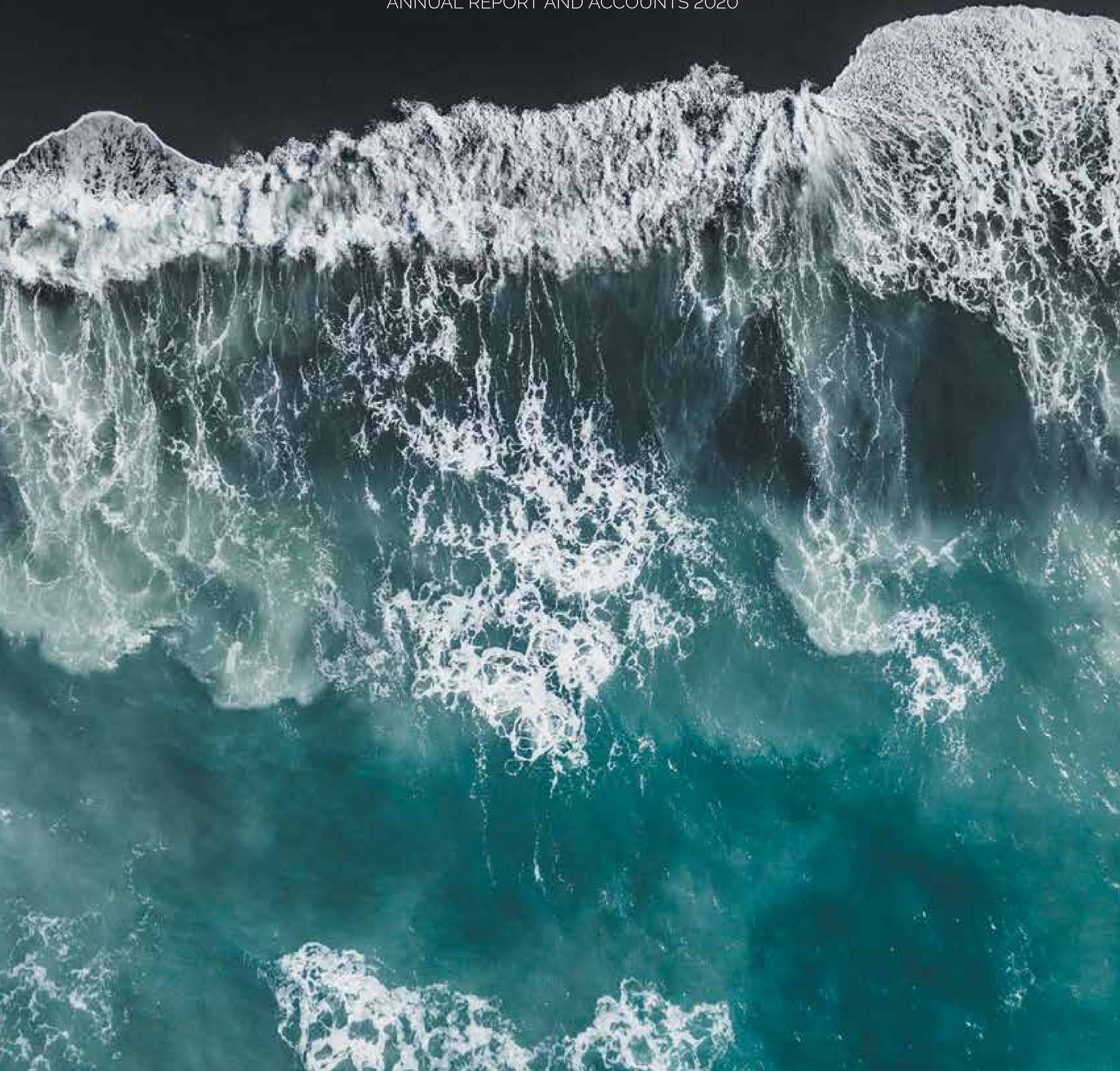
RESPONSIBLE. READY. REFOCUSED.

CAIRN ENERGY PLC

ANNUAL REPORT AND ACCOUNTS 2020



CAIRN ENERGY PLC IS AN INDEPENDENT, UK-BASED ENERGY COMPANY, FOCUSED ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION.

Cairn has explored, discovered, developed and produced oil and gas in a variety of locations throughout the world and has extensive experience as operator and partner across the oil and gas life cycle.

RESPONSIBLE.

Positioned to create value. After a year of effective and proactive portfolio management, the Group has the strategic flexibility to capture further opportunities for near-term development, growth and cash flow.

It's always the right time to do the right thing. We continue to develop our responsible approach, ensuring the sustainability of our business and delivering our commitments to our stakeholders and the communities where we operate.

READY.

Fiscal discipline and financial flexibility. Active portfolio management has enabled return of cash to shareholders, whilst retaining the ability to invest through the cycle and expand and diversify our production base to support long-term value creation.

REFOCUSED.

A balanced approach to exploration. A focus on 'advantaged barrels' targets attractive resources with optimised development timelines, scale and supportive fiscal environments, with strong alignment with our ESG priorities. We will continue to maintain exposure and readiness to capture select larger, more frontier opportunities with attractive growth potential.

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This annual report sets out the performance of Cairn Energy in the 2020 financial year and relevant non-financial information on environmental and social matters has been integrated.

Additional information can be found in our Corporate Responsibility Report at **www.cairnenergy.com/working-responsibly**

Discover more at **www.cairnenergy.com/ar2020**

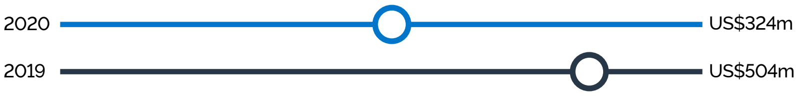
2020 Highlights

Net oil production averaged (bopd)

~21,000

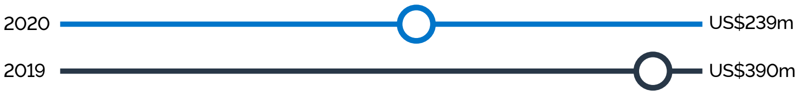
Oil and gas sales revenue

US$324m



Net cash inflow

US$239m



Year end Group cash

US$570m

India arbitration award in Cairn's favour of

US$1.2bn

plus interest and costs

Returned to shareholders from Senegal proceeds

US$250m

Special dividend of 32 pence per ordinary eligible share paid on 25 January 2021

Read more: Operational Review p62 and Financial Review p66

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