have always taken a prudent approach to our balance sheet and sought to avoid taking on unsustainable levels of debt. We operate in an industry that frequently involves long-term capital-intensive projects that need to be delivered through changing oil and gas prices; and we want to ensure that we can focus our efforts on delivering material value for our equity shareholders rather than just working to service returns for our creditors.

We do this by making sure we retain the ability to invest throughout the cycle, giving ourselves the flexibility to take advantage of market conditions when we can, and avoiding being tempted to invest at the top of the cycle, when oil prices are high – but industry costs and asset prices are high too.

This means we have to consistently reassess our portfolio and be active managers of our asset base. There is always a danger that you are tempted to hold on to assets for too long or become overly attached to a single capital-intensive project at the wrong point in the cycle.

If we can derive greater value by selling an asset than we can generate ourselves by holding it, then that is what we will try to do. That is what we did with our Norway business and our Senegal operations in 2020, putting us in a sustained net cash position with very limited capital commitments from our existing portfolio. As a result Cairn is very well positioned to fund growth and expansion of the business at an opportune stage in the industry cycle.

This active portfolio management enables us to do two things. Firstly, it enables the return of cash to shareholders, and we see this as a key differentiator of the Cairn investor story. We will continue to ensure that every major capital allocation decision we make is a competition between reinvesting in the business and returning cash to shareholders.

"We need to ensure that the resources we're targeting can have a competitive role in a future where global oil demand is projected to be lower than it is today. That is a principle that drives all our strategic goals."

> We aim to maintain the flexibility to pursue value creation options wherever we are in the investment cycle for oil and gas companies."

Secondly, it enables us to invest in the sustainability of our cash flow-generating asset base, and that will be a key near-term strategic focus for us. We are seeking to expand and diversify our production base and right now, this is one of Cairn's key strategic imperatives. Our ideal position is to build a diversified and long-term base of producing assets that sets up the business for what we want to deliver over the next decade: operating responsibly, adding value, and generating returns for shareholders.

Ultimately, it is succeeding in doing this that will put us in the best position to support future returns of cash to shareholders. We will always build the portfolio in a way that maintains balance sheet flexibility and retains a capital structure that is resilient to price shocks. Crucially, this will also always be with a focus on the energy transition. We need to ensure that the resources we are targeting as we continue to explore and produce, can have a competitive role in a future where global oil demand is projected to be lower than it is today. That is a principle that drives all our strategic goals. We are positioning ourselves well for growth and expansion, but we are absolutely committed to doing that in a disciplined way, in a way that is sustainable and relevant, against the backdrop of a changing energy mix over time.

Case study

INDIA ARBITRATION AWARD

At the end of December 2020, an international tribunal ruled unanimously in Cairn's favour in its arbitration with the Government of India under the UK-India Bilateral Trade and Investment Treaty. The award of US$1.2bn plus interest and costs is now payable.

We have engaged with the Government of India regarding adherence to the tribunal's ruling, we are taking all necessary steps to protect our shareholders' rights to the value of the award under international law.

We remain proud of Cairn Energy's 20-year history in India, where we have been a model corporate citizen, invested significant sums in exploration and production and created a legacy asset in Rajasthan which has generated billions of dollars of revenue for the Government of India. Our investments in India are seen as a positive example of what can be achieved through collaboration between India and international companies.

Measuring Our Progress

Strategic objectives are set annually to monitor delivery of our strategy. These are measured by Key Performance Indicators (KPIs) set by the Board. Our risk management process identifies the principal risks to the delivery of our strategic objectives.

Strategic objective

Maintain licence to operate

Key risks:
- Climate change and its impacts on energy transition
- Lack of adherence to health, safety, environment and security policies
- Fraud, bribery and corruption
- Misalignments with JV operators

2020 KPIs

Achieve a number of specified leading indicators in relation to governance, people and society.

Achieve lagging HSSE indicators derived from IOGP targets, with threshold, target and stretch levels identified for measurement.

Influence JV partners in UK Continental Shelf including to target zero flaring during shutdowns.

Implement energy efficiency benchmarks for use in equipment selection for application in new operated drilling and seismic projects.

Focus on developing our people through talent management, organisational competency and employee engagement.

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)

15%

Bonus awarded

13.5%

Past performance in KPI category:

2020	90%
2019	86%
2018	90%

2020 Progress

OSPAR audit completed in 2020 with no major findings.

CSR projects (Suriname mangrove rehabilitation and NATIN) on course at end of 2020 despite COVID-19. Additional programme development for Mexico commenced.

No LTIs or recordable incidents in 2020.

No recordable spills above the IOGP lowest spill benchmark.

Energy efficiency methodology for the Group's operated E&A activities has been developed.

2021 KPIs

Achieve a number of specified leading indicators that support Company policies and standards in relation to governance, people and society.

Achieve lagging HSSE indicators derived from IOGP targets.

Complete Phase 1 of CCUS (carbon capture, utilisation, and storage) application and evaluation.

Further develop the framework, in line with the UN SDGs, for the social investment plans across the Group, including quantifying the overall impact of the programme(s).

Communicate our climate change performance and our processes for governance, risk management and target setting using the CDP, SASB and TCFD frameworks.

Strategic objective

Deliver a sustainable business

Key risks:
- Volatile oil and gas prices
- Political and fiscal uncertainties
- Diminished access to debt markets
- Failure to secure prompt and/or full payment of India arbitration award

2020 KPIs

Ensure balance sheet strength with achievement measured across three categories: attainment of certain financial tests in line with funding strategy; portfolio management; and resolution of Indian arbitration and recovery of proceeds in event of success.

Remuneration Committee Decision

Weighting

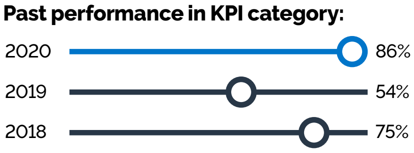
(as % of allocated proportion of maximum opportunity)

35%

Bonus awarded

34%

Past performance in KPI category:



2020 Progress

Funding headroom was maintained throughout the year covering the Group's committed forward capital expenditure.

Sale of Sangomar asset with cash received at completion of ~US$525m provided capital to allow both a return of capital of ~US$250m to shareholders and a further strengthening of the balance sheet.

The tribunal ruled unanimously in Cairn's favour in the Indian arbitration, awarding damages to Cairn of US$1.2 billion plus interest and costs, which became immediately payable. The total due at the year-end was US$1.7 billion.

2021 KPIs

Demonstrate balance sheet strength reflected in three categories: meeting financial tests in line with funding strategy; portfolio management; and recovery of Indian arbitration proceeds.

Measuring Our Progress

Strategic objective

Deliver exploration success

Key risks:
- Lack of exploration success

2020 KPIs

Mature new exploration or appraisal targets with JV support for drilling in the period 2020-2022.

Successfully drill and evaluate the wells planned for the 2020 work programme.

Discover or add potentially commercial hydrocarbons with threshold, target and stretch levels identified for measurement.

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)

25%

Bonus awarded

9%

Past performance in KPI category:

2020 36%
2019 45%
2018 46%

2020 Progress

Four prospects were matured to 'drill-ready' status: Diadem and Jaws in the UK Continental Shelf and Saasil and Sayulita in Mexico.

In 2020, two wells were successfully drilled in Block 7 (Ehecatl) and Block 9 (Bitol) in Mexico. Both wells reached their planned subsurface targets and gathered the appropriate data. The cost of the Ehecatl well was at AFE level but the cost of the Bitol well was over the AFE level.

No new contingent resources were added in 2020 as both of the above wells were unsuccessful in finding hydrocarbons.

2021 KPIs

Mature prospects achieving commercial thresholds that can be considered for future exploration drilling.

Conduct our operated and non-operated exploration and appraisal activities successfully, on time and on budget.

Add new commercial resources to replace reserves and grow value.

Strategic objective

Progress developments

Key risks:
- N/A

2020 KPIs

Achieve certain milestones on the Sangomar (formerly SNE) development in categories of subsurface, wells, subsea, FPSO and project controls.

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)

10%

Bonus awarded

9%

Past performance in KPI category:

2020 90%
2019 94%
2018 76%

2020 Progress

Prior to the sale of Sangomar:
- Three of the five project execution milestones relating to subsea, FPSO & project controls were fully met.
- The two remaining milestones, subsurface and wells, were substantially met.

2021 KPIs

N/A

Strategic objective

Production performance

Key risks:
- Underperformance on Kraken and Catcher assets
- Misalignments with JV operators
- Volatile oil and gas prices

2020 KPIs

Deliver Group production in line with guidance for 2020.

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)
10%

Bonus awarded
6%

Past performance in KPI category:

2020	60%
2019	100%
2018	57%

2020 Progress

Out-turn production from Kraken and Catcher during 2020 was within guidance at approximately 21,350 bopd net to Cairn.

2021 KPIs

Convert Resources to Reserves.

Deliver net production and operating costs within guidance targets.

Strategic objective

Portfolio management

Key risks:
- Failure to secure new venture opportunities

2020 KPIs

Secure new venture opportunities that meet the corporate hurdles and have risk levels consistent with our Risk Appetite Statement.

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)
5%

Bonus awarded
3.5%

Past performance in KPI category:

2020	70%
2019	88%
2018	100%

2020 Progress

Following Tullow giving notice that they intended to withdraw from six out of seven blocks in Côte d'Ivoire. Cairn opened negotiations with Tullow and subsequently took Operatorship in blocks CI-301 and CI-302.

2021 KPIs

Mature prospects achieving commercial thresholds that can be considered for future exploration drilling.

Conduct our operated and non-operated exploration and appraisal activities successfully, on time and on budget.

Add new commercial resources to replace reserves and grow value.

At Cairn, our responsible approach – striving to deliver value in a safe, secure, environmentally and socially responsible manner for all our stakeholders – is embodied in our policies, standards and procedures. And whether we're looking to reduce our overall carbon footprint, assessing the energy efficiency of the vessels and rigs we use or deciding which social impact projects to invest in, a long-term view is always essential.

RESPONSIBLE DOING THE RIGHT THING OVER THE LONG TERM

Phasing Out Routine flaring

Oil production and refining operations can use flaring as a way to dispose of associated or excess gas when it is uneconomic to process, or there is no viable market. The industry has continued to reduce the amount of natural gas that is flared and in July 2020, we endorsed the World Bank's Zero Routing Flaring (ZRF) initiative, which seeks to phase out routine flaring by 2030.

Capacity Building in Senegal

As part of the Rufisque Offshore, Sangomar Offshore and Sangomar Deep (RSSD) joint venture, Cairn continued to support Senegal's National Institute of Oil and Gas (INPG) alongside our Joint Venture (JV) partners. The Institute was established to develop the country's fledgling petroleum industry by training its future workers and leaders. During 2019 and 2020, approximately US$240,000 was provided by the JV to support the development of a 10-year business and operational plan, providing a blueprint for in-country capacity building, training and development. This funding was in addition to a JV contribution of IT and office equipment to the value of US$250,000 in 2019, when establishing the INPG's foundation office.

JV amount provided to support a 10-year business and operational plan to support Senegal's fledgling petroleum industry

US$240,000

JV contribution of IT and office equipment to support the set-up of Senegal's National Institute of Oil and Gas (INPG)

US$250,000

OUR RESPONSIBLE APPROACH: ESG PRIORITIES

Paul Mayland
Chief Operating Officer

At its most basic level, ESG responsibilities are about doing the right thing. I think it boils down to a quote included in our Corporate Responsibility Management System (CRMS), from Martin Luther King: "It is always the right time to do the right thing", which for me encapsulates everything that is needed in respect of our operations.

Over time there have been different areas of emphasis within ESG: health and safety of individuals and operations, environmental impact, broader corporate responsibility and inclusivity and diversity. For Cairn, our approach has been consistent since we started and our culture of responsibility is embedded in our management systems and across the organisation. In the last decade, we've structured this philosophy to tie more directly with the United Nations Sustainable Development Goals (UN SDGs).

In India for instance, we worked closely with the World Bank and International Finance Corporation. We brought in experts and listened to locals to make sure that we were investing in the local projects that would have the greatest social impact and be sustainable, for instance, in rainwater harvesting in the desert (UN SDG 6 – Clean Water), or in mobile health facilities in rural areas (UN SDG 3 – Good Health).

In Senegal, we worked with the Hunger Project on microfinancing initiatives for the fishing industry. In one project we focused on improving octopus fishing, which was a key economic driver for the community. It enabled local fisherman to invest in porcelain pots that served as a nursery for baby octopi. The impact was that it increased the population of the creatures, which meant the industry could become more productive and at the same time more sustainable over the long term.

This has been part of our DNA, and we have always sought to invest sustainably, so that even if we move on, as we did in India and more recently in Senegal, the projects and initiatives that we helped set up, stay in place, and are able to continue to have a positive impact for many years to come.

On the environmental side, there are lots of different aspects to consider. One current focus is on emissions (particularly greenhouse gas emissions from production operations), but it goes far wider than that. Whenever we plan and execute a drilling programme, or a campaign to shoot seismic, we draw up an execution plan which looks at all aspects of our operations – the impact on the seabed, the water we use, the waste we produce, and the emissions impact. We make sure that we are always looking at ways to improve our environmental performance and how we can design in improved efficiency and a reduced carbon footprint. Put simply, we try to use less energy in our operations.

> **"We make sure that we are always looking at ways to improve our environmental performance and how we can design in improved efficiency and a reduced carbon footprint. Put simply, we try to use less energy in our operations."**

What is important is to make sure you measure your impact in the most meaningful and helpful way. Clearly, our operations may change from year to year depending on whether we are acquiring seismic, drilling, undertaking developments, or producing, at any given time. It means that our impact can vary considerably depending on the activities that are ongoing in our portfolio. Just measuring that on an absolute basis would not paint a particularly appropriate picture of how we are performing and whether we are improving, so it's crucial to make sure we set the right benchmarks, so we can analyse our impact and performance over time.

At a portfolio level, we have started to use a tool developed by Stanford University that analyses the estimated greenhouse gas (GHG) emissions of projects over a life cycle as they have to be competitive, not just in terms of costs, but in terms of the energy transition.

"We have always sought to invest sustainably, so that even if we move on, as we did in India and more recently in Senegal, the projects and initiatives that we helped set up, stay in place, and are able to continue to have a positive impact for many years to come."

As an exploration and production company, we are not involved in refining our products, but we work hard at tackling what we can control in our operated and increasingly our non-operated upstream ventures, particularly in relation to Scope 1 and Scope 2 emissions.

There are some areas in which renewables are very well-suited. I can see a world where oil and gas fields are powered more by renewables, (we used solar panels to power platforms at the Ravva field in the Bay of Bengal in India, more than fifteen years ago) whether that be solar, offshore wind or wave power, as technologies evolve. Renewables such as onshore/offshore wind and combined cycle gas turbines (CCGT) can be very complementary when used together to provide reliable and affordable power for a country.

Oil and gas are very likely going to be required in some areas for quite some time, although they may be in focused sectors (e.g. power or transport), and the industry will aim to reduce the associated emissions through technology such as Carbon Capture, Utilisation and Storage (CCUS). One of the key early stage projects that we are involved in evaluating is CCUS through the NECCUS consortium in Scotland. Because of our subsurface, drilling and operations skills, storage and monitoring (of CO_2) is an area where we may have a role to play as this technology is deployed more extensively around the globe to meet the requirements of the Paris Treaty.

Case study

SUPPORTING THE POTENTIAL OF CCUS

We believe that Carbon Capture, Utilisation and Storage (CCUS) and/or Direct Air Capture (DAC) and Carbon Storage may have a significant role to play in allowing existing industrial emitters to continue operating on a net zero or reduced emissions basis. This could be important to help decarbonise industry, particularly the difficult to abate sectors such as cement, chemicals, steel and refineries. It is also fundamental to the generation of blue hydrogen.

Blue hydrogen is made from natural gas and whilst CO_2 emissions are generated through the process of reformation, these can be captured and stored allowing the hydrogen to be used for the same purposes as natural gas today in space heating, transportation and power.

Consequently, this is one of the reasons why Cairn joined NECCUS (North East Carbon Capture & Storage), an alliance of industry, government, technology providers and academic experts committed to drive change and support the programmes needed to reduce carbon emissions from industrial sources in Scotland and beyond.

The consortium is developing an industrial roadmap to support Scotland's ambition of net zero carbon emissions by 2045. Cairn, alongside other industrial partners and government, is providing funding and expertise as NECCUS evaluates multiple carbon reduction technologies in the development of an energy system model covering key industrial sites along Scotland's East Coast, where Cairn is headquartered. Solutions developed will inform the development of the fully-integrated plans to achieve net zero. The Acorn CCUS project is Scotland's first, and further CCUS projects will emerge, which we will consider in due course. Finally, we will continue to report annually to the CDP forum. That is the Carbon Disclosure Project (CDP), the international organisation for transparency and climate governance, and receive an independent rating from them.

OUR STRATEGY HAS BEEN REFOCUSED

Our ongoing fiscal discipline and financial flexibility leave us well-positioned for two things. First, active portfolio management and capital allocation, as we seek to both grow and diversify our production base. Secondly, a retained focus on generating further shareholder returns from future monetisation opportunities. Our capital programme has been adjusted to current market conditions, leaving limited near-term capital commitments. As an E&P company, first and foremost, our role in the energy transition remains to responsibly produce hydrocarbons in support of the UN Sustainable Development Goals.

Advantaged Barrels

The resources we target must be able to be discovered, developed and produced competitively in a lower oil demand future. This means oil and gas that can be produced for low break-even cost, for example, or resources that can be accessed through infrastructure-led exploration activity, implying lower capital commitments and shorter cycle times to potential production. Supportive fiscal regimes and strong alignment with our ESG priorities will also contribute to more competitive and attractive resources.

These factors support resources that can be described as 'advantaged barrels'.

FLEXIBLE EXPLORATION PORTFOLIO

Eric Hathon
Exploration Director

We continue to high grade our exploration opportunities, focusing on resources with a clear path to commerciality and value realisation, where developments can be optimised, and in supportive fiscal regimes. We have exited some high reward, but high-risk exploration plays to focus primarily on those plays with the best chance of a relatively rapid return on investment and increasing the resilience of our portfolio. We have enhanced our emphasis on the overall potential carbon footprint of ventures, both in the exploration and potential future production phase.

Exploration has always been a core part of Cairn's success. For me, the principle behind it is no different from any other area of the business. It's all about creating value.

In a constrained world of changing commodity prices, we are fortunate that our licences provide flexibility in our choice and timing of capital expenditures. We will remain invested in very select frontier opportunities: those which have the greatest potential to drive significant shareholder value, while remaining focused on fiscal discipline and the path to commerciality.

Frontier and transformative exploration will always play an important part of the mission to discover hydrocarbons in large quantities, but today the focus is on finding oil and gas that is advantaged.

Advantaged Barrels
This could mean a particularly low break-even cost of production, or that a particular discovery benefits from the ability to bring hydrocarbons to market more quickly and efficiently than others. It could mean looking at places where there is existing infrastructure that we can benefit from, avoiding significant capital spend. That would mean we benefit from capabilities already in place, which may mean it will be higher value, as well as having lower emissions. It is clear that not every discovered resource is going to be developed so our job is assessing which resource can be the most competitive and relevant in the energy transition.

Responsible Approach
Today, there is also a much greater focus on assessing the emissions associated with any discovery. We have to look at the carbon footprint of potential new barrels. What is involved in finding them? What is the footprint associated with developing them? What is the quality of the resource itself? Every element of the advantaged barrel must fit with the world of the energy transition. It is these factors that drive our opportunity ranking and define our strategic focus.

Rigorous Screening
As a result, we need an even more rigorous system for screening exploration opportunities. Firstly, there is the subsurface quality – the geology and the quality of the reservoir. Secondly, we look above ground. What is the infrastructure like in-country and what are the geopolitical risks? This involves analysis of the ease of doing business in a country. Is there sanctity of contract? What is the legal framework? We consider the carbon footprint and if the resources align with our ESG priorities. Finally, there is the commercial aspect. Is there a clear path to commerciality? It goes back to finding the advantage that enables us to create value.

Once we've taken those factors into account, we are relatively agnostic when it comes to which geographies the Company will operate in, provided they align with our responsibility focus. We don't want to be too focused on an individual geography, or we may miss an attractive opportunity over the horizon. Exploration is global. It is far more important that we can derive value from a discovery, wherever it takes place.
Our approach is to look at many different opportunities against our advantaged barrels criteria. If we have success, we can continue, and if not, we will take the learnings and move on.

"Exploration has always been a core part of Cairn's success... Frontier and transformative exploration will always play an important part of the mission to discover hydrocarbons in large quantities, but today the focus is on finding oil and gas that is advantaged."

Balanced Approach
At present, we have some transformational frontier prospects, for instance, in our acreage in Suriname, but we also have infrastructure-led exploration in the North Sea. We are always looking to make sure we have the right portfolio balance between risk and the potential reward, all with a mind on path to commerciality, carbon footprint and ultimately, value.

New Technology
A key element of success is making use of the new tools that are available to us. People have been exploring for oil for more than 100 years so it is fair to say the easy hydrocarbons have been found, but new technology has unlocked new fields. New techniques can provide significantly more advanced imaging, which when combined with Artificial Intelligence and Machine Learning, has been transformational.

If you take a typical seismic campaign, these generate vast quantities of data that the traditional geophysicist would have to go through line by line to build up a picture. Machine Learning can now generate this far more quickly and accurately. It means that geophysicists can now spend their time on analysis and evaluation: gathering the maximum value from interpreting the picture, instead of creating it.

This approach allows the explorer to work more rapidly, but it doesn't change the fundamental equation. It's still exploration, it's still about the path to commerciality, and that remains a core part of Cairn and what we do.

Today Cairn has a flexible exploration portfolio with a balance of near-infrastructure, short cycle time opportunities with high value, while remaining invested in selected larger, more frontier opportunities. We have choice in the timing and extent of our capital spend and are evaluating other interesting opportunities which may fit our exploration model.

Left to right: Bryan Magwood, Hester Claridge and Sally Molyneux, the first scholarship recipients

Case study

CLEAN ENERGY SCHOLARSHIPS

Cairn has a long history of working with Heriot-Watt University and in collaboration with them, over the next four years, we will be supporting up to 15 Masters and doctoral students in clean energy research with Cairn Energy scholarships and through support of a new clean energy focused doctoral programme.

We are developing talent and guiding research and clean energy from a subsurface and geoscience perspective, which are key areas of expertise for Cairn.

The research focus includes carbon capture and storage, geothermal and other clean energy initiatives. The energy transition needs expertise and detailed knowledge of the subsurface and we are very proud to be helping support the new generation of scientists who will lead us to a cleaner future.

Risk Management

Successful and sustainable implementation of our strategy requires strong corporate governance and effective risk management. We deliver this through a comprehensive framework of business policies, systems and procedures that enable us to assess and manage risk effectively.

Managing Business Risks
Managing risks and opportunities is essential to Cairn's long-term success and sustainability. All investment opportunities expose the Group to political, commercial and technical risk and the Group maintains exposure to these risks at an acceptable level in accordance with the Group's appetite for risk.

The Group's risk management framework provides a systematic process for the identification and management of the key risks and opportunities which may impact the delivery of the Group's strategic objectives. KPIs are set annually and determining the level of risk the Group is willing to accept in the pursuit of these objectives is a fundamental component of the Group's risk management framework. As outlined below, this integrated approach to the management of risk and opportunity plays a key role in the successful delivery of the Group's strategy.

Cairn's system for identifying and managing risks is embedded from the top down in its organisational structure, operations and management systems and accords with the risk management guidelines and principles set out in ISO 31000, the International Standard for Risk Management. The Group's risk management structure is set out below. This framework for risk assessment applies to all risk types including operational, health and safety, environmental, climate change, financial and reputational.

Risk Governance
Overall responsibility for the system of risk management and internal control and reviewing the effectiveness of such systems rests with the Board. Principal risks, as well as progress against key projects, are reviewed at each Board meeting and at least once a year the Board undertakes a risk workshop to review the Group's principal risks.

The Group's framework for risk management promotes a bottom-up approach to risk management with top-down support and challenge. The risks associated with the delivery of the strategy and work programmes and the associated mitigation measures and action plans are maintained in a series of risk registers at Group, asset, function and project level. Reporting of these risks within the organisation is structured so that risks are escalated through various internal management, Board committees and to the Board itself.

GROUP'S RISK MANAGEMENT FRAMEWORK

Outline the strategy
Set a sustainable strategy to achieve Cairn's near and longer term goals.

Define strategic objectives
Set clear strategic objectives in the form of KPIs.

Define risk appetite
Determine the level of risk the Group is willing to accept in the pursuit of its strategic objectives and document this in the Group Risk Appetite Statement.

Identify key risks
Identify key risks to the achievement of strategic objectives and associated opportunities, through discussions at a Board, Risk Management Committee, Management Team, Regional and functional level.

Apply risk assessment process
Apply the Group risk assessment process to ensure the ongoing management of key risks to our objectives.

Deliver strategic objectives
Delivery of strategic objectives through informed risk-based decision-making.

RISK GOVERNANCE FRAMEWORK

Top-down: Oversight, accountability, monitoring and assurance

The Board

Holds overall responsibility for the Group's risk management and internal control systems

Sets strategic objectives and defines risk appetite

Sets the tone and influences the culture of risk management

Completes robust assessment of principal risks

Risk Management Committee (RMC)
Executive Committee chaired by CEO in 2020

Responsibility for setting the direction for risk management

Facilitates continual improvement of the risk management system

Audit Committee
Chaired by Non-Executive Director in 2020

Monitors and reviews the scope and effectiveness of the Company's systems of risk and internal control

Reviews principal risks and output from the RMC meetings

Management Team
Chaired by COO in 2020

Performs a quarterly 'deep-dive' review of the Group risk register

Asset/Project/Function level

Risk identification, assessment and mitigation completed at asset, project and functional level

Risk management system embedded and integrated throughout the Group

Risk culture influencing all business activities

Bottom-up: identification of risks and mitigating actions for assets, projects and functions

Viability Statement

Strategy, business model and context
The Group's strategy and business model are described on pages 8-11 of this report.

2020 was dominated by a sharp fall in commodity prices during the second and third quarters as a result of significant oversupply from OPEC+ from March combined with the unprecedented demand destruction resulting from the COVID-19 pandemic lockdown measures.

Operating cashflows, generated from the Group's interests in the Catcher and Kraken fields located in the UK North Sea, although partially supported by oil hedging activities, were severely impacted. In response to these conditions, capital programmes originally planned for 2020 along with other discretionary expenditures were reduced or deferred in order to maintain liquidity and balance sheet strength.

The divestment of the Norwegian business, announced towards the end of 2019, completed at the beginning of the year. The Group also disposed of its interests in the Sangomar development and associated exploration area in Senegal. This transaction completed at the end of 2020. These disposals enhanced the Group's liquidity in the short term through the receipt of sales proceeds, and significantly reduced the Group's committed capital expenditure programmes in the medium term.

Commodity prices stabilised towards the end of the year, albeit at lower levels than before the pandemic. This, combined with the additional liquidity created by the completion of the Senegal transaction, allowed the Group to return significant capital to shareholders via a special dividend paid in January 2021.

The proposed joint acquisition of Shell's Western Desert assets in Egypt is an important step in our strategic ambition to expand and diversify our producing asset base. The acquisition will be funded by existing cash balances and new debt facilities. We have also announced the proposed sale of our interests in the UK Catcher and Kraken fields. The divestment of these assets, which are now falling into natural decline, will further strengthen our ability to pursue Cairn's strategic goals at an opportune point in the cycle.

Operating cashflows from our producing assets will continue to be the primary source of the Group in the near to medium term. The completion of the Western Desert acquisition, currently expected in H2 2021, brings with it low cost onshore oil and fixed price gas production.

In December, the tribunal established to rule on Cairn's claim against the Government of India under the UK-India Bilateral Investment Treaty found in Cairn's favour. The tribunal ruled unanimously that India had breached its obligations to Cairn under the Treaty and awarded to Cairn damages of US$1.2billion plus interest and costs. Although this amount is now payable, the timing of receipt remains uncertain.

In assessing its capital programme over the viability period the Group will also consider opportunities for portfolio management to ensure the allocation of capital is optimised over that period.

Assessment process and key assumptions
The Group's financial outlook is assessed primarily through its annual business planning process. This process includes a Board strategy session, led by the Senior Leadership Team (now the Executive Committee), at which the performance of and outlook for the business are assessed and capital allocation decisions are made. The outputs from the business planning process include a set of Key Performance Objectives, the Group risk matrix, the anticipated future work programme and a set of financial forecasts that consider the sources of funding available to the Group against the capital requirements of the anticipated future work programme (the base plan).

Key assumptions which underpin the annual business planning process include forecast oil and gas prices, forecast cost levels for oil and gas services and capital projects, production profiles, operating costs of the producing assets, the availability of debt under the Group's lending facilities and the Group's ability to access further capital to support other projects.

The Board recognises that the long term work programme is dependent on the results of future exploration or appraisal activity and that it is the Group's strategy to actively manage its licence portfolio to optimise its planned capital allocation. Consequently, reflecting this inherent variability in the longer term work programme the Board has determined that three years is the appropriate period over which to assess the Group's prospects.

Viability
The principal risks and uncertainties that affect the Board's assessment of the Group's viability in this period are:
- operational performance of its producing assets;
- delays to and/or cost overruns in planned capital activities;
- the effect of volatile oil prices on the business and our partners financial position;
- the availability of existing and new debt facilities to fund our capital programme;
- the timing of any receipts relating to the Group's arbitration award against the Government of India; and
- the results of any exploration or appraisal activities.

The base plan incorporates assumptions that reflect these Principal risks as follows:
- projected operating cashflows are calculated using a range of production profiles and assume oil and gas prices in line with the recent average forward curve prices;
- material budget contingencies and allowances are included in cost estimates for any drilling and development projects;
- whilst seeking payment of the arbitration claim against the Government of India remains a strategic priority, the funding plan does not rely on any receipts during the period;
- lack of exploration or appraisal success would impede the delivery of Cairn's strategy but is not be expected to affect the Group's ability to fund its committed work programme.

The Board also considers further scenarios around the base plan. These primarily reflect a more severe impact of the principal risks, both individually and in aggregate, as well as the additional capital requirements that would result from future exploration or appraisal success or the acquisition of new assets.

The Directors consider the impact that these principal risks could, in certain circumstances, have on the Company's prospects within the assessment period, and accordingly assess the opportunities to actively manage its licence portfolio and planned capital allocation as well as to bring in additional sources of funding at key milestones in asset development. Ultimately, if this culminated in a failure to fund the Group's share of costs associated with an ongoing project, this may result in the forfeiture of its interest in that licence.

Based on the actions available to them, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

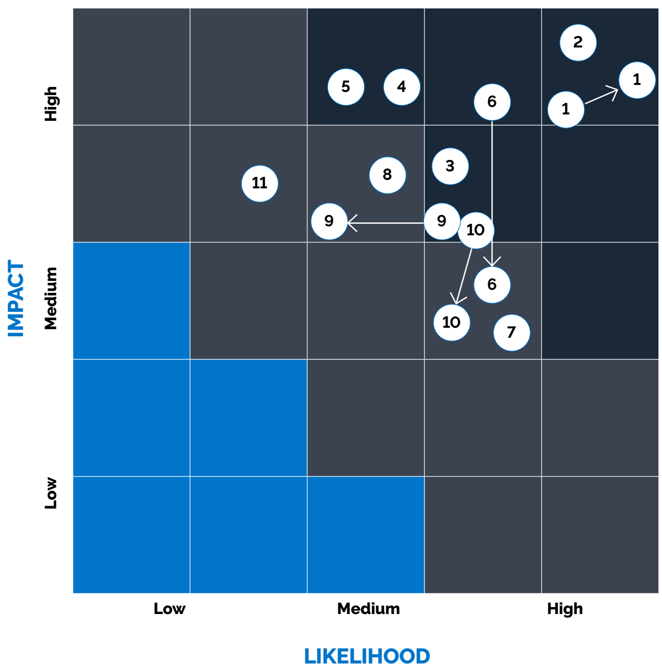
Responding to the Changing Risk Environment in 2020

As part of our goal to seek continual improvement of the risk management process, the following tasks were completed in 2020:

- The Board completed a risk workshop which focused on further understanding potential cyber threats to the business. The objective of the workshop was to provide the Board with further insight into the growing threats from cyber risk with a focus on the changing risk environment resulting from the increase in homeworking. The workshop was facilitated by EY who provided an external view on some of the projects identified as priorities from peer companies;
- The Group implemented a new risk management and incident management software solution. The solution will facilitate improved reporting on all operational and corporate risks to the Group and will provide a more systematic process for the management of risks, controls and actions across the business;
- The Management Team conducted a quarterly review of the risks, mitigations and actions identified on the Group risk register to ensure ownership for the risks, mitigations and actions were clearly assigned and implementation dates for actions were tracked;
- Several activities were completed to enhance our bribery and corruption controls across the business including the completion of a Group-wide bribery and corruption risk assessment which supplemented the country risk assessments already in place. Compliance certificates were also completed by key staff members and contractors confirming compliance with the Group's Code of Ethics;
- A compliance dashboard was maintained to assess compliance with several key regulations impacting the Group including the UK Bribery Act, the general data protection regulations (GDPR), the corporate criminal offence for the failure to prevent the facilitation of tax evasion (CCO), the Group's corporate major accident prevention policy (CMAPP) and modern slavery. The dashboard was presented at each Risk Management Committee meeting and annually to the Audit Committee as part of the year end control assessment;
- The IT department continued safeguarding its end user estate through the roll out of critical system and security patches to ensure any outsider threats were made known and home workers were protected. Additional security controls were also implemented to protect against any malicious COVID SPAM and phishing attempts;
- Assurance maps for the Group were updated in Q1 2020 to capture the key sources of assurance for business-critical activities across the Group. The assurance map will be updated annually;
- EY, the Group's internal auditor, delivered the annual internal audit plan which consisted of several risk areas identified from the risk register. Topics covered in 2020 included the new ventures process, tax governance, Mexico operations and IT general controls. The Group has been working through the year to implement the identified improvements; and,
- To ensure awareness, understanding and compliance on important governance, regulatory and security topics, mandatory e-learning was also implemented across the Group, which included comprehensive modules on bribery and corruption, CMAPP, GDPR, human rights and cyber security.

Principal Risks to the Group in 2020-2021

The following pages provide a summary overview of the principal risks to the Group at the end of 2020, the potential impacts, the mitigation measures, the risk appetite and the KPIs or strategic objectives the risks may impact.



Risk		Viability
1	Volatile oil and gas prices	✓
2	Failure to secure prompt and/or full payment of India arbitration award	✓
3	Climate change policy and its impacts on energy transition	
4	Underperformance on Kraken and Catcher assets	✓
5	Lack of adherence to health, safety, environment and security policies	
6	Lack of exploration success	✓
7	Political and fiscal uncertainties	
8	Failure to secure new venture opportunities	
9	Misalignments with JV operators	
10	Diminished access to debt markets	✓
11	Fraud, bribery and corruption	

EMERGING RISKS

Within the Group's risk assessment framework, emerging risks are considered as part of the identification phase. These are risks that cannot yet be fully assessed, risks that are known but are not likely to have an impact for several years, or risks which are unknown but could have implications for the business going forward.

COVID-19 is an example of an emerging risk which was identified in Q4 2019 as a known potential risk which was challenging to fully assess. The scale of the global response to COVID-19 and the implications this has had on the industry was difficult to predict. In response to the pandemic, the Group has taken many steps throughout 2020 to ensure the safety of our staff and the continued delivery of our business-critical activities.

As the Group has moved to remote working in response to the pandemic, new and evolving cyber threats was identified as an emerging risk to the Group. The Group's IT team continue to monitor the cyber security environment and implement mitigations as threats are identified.

MAINTAIN LICENCE TO OPERATE

Principal risk: Lack of adherence to health, safety, environment and security policies

Owner: Chief Executive

Risk appetite

Low – The Group continuously strives to reduce risks that could lead to an HSSE incident to as low as reasonably practicable.

Impact	Mitigation	2020 movement	2021 KPI objectives
Serious injury or death Environmental impacts Reputational damage Regulatory penalties and clean-up costs Physical impacts of climate change	Effectively managing health, safety, security and environmental risk exposure is the priority for the Board, Executive Committee and Management Team. HSE training is included as part of all staff and contractor inductions. Detailed training on the Group's Corporate Responsibility Management System (CRMS) has been provided to key stakeholders to ensure processes and procedures are embedded throughout the organisation and all operations. Process in place for assessing an operator's overall operating and HSE capabilities, including undertaking audits to determine the level of oversight required. Effective application of CRMS in projects. Crisis and emergency response procedures and equipment are maintained and regularly tested to ensure the Group can respond to an emergency quickly, safely and effectively. Third-party specialists in place to assist with security arrangements and travel risk assessments. Leading and lagging indicators and targets developed in line with industry guidelines and benchmarks. Findings from 'Lessons learned' reviews are implemented from other projects.	**This risk remained static in 2020.** The Group's lost time injury frequency (LTIF) for operated activity in 2020 was 0 per million hours worked. Our total recordable injury rate (TRIR) for 2020 was 0 per million hours worked. There were no recordable spills to the environment over the IOGP lowest spill benchmark. With ongoing operations in several countries in 2021, the Group will continue to work responsibly as part of our strategy to deliver value for all stakeholders.	Achieve a number of specified leading indicators that support Company policies and standards in relation to governance, people and society. Achieve lagging HSSE indicators derived from IOGP targets.

Principal Risks to the Group in 2020-2021

MAINTAIN LICENCE TO OPERATE continued

Principal risk: Fraud, bribery and corruption

Owner: Chief Executive

Risk appetite

Low – Cairn is committed to maintaining integrity and high ethical standards in all the Group's business dealings. The Group has no tolerance for conduct which may compromise its reputation for integrity.

Impact	Mitigation	2020 movement	2021 KPI objectives
Fines Criminal prosecution Reputational damage	Business Code of Ethics and bribery and corruption policies and procedures. Due diligence process and questionnaire developed for assessing potential third parties. Annual training programme for all employees, contractors and selected service providers. Financial procedures in place to mitigate fraud.	**This risk remained static in 2020.** There were no reportable instances of fraud, bribery or corruption. The Group operates in countries deemed high risk for bribery and corruption. A compliance programme will be implemented for each area of operation.	Achieve a number of specified leading indicators that support Company policies and standards in relation to governance, people and society.

Principal risk: Climate change policy and its impacts on energy transition

Owner: Chief Executive

Risk appetite

Medium – The Group recognises global commitments to achieve a transition to lower carbon sources of energy. In the near-term, global demand for hydrocarbons continues to grow with hydrocarbons expected to remain the principal source of energy for decades to come. In the longer term, Cairn will take investment decisions that ensures its assets remain competitive in an environment where demand for oil may be lower than today.

Cairn's strategy is to play a responsible and competitive role in the production of oil and gas within this transition. Cairn acknowledges the contribution its activities have on carbon emissions, and the Group continues to develop short, medium and long-term actions to minimise and mitigate this contribution and address global climate change policies and regulations.

Impact	Mitigation	2020 movement	2021 KPI objectives
Providers of capital limit exposure to fossil fuel projects Increasing costs Climate-related policy changes Reduced demand for oil Stranded assets Reputational damage Retaining and attracting talent	Measuring and reporting our GHG emissions in line with the Task Force on Climate-related Financial Disclosures (TCFD). Promotion of efficient energy use in activities with business partners and service providers. Consideration of climate change in investment decisions. Portfolio resilience modelling based on the International Energy Agency Sustainable Development Scenario. Endorsement of Global Gas Flare Reduction Partnership. Improved alignment with UN SDGs. Active participation in industry initiatives. Participation in EU Emissions Trading System. Implementation of mangrove rehabilitation in Suriname for coastline and community protection.	**This risk remained static in 2020.** There was continued and increased attention to climate change from a range of stakeholders in 2020. This attention has led, and we expect it to continue to lead, to additional regulations designed to reduce greenhouse gas (GHG) emissions. The Group is focused on driving down emissions in our production, in our other activities and throughout our supply chain. Cairn has endorsed the World Bank global initiative to Zero Routine Flaring by 2030 as part of our energy transition strategy in support of the UK Government and our own commitment to net zero carbon emissions by 2050. The Group invested in the NECCUS (carbon capture, utilisation and storage) project aiming to reduce carbon emissions from industrial sources in Scotland. The Group conducted a scenario analysis to assess the viability of Cairn's portfolio under different scenarios of future demand impacted by action on climate change. The results indicated that existing production and development assets remain NPV positive.	Complete Phase 1 of CCUS (carbon capture, utilisation, and storage) application and evaluation. Further develop the framework, in line with the UN SDGs, for the social investment plans across the Group, including quantifying the overall impact of the programme(s). Communicate our climate change performance and our processes for governance, risk management and target setting using the CDP, SASB and TCFD frameworks.

DELIVER A SUSTAINABLE BUSINESS

Principal risk: Diminished access to debt markets

Owner: Chief Financial Officer

Risk appetite

Low – The Group seeks to develop and implement a funding strategy that allows a value generative plan to be executed and ensures a minimum headroom cushion from existing sources of funding is maintained.

Impact	Mitigation	2020 movement	2021 KPI objectives
Work programme restricted by reduced capital availability Loss of value	Disciplined allocation of capital across portfolio. Continue to assess other forms of financing and pursue claim for restoration of value for Indian investment. Hedging programme to reduce exposure to commodity price volatility.	**This risk decreased in 2020.** The disposals of the Group's business in Norway, completed in February, and of the Senegal assets, completed in December 2020, the near-term committed capital programme is significantly reduced. Several financial institutions and investors have recently made policy decisions to exit oil and gas sector investment. To date, this has not affected Cairn but if this trend accelerates there could be a future impact.	Demonstrate balance sheet strength reflected in three categories: meeting financial tests in line with funding strategy; portfolio management; and recovery of Indian arbitration proceeds.

Principal risk: Political and fiscal uncertainties

Owner: Chief Financial Officer

Risk appetite

Medium – The Group faces an uncertain economic and regulatory environment in some countries of operation. The Group is willing to invest in countries where political and/or fiscal risks may occur provided such risks can be adequately managed to minimise the impact where possible.

Impact	Mitigation	2020 movement	2021 KPI objectives
Loss of value Uncertain financial outcomes	Operate to the highest industry standards with regulators and monitor compliance with the Group's licence, Production Sharing Contract and taxation requirements. External specialist advice sought on legal and tax issues as required. Maintain positive relationships with governments and key stakeholders. Ongoing monitoring of the political and regulatory environments in which we operate. Working responsibly is an important factor in maintaining our access to funding.	**This risk remained static in 2020.** Cairn continues to source new opportunities globally and this can be in jurisdictions deemed at higher risk of political or fiscal uncertainty. In 2020, the Group acquired new operated licences in countries with an increased risk profile. The Group will strive for full compliance with licence, Production Sharing Contract and taxation requirements across all assets. The Group has also considered the potential impacts from Brexit and concluded that Cairn will not be materially affected. The Group continues to monitor the situation closely.	Demonstrate balance sheet strength reflected in three categories: meeting financial tests in line with funding strategy; portfolio management; and recovery of Indian arbitration proceeds.

DELIVER A SUSTAINABLE BUSINESS continued

Principal risk: Volatile oil and gas prices

Owner: Chief Financial Officer

Risk appetite

Medium – Exposure to commodity prices is fundamental to the Group's activities; however, the Group manages its investment programme to ensure that a threshold economic return is delivered and the business model is funded even in sustained downside price scenarios.

Impact	Mitigation	2020 movement	2021 KPI objectives
Reduction in future cash flow Value impairment of development projects JV partner capital constraints	Sensitivity analysis conducted to assess robustness of Group financial forecasts for funding plan. Operators' cost initiatives delivering material cost reductions on development projects. Exploration projects are ranked based on the probability of commercial hydrocarbons and success case break-even oil price. Hedging programme commenced.	**This risk increased in 2020.** The oil price fell sharply in Q1 and Q2 2020 as a result of the OPEC price war and suppressed demand from the coronavirus pandemic, recovering somewhat over the balance of 2020. Volatility is expected to continue as the coronavirus pandemic continues to develop.	Demonstrate balance sheet strength reflected in three categories: meeting financial tests in line with funding strategy; portfolio management; and recovery of Indian arbitration proceeds.

Principal risk: Failure to secure prompt and/or full payment of India arbitration award

Owner: Chief Financial Officer

Risk appetite

Medium – The Group faces an uncertain macroeconomic and regulatory environment in some countries of operation. The Group is willing to invest in countries where political and/or fiscal risks may occur provided such risks can be adequately managed to minimise the impact where possible.

Impact	Mitigation	2020 movement	2021 KPI objectives
Loss of value	Arbitration proceedings under the UK-India Bilateral Investment Treaty were largely concluded in 2018. The tribunal ruled unanimously in Cairn's favour in December 2020. Continued engagement with the Indian Government. Committed work programme is fully funded from existing sources of funding, excluding proceeds from the India claim, principally Group cash and committed debt facilities.	**This risk remained static in 2020.** Cairn announced on 23 December that the tribunal established to rule on its claim against the Government of India has found in Cairn's favour. Cairn's claim was brought under the terms of the UK-India Bilateral Investment 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 has awarded to Cairn damages of US$1.2 billion plus interest and costs, which now becomes payable.	Demonstrate balance sheet strength reflected in three categories: meeting financial tests in line with funding strategy; portfolio management; and recovery of Indian arbitration proceeds.

DELIVER EXPLORATION SUCCESS

Principal risk: Lack of exploration success

Owner: Director of Exploration

Risk appetite

High – Exposure to exploration and appraisal failure is inherent in accessing the significant upside potential of exploration projects and this has been, and remains, a core value driver for Cairn. The Group invests in data and exploits the strong experience of Cairn's technical teams to mitigate this risk.

Impact	Mitigation	2020 movement	2021 KPI objectives
Limited or no value creation Failure of the balanced portfolio business model Negative market reaction	Active programme for high-grading new areas through licence rounds, farm-ins and other transactions. Portfolio of prospects and leads that offer opportunities with a balance of geological and technical risks. Highly competent team applying a thorough review process to prospects and development opportunities, and a team of geoscientists with a track record of delivering exploration success. Exploration Leadership Team in place to undertake peer reviews and assurance.	**This risk decreased in 2020.** In Q1 2020, an oil discovery was confirmed on the non-operated Saasken-1 exploration well (15% WI) in Block 10 in the Sureste Basin. Preliminary estimates by Operator, Eni, indicate the discovery may contain 200 to 300 million barrels of oil in place. On Block 9, Cairn completed its second operated well in Mexico in Q1 2020. The exploration objectives of the Bitol-1 (50%WI) were found to be dry and the well was permanently plugged and abandoned. On Block 7 (30% WI) the Ehecatl-1 well, operated by Eni, completed operations. The well did not find reservoired hydrocarbons and was permanently plugged and abandoned. The risk decreased because of the reduction in the near-term committed drilling programme.	Mature prospects achieving commercial thresholds that can be considered for future exploration drilling. Add new commercial resources to replace reserves and grow value.

PRODUCTION PERFORMANCE

Principal risk: Underperformance on Kraken and Catcher assets

Owner: Chief Operating Officer

Risk appetite

Low – Delivering operational excellence in all the Group's activities is a strategic objective for the Group and the Group works closely with all JV partners to mitigate the risk and impact of any operational delay or underperformance. Therefore, the Group has a low appetite for risks which may impact on operating cash flow.

Impact	Mitigation	2020 movement	2021 KPI objectives
Delay or reduction in cash flow Increased operational costs HSE incident Reputational damage	Work closely with operators to deliver risk mitigation plans and project solutions during ongoing commissioning. Positive and regular engagement with operators and partners to share knowledge, offer support and exert influence.	**This risk remained static in 2020.** Combined net oil production averaged ~21,350 bopd. Kraken production outperformed original expectations but there were operational issues on Catcher which resulted in periods of downtime which curtailed production.	Convert Resources to Reserves. Deliver net production and operating costs within guidance targets.

PRODUCTION PERFORMANCE AND DELIVER EXPLORATION SUCCESS

Principal risk: Misalignments with JV operators

Owner: Chief Operating Officer

Risk appetite

Medium – The Group seeks to operate assets which align with the Group's core areas of expertise, but recognises that a balanced portfolio will also include non-operated ventures. The Group accepts that there are risks associated with a non-operator role and will seek to mitigate these risks by working with partners of high integrity and experience and maintaining close working relationships with all JV partners.

Impact	Mitigation	2020 movement	2021 KPI objectives
Cost/schedule overruns Poor performance of assets HSE performance Delay in first oil from development projects Negative impact on asset value Ability to effect change towards lowering carbon footprint	Actively engage with all JV partners early to establish good working relationships. Actively participate in operational and technical meetings to challenge, apply influence and/or support partners to establish a cohesive JV view. Application of the Group risk management processes and non-operated ventures procedure. Active engagement with supply chain providers to monitor performance, and delivery.	**This risk reduced in 2020.** Oil price volatility continues to have a financial impact across the industry and the risk remains that the Group's JV partners may not be able to fund work programme expenditures and/or reprioritise projects. The sale of the Group's Senegal asset has reduced this exposure. Catcher, Kraken and several exploration projects are operated by joint venture partners. The Group continues to work closely with a number of other partners in the UK, West Africa and Latin America regions.	Convert Resources to Reserves. Deliver net production and operating costs within guidance targets. Conduct our operated and non-operated exploration and appraisal activities successfully, on time and on budget.

NEW VENTURES

Principal risk: Failure to secure new venture opportunities

Owner: Director of Exploration

Risk appetite

Medium – Building and maintaining a balanced portfolio of current and future exploration, development and production assets is core to the Group's strategy. New opportunities must first meet the Group's strict investment criteria and successfully securing them will be dependent on the prevailing competitive environment.

Impact	Mitigation	2020 movement	2021 KPI objectives
Failure to replenish the portfolio Inability to replace reserves and sustain production levels	Geoscience, new ventures and commercial teams work closely to review and identify new portfolio opportunities. Experience and knowledge throughout the organisation in recognising prospective opportunities. Risk assessments and due diligence process undertaken on all potential new country entries. Development of discretionary capital allocation and opportunity ranking system. Portfolio is continually reviewed and high-graded to enhance quality.	**This risk remained static in 2020.** In March 2020, Cairn entered into an asset exchange agreement with Shell UK Limited in which Cairn transferred a 50% WI in P2379 in exchange for 50% WI of P2380. Each licence, in the vicinity of the Nelson platform, contains a firm commitment to drill an exploration well, with both wells planned to be drilled in the period from H2 2021 to H1 2022. In July 2020, in Côte d'Ivoire, Tullow indicated that they intended to withdraw from six out of seven blocks and remain in licence C1-520 only. Notices of withdrawal were submitted to the Joint Venture in September. Cairn opened negotiations with Tullow and subsequently took operatorship in blocks C1-301 and C1-302.	Mature prospects achieving commercial thresholds that can be considered for future exploration drilling.

BEHAVING RESPONSIBLY TO PEOPLE

Our people are critical to our success and we rely on their commitment, skills and knowledge to deliver our strategy every day. As well as nurturing the right relationships and fostering a high-performance culture based on opportunity, equality and diversity, we adopt values and behaviours that promote health, safety, well-being and security.

During 2020, the pandemic has meant Cairn's people working remotely for much of the year. We swiftly put in place measures to support their safety, well-being and engagement.

BUSINESS PRINCIPLES

- **We develop the potential of our people.**
- **We foster a workplace that respects personal dignity and rights, is non-discriminatory and provides fair rewards.**
- **We provide a healthy, safe and secure work environment.**

This year, the following people issues were identified as being of high materiality:

31 36 37 39 42

Read more about identifying material corporate responsibility issues on p15

CONTRIBUTION TO SDGS

3 GOOD HEALTH AND WELL-BEING

Impacts

Continued to offer employee health benefits across the organisation.

Developed and delivered health and well-being initiatives.

Enhanced employee travel health and security risk management.

Continued to apply our Corporate Responsibility Management System (CRMS) to protect the health and safety of workers.

Minimised the impact of COVID-19 with employees working from home, restricted business travel and offered support for mental health and well-being.

5 GENDER EQUALITY

Impacts

Maintained a robust equality and diversity policy.

Increased female representation on the Board during the year.

Managing People and Talent

Enabling and empowering people to work at their best is the key to being a high-performing organisation and delivering our strategy, so proactively managing our workforce is critical for us. With a clear focus on business results, our efforts are underpinned by our core values of building respect, nurturing relationships and acting responsibly (known as the '3Rs') and our High Performing Behaviours.

We aim to create positive, collaborative work environments that enable our people to fulfil their potential. We respect personal dignity and rights, and want everyone to feel involved, heard and valued.

Employee Engagement

We engage with our people through regular staff meetings, AGMs, staff focus groups and our intranet, as well as monthly 'pulse' surveys and twice-yearly Employee Voice Forum meetings. Such engagement has fostered greater understanding of our strategy and improved our internal communications.

Our Employee Voice Forum, launched in May 2019, gives our people direct access to the Board. There are two meetings each year chaired by a Non-Executive Director and colleagues' concerns, ideas and suggestions, collected by the forum members, are discussed. Unsurprisingly, two key themes emerged this year: the flexibility of working from home in the future and the plans for returning to office working.

Due to the COVID-19 outbreak, this was a particularly challenging year in which to engage with employees. Nevertheless, we worked hard to maintain dialogue through virtual channels of communication. This year, for example, our pulse surveys gathered insight into our response to COVID-19 as well as measuring the 'normal' level of engagement. These short, regular snapshots have had consistently high participation rates and attracted more than 6,000 comments from staff to date. We finished 2020 on an employee engagement score of 8.1 out of 10, 0.7 above the industry benchmark.

Read more about our response to COVID-19 on p16-19

Learning Opportunities
Providing learning opportunities for our people is essential to operating to the highest standards and making our business more efficient, effective and successful. We invest in developing our people and each colleague has a personal learning 'budget', to help them to fulfil their potential and deliver our objectives.

Through our ongoing commitment to training and professional development, we support our employees' career aspirations and make our business more efficient and successful. We usually offer traditional classroom training and workshops as well as e-learning modules but, due to the challenges associated with COVID-19, many of the in-person opportunities were delayed or converted to online delivery.

The Cairn Academy, launched in 2019, enables colleagues to undertake mandatory compliance online learning. We plan to give all staff access to relevant learning and development opportunities through this online platform, which was the subject of even greater emphasis during COVID-19 lockdowns. An updated version of the portal was launched in August 2020.

Another four cohorts of people managers also completed our long-established Management Bootcamp during the year, even though full-day sessions in the office were replaced with shorter online modules in the face of COVID-19.

Supporting a Talent Pipeline
We have a robust approach to managing talent into the organisation through strategic partnering with specialist firms. Our approach to succession planning plays an important part in identifying learning and development opportunities, as well as ensuring our people are deployed in roles and activities where they will add most value to the business while gaining job satisfaction and career development. We have an annual promotions panel to review development and career progression for all roles in the business as well as to identify individuals ready to join our mentoring programme.

For more information, please see our Corporate Responsibility Report: www.cairnenergy.com/working-responsibly

Total workforce

204

Gender split

Total workforce

Staff

87 Male — 86 Female

Non-staff

23 Male — 8 Female

Management

11 Male — 1 Female

People Managers

38 Male — 19 Female

Average age of staff

45

(2019: 44)

Board members by gender (number)
Male/Female

2020: 6 — 3

2019: 6 — 3

2018: 7 — 2

2017: 8 — 2

2016: 9 — 1

As of 8 March 2021, there are five male Board members following Ian Tyler retiring as Chairman on 31 December 2020.

Employment type

173 Staff — 31 Non-staff

178 Full-time — 26 Part-time

Equality and Diversity
For us, diversity and inclusion is about recognising and respecting our different capacities, capabilities and perspectives, and making the most of them.

By fostering a working environment that respects personal dignity, avoids discrimination and provides fair rewards, we recognise diversity in all its dimensions. Our People Management Policy guides how equality and diversity are built into all aspects of recruitment and selection, learning and development, and remuneration and benefits. We also have policies on disability, equality and diversity; full-time and part-time employees; and harassment.

We continue to develop our diversity metrics to promote equality of opportunity, pay and reward on a non-discriminatory basis.

Occupational Health and Safety
Providing a safe working environment is a core corporate responsibility, and minimising risks to people and the environment is of paramount importance to us. Overall accountability for working safely remains with the Board but applying operational procedures across the Group falls to the Management Team.

Managing day-to-day safety hazards involves leadership and management visits, audits, a permit-to-work system, toolbox talks and safety drills, as well as the use of personal protective equipment (PPE) among others. We actively engage contractors and bridge with their procedures to ensure we understand responsibilities and have effective controls in place.

Infectious Diseases
We support all staff who may be exposed to infectious diseases through their work or during travel to prospective business destinations. In locations where endemic diseases are prevalent, such as Senegal (malaria) and Latin America (Zika), we have mechanisms in place to minimise the risks.

Remaining vigilant to new or re-emerging epidemics and pandemics has never been more important than over the last year. We acted quickly and proactively in addressing the challenges associated with the COVID-19 pandemic, which was our most urgent priority with tracking and actions commencing in January 2020.

Behaving Responsibly to People continued

Hazardous Materials

While we face limited exposure to hazardous materials during our operations, we nonetheless maintain robust requirements for chemical and waste management in our CRMS to protect human health and the environment. We also ensure compatible arrangements from our contractors. We faced potential exposures to hazardous materials during our drilling campaign in Block 9 offshore Mexico during 2020, but safe practices were maintained until completion.

Employee Well-being

Staff wellness plays an important role across our business but during COVID-19 lockdowns, it was essential that we increased activities to support our people. We sought to promote well-being and good mental health by sharing information about our activities and plans, as well as running, exercise and yoga sessions, setting walking challenges and hosting a variety of workshops and webinars.

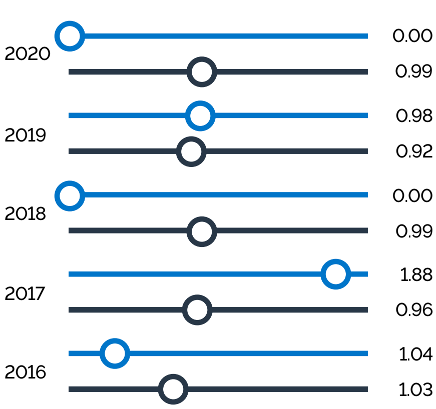
Our 2020 Performance

Overall, our occupational safety performance for our operated activities in 2020 was in line with CR Objective expectations and International Association of Oil & Gas Producers (IOGP) benchmarks. We set key performance indicator criteria and assess our performance through the year against the benchmark from two years before, as the data for any year is only released in Q3 of the following year.

While it is worth noting that our operations were limited in 2020, we experienced no lost time, restricted workday cases or recordable injuries during the year, and only two first aid cases (trapped finger and cut finger).

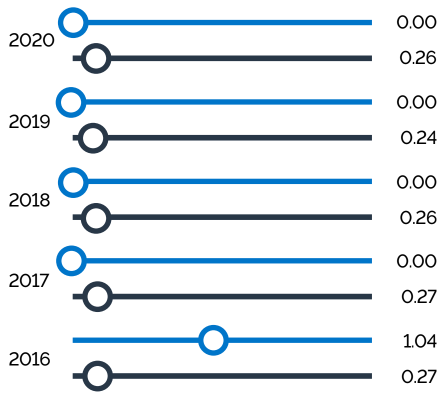
Total Recordable Injury Rate (TRIR)

(Total recordable injuries per million hours worked)



Lost Time Injury Frequency (LTIF)

(Lost time injuries per million hours worked)



Cairn total for employees and contractors.

The benchmark used is the latest available International Association of Oil & Gas Producers (IOGP) figure at the beginning of the year for the industry overall.

Security

We have a duty of care to our people and our assets, and place high importance on protecting our investments, reputation and data. We are a member of the IOGP Security Committee and continue to remain vigilant to emerging threats, offering support, advice and training as necessary.

Updating Our Approach

Our due diligence process requires us to assess and address the risks our people may face and amend our processes accordingly. In 2019, although no one was injured, a failure to follow proper travel procedure in Mexico led to a full investigation, the findings of which prompted us to take remedial action. Our travel risk policy was revised and reissued in January 2020 with stronger lines of accountability. Training sessions were held in Mexico and Edinburgh to remind everyone of the need to follow established procedures, as well as all relevant health and safety legislation. Support services and access to transport facilities were also improved.

While Mexico, Côte d'Ivoire and Suriname are considered high-risk locations from a security perspective, we reported no security incidents affecting our staff or premises during 2020. However, specifically in the Gulf of Mexico, issues ranging from petty crime to violence, piracy and kidnapping are increasing.

Currently, there is no formal regional mechanism for oil and gas companies to exchange information about such incidents, but we have contracted a security deputy in Mexico for improved intelligence sharing and prompter action if required. New Group security SOPs (Standard Operating Procedures) have also been developed for release in 2021.

Security of Assets

We have recently checked our approach to protecting our assets against the anti-piracy policies and procedures adopted by major logistics companies, and updated our guidance in line with industry best practice such as IOGP standards. Furthermore, a gap analysis of the process required by SASISOPA[1] in Mexico found no non-compliances in the security of our operations or third-party aviation, accommodation and logistics service providers.

Office Security

Acknowledging that we are the only oil and gas company headquartered in Edinburgh, we held a remote working exercise in January 2020 to assess the impact of pressure groups, such as those protesting against climate change, on business continuity. The lessons learned, including the enhancement of our working from home policy, helped to inform our business continuity plan and were applied at the outset of the COVID-19 outbreak.

Personal Security and Travel

Risk assessments are always required ahead of international business travel, and our Traveller Health and Security intranet site provides all personnel with security advice and travel management procedures for our countries of operation.

During COVID-19 restrictions in 2020, we were required to conduct some business-critical trips to countries outside the UK and Scottish Government travel corridors. To do so, we enhanced our risk assessment and mitigation procedures covering pre-, during and post-travel, including provision for emergency evacuation for health reasons and insurance cover. For other business activities, after a thorough review of our travel risk policy, we now conduct meetings remotely in preference to travelling wherever possible.

Cyber Security

Although we experienced no cyber security breaches from deliberately malicious software during 2020, we regularly review our arrangements to ensure we protect our IT infrastructure from such malware incidents. We communicate threats, strategies and improvement plans to maintain a holistic and collaborative approach throughout the Group and have a dedicated cyber security manager and a 24/7 service partner that continually manage current threats and risks. To stay on top of security trends, we take guidance from several industry bodies, including the IOGP Security Committee, the Information Commissioner's Office, the National Cyber Security Centre and the National Institute of Standards and Technology.

1 Industrial Safety, Operational Safety and Environmental Protection Administration System.

Case study

CERT SIMULATION EXERCISES

We evaluated the Crisis Incident Management (CIM) tool successfully in 2020 while the majority of Cairn's staff were working remotely. CIM will be introduced in 2021.

To ensure the team could operate effectively from home and gain experience of using CIM, three exercises were conducted in October and November 2020. These simulations used a collision between the Catcher floating production storage and offloading unit and the off-loading tanker as the scenario. The exercises also enabled us to practice the human resources response to an incident involving a casualty; this involved notifying the next of kin and the potential mobilisation of HR and Family Liaison representatives to Aberdeen.

Despite all CERT members being very familiar with their roles, these simulations demonstrated that command, control and coordination while working remotely presents significant challenges, but these can be overcome with the right technology.

Major Accident Prevention
Our industry faces a number of major accident hazards and it is important we avoid the risks arising from these hazards where possible, but if not, manage them to As Low As Reasonably Practicable (ALARP) levels. This underpins legislation in the UKCS and in many other jurisdictions, as well as industry good practice. We constantly work to minimise risks to people and the environment, having put extensive safety measures and procedures in place to avoid accidents, for every phase of our activities.

Operated Assets
Our Corporate Major Accident Prevention Policy (CMAPP) outlines the control mechanisms we have in place to address risks to our operated activities. In 2020, we undertook significant reviews of our Well Project Management and Well Competency Procedures, improving the application of major accident controls. In addition, a CMAPP leadership event in Mexico was conducted in early 2020 and a CMAPP refresher training module, now incorporated into the Cairn Academy, was completed by critical personnel.

Non-Operated Assets
Our relative influence over joint venture partners depends on the activity, our share of the asset and the regulatory framework under which we operate. In 2020, we continued to support our partners in the prevention of major accidents on our non-operated assets, primarily in the UK, Senegal and Côte d'Ivoire.

Crisis and Emergency Response
We focus on prevention but, in the unlikely case a significant event does occur, we maintain tiered crisis and emergency response arrangements around the world.

For a quick and effective response, we have Incident Management Teams in all operational locations, supported by Incident Response Teams in our field assets. Our Crisis and Emergency Response Team (CERT) in Edinburgh provides strategic and tactical support, depending on local capability. Due to COVID-19 restrictions, CERT team members have remained ready to respond virtually and continue to undergo weekly training and operational briefings.

We also conducted remote training with all CERT personnel ahead of introducing Crisis Incident Management (CIM), an ISO-accredited management software system.

Contractors
Cairn relies on high-quality, competitively priced contractors and suppliers for much of the technical expertise, equipment and services needed to maintain our operational capability. Contractors account for approximately 46% of our workforce and undertook 48.7% of hours worked in 2020, so effective selection, strong working relationships and good performance are essential if we are to maintain our licence to operate.

To ensure all our activities conform to our CRMS and Cairn Operating Standards (COS), we use an integrated contractor and supply chain audit plan to identify corporate and operational risks, and demonstrate that effective controls are in place. We use independent audits for some critical assurance steps, including the management of major accident hazards.

In 2020, we undertook a review of our contracting and tendering process. While we identified no need for significant changes to what we do, we did enhance areas such as how we review national content in a tender process.

Selecting Contractors
All contractors are evaluated and selected on the basis of their adherence to our principles, policies and standards, experience, capability, competence and competitiveness. While there may be technical reasons why international contractors are selected (such as those with specialist capabilities), we promote and use local services wherever we can.

We are increasing and improving our scrutiny of key equipment providers in terms of their environmental performance as part of the tendering process. This includes the energy efficiency of vessels, rigs and helicopters, fuel use management and the overall footprint of our projects (see page 56).

In Mexico, under the terms of our Production Sharing Contract (PSC), we are required to achieve national content targets. In 2020, we engaged with our key contractors through a series of workshops to ensure that the complex requirements, expectations and methodologies for Mexico are fully understood.

Contractor Selection Tools
We use specialist pre-selection tools in some jurisdictions to examine potential vendors' performance prior to tendering.

For many projects in the UK, we use the Achilles First Point Assessment Limited (FPAL) platform to identify and assess potential contractors across the European oil and gas market. We have also helped to develop a similar system in Senegal through Invest in Africa (page 61).

For further information, see our Corporate Responsibility Report: www.cairnenergy.com/working-responsibly

BEHAVING RESPONSIBLY TOWARDS THE ENVIRONMENT

Environmental protection is a key operational priority for Cairn. We take a precautionary approach, with rigorous risk assessments and robust working methods at every stage of a project. These help us to minimise any adverse impact on the environments in which we work, without affecting our commitment to safety.

BUSINESS PRINCIPLES

- **We take a precautionary approach to our effect on the environment.**
- **We strive to prevent and minimise our impact on the environment.**

This year, the following environmental issues were identified as being of high materiality:

21

Read more about identifying material corporate responsibility issues on p15

CONTRIBUTION TO SDGS

7 AFFORDABLE AND CLEAN ENERGY

Impacts

Produced oil and gas to meet energy demand.

Contributed to energy security for host nations.

Promoted development in Senegal that aims to contribute to the domestic gas supply, replacing higher-carbon electricity generation sources.

Provided funding to Heriot-Watt University to support clean energy research.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Impacts

Promoted human rights, environmental and safety standards through contracts and audits.

Continued to apply robust waste and chemical management plans throughout our operations.

13 CLIMATE ACTION

Impacts

Launched an initiative to benchmark the energy efficiency of projects and developed mechanisms for improving and promoting energy efficiency in operated projects.

Developed carbon intensity methodologies to support our commitment to reducing emissions.

Endorsed the World Bank's Zero Routine Flaring initiative and committed to avoiding associated emissions in our operated and non-operated projects.

Continued to challenge partners to reduce emissions and avoid flaring, including the assessment of potential opportunities to reduce fuel usage.

Contributed to climate change adaption projects through social investment.

14 LIFE BELOW WATER

Impacts

Assessed prospective new ventures and opportunities for environmental and biodiversity risk.

Implemented robust programmes for accident prevention, preparedness and response.

Completed drilling programmes without significant impact.

Conducted habitat studies in Mexico and supported endangered sea turtles.

Completed post-drilling environmental survey in Mexico, which demonstrated no adverse impact on the environment in line with government criteria.

17 PARTNERSHIPS FOR THE GOALS

Impacts

Endorsed the World Bank's Zero Routine Flaring initiative, which seeks to phase out routine flaring by 2030.

Joined the Proteus Partnership, a global initiative that supports the development, dissemination and analysis of global data on protected areas, threatened species, and critical marine and coastal ecosystems.

Energy Use

We commit to promoting the efficient use of energy, with the aim of conserving natural resources, reducing atmospheric emissions and mitigating the impacts of our activities. We aim to design our exploration projects to minimise time in the field through efficient working and planning for potential delays due to environmental and climatic conditions.

Direct energy use across the Group mainly comprises diesel fuel combustion in our field operations, as well as some minor electricity consumption in our offices. Consumption varies with the level of activity and, in 2020, our energy use was relatively modest (351,608 GJ), having completed our drilling campaign in Mexico and sold off our interests in planned Norwegian activities.

Our indirect energy use (2,491 GJ), arising largely from travel in support of our operations and New Venture activities, was also limited due to COVID-19 restrictions.

Energy-Efficient Assets and Equipment

We continue to identify and implement measures to reduce energy use associated with our operations, in line with our BRINDEX commitment and in support of UK Government aspirations.

In 2020, we initiated a systematic way to benchmark the energy efficiency and associated emissions of the vessels, rigs and helicopters we contract, and build such criteria into our tendering and selection processes. If all other technical and commercial considerations are equal, energy use and emissions could prove to be points of differentiation for selection.

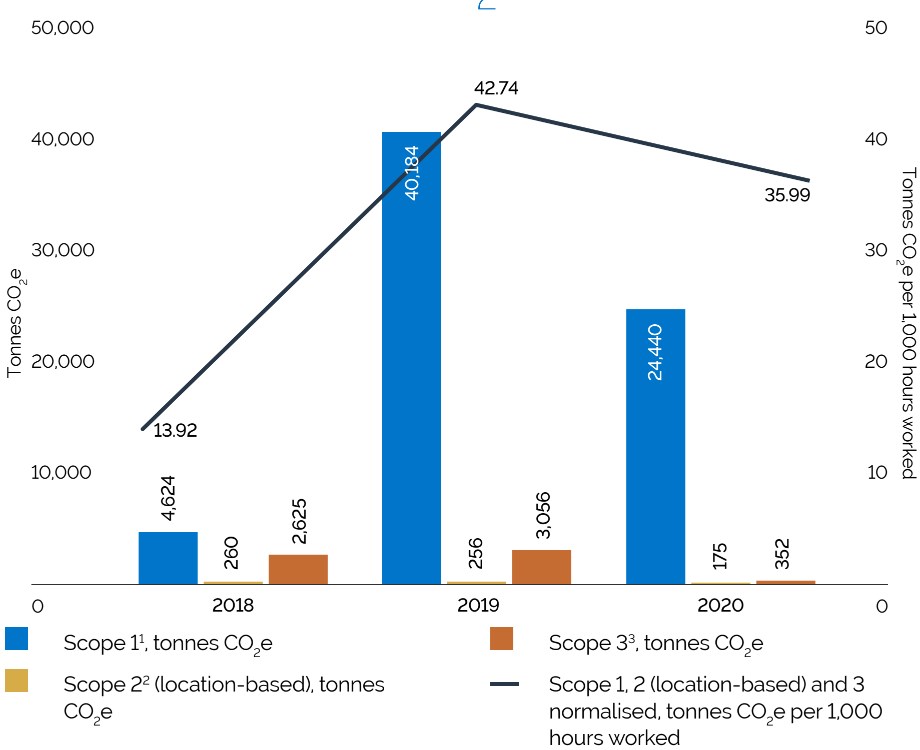
Greenhouse Gas (GHG) Emissions

GHG emissions – mainly from the combustion of fuels such as marine diesel used by rigs and transport vessels – form a relatively modest part of our operational footprint. We monitor and manage the emissions from our operated assets, disclosing them in accordance with industry requirements and standards. Complying with national regulatory requirements across our global operations is also an important priority.

Around 95% of the GHG emissions associated with our operations occur in the supply chain, which largely limits our influence to the selection of energy-efficient contractors,

Total and normalised GHG emissions (Scopes 1, 2 and 3)

24,967 tCO_2e



Footnotes on our GHG emissions data are available on page 192.

assets and equipment, and their carbon and energy management during projects.

We also endorsed the World Bank's Zero Routine Flaring initiative, which seeks to phase out routine flaring by 2030.

In absolute terms, our GHG emissions vary with the duration and nature of our projects during the year. Compared to the previous year, 2020 was a year of low operational activity for Cairn.

In Mexico, operations largely ended in March, other than post-drilling, sampling and wellhead recovery. We also completed the sale and divestment of our interests in Senegal. This meant that our total GHG emissions decreased to 24,967.35 tonnes CO_2e in 2020, while normalised emissions also fell to 35.99 tonnes CO_2e per 1,000 hours worked.

Details about our data, methodologies and calculations can be found in the data appendix of our Corporate Responsibility Report and on our website www.cairnenergy.com/working-responsibly

Water, Effluents and Pollution

Informed by regulatory compliance and industry best practice, we seek to minimise the environmental impact of our operations by carefully managing our water use, limiting discharges into the sea and reducing waste.

Water resilience in the face of climate change and water use are areas of increasing focus for our industry. Our approach involves assessing the need for abstracting freshwater, managing freshwater more efficiently, reducing our operational impacts on freshwater and enhancing our reporting of water management. In 2020, we completed CDP's Water Security questionnaire at the basic level.

With discharges during the year largely limited to domestic sources and one offshore campaign in Mexico, we generated 51.47 tonnes of hazardous waste and 90.10 tonnes of non-hazardous waste in total. An environmental sampling programme conducted after the project completed confirmed that no significant impact or environmental damage occurred.

For further information, please see our Corporate Responsibility Report: www.cairnenergy.com/working-responsibly

Product Stewardship

The crude oil produced from our Catcher and Kraken North Sea assets is sold to buyers who blend or refine it into fuels, lubricants and chemicals used in everyday items. It is our responsibility to ensure all production operations and transportation comply with regulatory requirements, as well as our own Code of Ethics and Corporate Environment Policy.

We continue to engage our partners to ensure proper stewardship is in place via Operator Committee meetings and Technical Committee meetings on a routine basis. Hydrocarbon sales are carried out by marketing agents on Cairn's behalf, although we are closely involved in the process.

Protecting Biodiversity and the Environment

We have always recognised the risks to the habitats, ecosystems and species that sustain our planet, and their importance to the communities relying on them. We work hard to minimise the biodiversity risks associated with both operated and non-operated opportunities, and commit not to operate in World Heritage sites.

Where our current or potential activities might affect critical habitats, protected areas or the welfare of communities relying on ecosystem services, such as in Suriname and Mexico, we undertake environmental and social assessments of their potential biodiversity impacts. We then work with technical specialists, government departments, NGOs and other local stakeholders on any mitigation required.

Our Biodiversity Framework is set out in our CRMS, and we use the latest industry guidance to integrate biodiversity into our CR management processes. All relevant commitments are covered by our Business Principles and our Environment Policy, which was reviewed and reissued in October 2020. We also include biodiversity aspects in investment proposals to identify critical risks before any work commences.

Case study

KEMP'S RIDLEY SEA TURTLE PROTECTION

In 2020, we carried out a Critical Habitat Assessment and a Biodiversity Impact Assessment for Block 9 offshore Mexico, with our joint venture partner CITLA Energy. This identified that the project is located within an area assessed to be Critical Habitat[1] for the endangered Kemp's Ridley sea turtle and noted possible impacts on them arising from our planned activities.

Having already taken mitigation measures identified through our ESIA – minimising contact with wildlife, avoiding sudden changes in vessel direction and soft starts for operating equipment – an observer undertook additional monitoring of all sea turtles and marine mammals for our offshore drilling unit. Support vessels were restricted to speeds below 10 knots.

Although our activities were judged to have no impact on the species, we looked to achieve a 'net gain' by contributing to the efforts of a local turtle conservation group, Vida Milenaria. With the group patrolling 35 kilometres of beach, protecting the turtles' nests from poachers and natural predators during nesting and hatching, we donated US$12,000 to enable the purchase of a new all-terrain vehicle and associated fuel for one year to support their efforts.

Hatchlings released in 2020

93,193

Specific Biodiversity Action Plans (BAPs) are developed where there is either a significant risk to biodiversity or a clear benefit for targeted conservation. In 2020, we developed a BAP for our operations within Block 9 offshore Mexico, with an emphasis on protecting a critically endangered species of sea turtle (see above). The BAP forms part of the management approach for future work, in line with Good International Industry Practice.

In November 2020, Cairn signed an agreement to join the Proteus Partnership. This global collaboration between the conservation community and 13 businesses from the extractive industries provides members with access to biodiversity data, assessment tools, briefings, technical assistance and training resources. Led by the UNEP World Conservation Monitoring Centre, the initiative supports the development, dissemination and analysis of global data on protected areas, threatened species, and critical marine and coastal ecosystems.

This data will inform policy developments, underpin effective action and provide opportunities for engagement and dialogue, as well as support some of our key business processes including investment proposals for new ventures, Environmental and Social Impact Assessments (ESIAs) and reporting. We held a training session in November 2020 to inform our geologists about the new data at their disposal.

Environmental Baseline Surveys

Environmental baseline (EBL) surveys use photography, seabed sampling and physicochemical analysis to define existing biodiversity, environmental and other conditions near our activities. They help us to determine the extent of existing damage from the previous activities of others. Repeating them upon exiting a location helps to delineate our impact and avoid liability for the impacts caused by others. We are starting to evaluate the potential of environmental DNA profiling for enhancing environmental surveys.

We conducted no new baseline surveys in 2020 as most planned operational work was deferred, in part due to the COVID-19 situation.

- Mexico: In tying up work on our two wells in Mexico, we conducted a post-drilling survey in 2020 for Block 9, which confirmed the absence of environmental damage against Mexican regulatory criteria.
- Côte d'Ivoire: On assuming operatorship of Blocks 301 and 302, both shore and shallow water locations, we conducted a thorough review of the environmental and social baseline work already undertaken by the previous operator. We also needed to facilitate future seismic survey work.
- The UK: Surveying will commence in 2021 in advance of environmental impact assessment work for the future drilling programmes, which include a planned 2022 well in the UK Continental Shelf (UKCS).
- Senegal: Since the transfer of operatorship, we have collaborated with the new operator to ensure ESIAs were conducted as part of the development planning and legislative approvals. We sold our interests in December 2020.

More detail on biodiversity is available in our Corporate Responsibility Report www.cairnenergy.com/working-responsibly

1 Term from the IFC's Performance Standard 6. Biodiversity Conservation and Sustainable Management of Living Natural Resources. IFC, 2012 used to describe any area of the planet with high biodiversity value, including habitat of significant importance to critically endangered species.

BEHAVING RESPONSIBLY TO SOCIETY

We have always sought to make a positive difference to society through economic and community development, especially in the most difficult of times such as during 2020. We also recognise that we must manage and mitigate any potential risks and impacts associated with our activities. Respecting and protecting human rights across our operations is a fundamental part of our commitment.

BUSINESS PRINCIPLES

- **We seek to make a positive social impact in every area in which we work.**
- **We respect the rights and acknowledge the aspirations and concerns of the communities in which we work.**

This year, the following society issues were identified as being of high materiality:

52

Read more about identifying material corporate responsibility issues on p15

CONTRIBUTION TO SDGS

1 No Poverty

Impacts
Continued to make payments to host governments throughout our operations.

Donated to UK charity Freshstart to support homeless people.

2 Zero Hunger

Impacts
Implemented measures to minimise disruption to fishing activities offshore Mexico.

3 Good Health and Well-Being

Impacts
Donated to UK charities Projekt42, Maggie's and Edinburgh Young Carers to support health and well-being.

Provided financial support for national COVID-19 responses in Suriname, Senegal and Mexico.

4 Quality Education

Impacts
Progressed an initiative to support a vocational training institute (NATIN) in Suriname.

Delivered weekly security and health updates to employees in Mexico to minimise the risks.

Trained employees in travel health and security risk management.

Donated to Winning Scotland Foundation, a UK charity empowering Scotland's young people through education.

9 Industry, Innovation and Infrastructure

Impacts
Continued to support Invest in Africa in Senegal, which trains local businesses and manages a portal for local SMEs to access oil and gas contracts.

10 Reduced Inequalities

Impacts
Donated to UK charities Polar Academy and Street League to support disadvantaged young people.

16 Peace, Justice and Strong Institutions

Impacts
Supported institutional training in Senegal through JV.

Undertook EITI reporting in participating countries.

Continued to adhere to our robust human rights policies to ensure human rights and modern slavery violations do not occur in our supply chain.

Maintained robust anti-bribery and corruption management policies and procedures.

Held human rights awareness training.

Engaged with marine authorities in Mexico.

Human Rights Management

To ensure human rights are respected in our relationship with contractors, communities and other stakeholders, we seek to comply with international standards such as the UN Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. We identify, assess and manage risks within our sphere of influence to prevent complicity in human rights abuses, and have grievance mechanisms in place to enable individuals and community representatives to address any concerns.

Our Human Rights guidance defines how we identify, assess and manage human rights issues at key project stages. This documentation was last updated in early 2020 in line with the latest business and human rights guidance, making it more succinct and accessible.

Our position on human and labour rights is integrated into our Corporate Social Responsibility (CSR) Policy, most recently reviewed in October 2020, and our Code of Ethics. These are included in all tender and contract documentation.

Security and Human Rights

When operating in complex security environments, we recognise the need to evaluate security risks and the potential for human rights abuses. We assess and select security contractors on the basis of their adherence to our principles and standards. Along with strong working relationships and good performance, this helps to protect people and communities, and maintain our licence to operate.

We apply a human rights screening before we enter a new country as an operator, reviewing key indicators under international classification indices such as the Global Slavery Index and the US Trafficking in Persons Report. We assess potential impacts through Environmental and Social Impact Assessments (ESIAs) or, where necessary, by undertaking a Human Rights Impact Assessment. If any current or potential issues are identified, we engage with those affected to consider how best to manage them.

Similarly, with non-operated joint ventures, we check any human rights issues and identify any risks that may require management by the operator prior to proceeding.

For more information, please see our Corporate Responsibility Report: www.cairnenergy.com/working-responsibly

Modern Slavery

Acknowledging that slavery and human trafficking is a significant global issue, we have zero tolerance for forced, bonded or child labour and take all reasonable steps to ensure that slavery, in all its forms, does not exist in our operations or supply chain. We had very limited operations in 2020 and found no significant risks of forced labour in our supply chain.

Our tender process includes specific questions about whether potential contractors and suppliers have modern slavery policies and procedures in place. These assessments, conducted at a local and corporate level, form part of our HSE start-up audits, and our zero tolerance of modern slavery is built into every contract. As our suppliers often have subcontractors, our influence diminishes down the supply chain, but we promote good practice with them.

We issued refresher e-learning through the Cairn Academy to 208 employees and contractors in October 2020. The human rights module had been completed by 200 people by the end of 2020, and 198 have taken the section on modern slavery. We plan to run a previously delayed 'lunch and learn session', open for all staff, in 2021 using an external expert on human rights.

Read our Modern Slavery statement online

Social and Economic Benefit

We seek to mitigate any negative impacts and enhance the positive benefits that arise from our operations, as well as share the value generated by oil and gas activities. We promote good practice, support a wide range of international agreements and standards, and develop programmes designed to support capacity building and local community participation.

Case study

SOCIAL INVESTMENT IN SURINAME

In Suriname, Cairn supports several social investment projects, in conjunction with the state oil company Staatsolie. Under a Production Sharing Contract, we have committed to spending US$100,000 per calendar year on local social responsibility, community investment programmes or training for each phase of the project.

With Staatsolie and several international oil companies, we are helping to address the skills gap in the oil and gas industry. Together, we are investing in the Institute for Natural Resources and Engineering Studies (NATIN) in Paramaribo, a tertiary college providing technical-vocational education and training for around 2,500 students. Cairn supported the college with US$100,000 worth of much-needed engineering, IT and fire safety equipment.

Through an agreement with Anton de Kom University in Paramaribo, we are also involved in a mangrove rehabilitation project. The project is designed to protect a kilometre-long stretch of coastline that is particularly at risk from rising sea levels and erosion. Adjacent to areas previously restored by the same technique, semi-permeable sediment trapping units (STUs) enable mangroves to be re-established, further stabilising coastal land and supporting biodiversity. A walkway to facilitate access to the reclaimed area for mangrove planting and potential future visitors is nearing completion, as is the construction of sanitary facilities for workers and volunteers, and a mangrove nursery for raising seedlings.

With the participation of local communities, this coastal stabilisation project represents an important effort to protect livelihoods and the environment, and to support adaptation to the effects of climate change, by protecting against rising sea levels, erosion and flooding. The mangroves also provide valuable habitat for fish, shellfish and coastal birds.

Social Impact Assessments

In accordance with our CRMS, we evaluate the potential social benefits, risks and impacts of any major activity. The scope and nature of such Social Impact Assessments (SIAs) depend on local context and regulations. An SIA may be performed separately or, more commonly, as part of an ESIA.

No SIAs were undertaken in 2020 but, in response to the submission of our SIA in Mexico in 2019, SENER (the Mexican Department of Energy) requested the creation of a Social Management System Manual and an annual report to summarise its implementation. In 2020, we finalised the associated annual report for the first year of our activities in Mexico, for submission in due course.

Impact Benefit Plans

To make a positive social impact wherever we work, we assist in the development of local community programmes in consultation with governments, the public and other stakeholders, while minimising any negative impacts associated with our activities.

We use the UN Sustainable Development Goals as an important framework for understanding environmental, social and governance risks and opportunities, and for developing Impact Benefit Plans, which we draft for each major project. Helping us to focus our activities on areas where we can maximise benefits and minimise negative impacts, these plans evolve over time as we evaluate the net value our activities bring.

For more information, see our Corporate Responsibility Report: www.cairnenergy.com/working-responsibly

Local Procurement

We encourage our principal contractors to engage local personnel, if appropriate skills and services exist, although the definition and categorisation of local vendors depends on local legislation.

In Mexico, for example, the requirements are complex and stipulated by legislation. Under our Production Sharing Contract (PSC), all key contracts contain a percentage target for local content, which is assessed during the tender process, monitored and reported against annually, as well as through each phase of the PSC. We also need to understand the nationality of personnel and whether the equipment and materials used are of Mexican origin, and to obtain an annual certification confirming the level of national content achieved by each supplier and their subsuppliers.

Using a specialist online platform, vendors complete local content calculations for each invoice, which are reviewed and validated by an independent third party. This allows us to report local content and compare it to the contractual target. For the 2020 national content calculation, more than 660 vendor invoices have been validated for local content purposes.

Additional workshops help contractors to evaluate and report on spend against specific categories and criteria.

Local Community Stakeholders

Understanding the concerns of the communities in which we work, and meeting their needs and aspirations, are key to mitigating the possible impacts and enhancing the benefits of our activities and supporting their community development.

For each project, we develop a stakeholder engagement plan, which identifies key stakeholders and their interests, and enables community feedback to inform our understanding. This includes monitoring media and civil society commentary, stakeholder enquiries and community, government and local authority engagement.

Read more: Stakeholder Engagement on p16-19

Cairn supported the Institute for Natural Resources and Engineering Studies (NATIN) in Paramaribo, Suriname, with US$100,000 worth of much-needed engineering, IT and fire safety equipment.

Case study

SUPPORTING SUPPLIERS IN SENEGAL

Cairn played a founding part in the launch of Invest in Africa (IIA) in Senegal, an initiative to promote the development of local SMEs and to facilitate their access to oil and gas industry projects and other multi-national opportunities. Following the transfer of operatorship of our Senegal acreage to Woodside, we have continued to play a role in IIA, participating in the monthly steering panel sessions alongside Woodside and other industry operators.

The Senegalese Government has consistently and widely promoted the use of local goods and services in the national oil and gas sector, and encouraged the participation of local workers, technology and capital across the value chain. Cairn is proud to have supported IIA in providing the African Partner Pool (APP) platform in Senegal, which provides local suppliers with a place to register for opportunities in the sector, as well as support for local businesses starting their journey into industry.

The APP now has more than 1,300 registered suppliers, 72% of which are local. In 2020, 54 requests were posted on the APP and 87% of the contracts awarded through the system were won by local suppliers.

During the year, and as result of the restrictions imposed by COVID-19 on holding face-to-face events, IIA hosted 15 online workshops on a range of topics, from HSE standards to accessing finance, attended by more than 1,000 participants. Cairn's contribution to IIA during 2020/21 – our third year of doing so – was approximately US$166,000.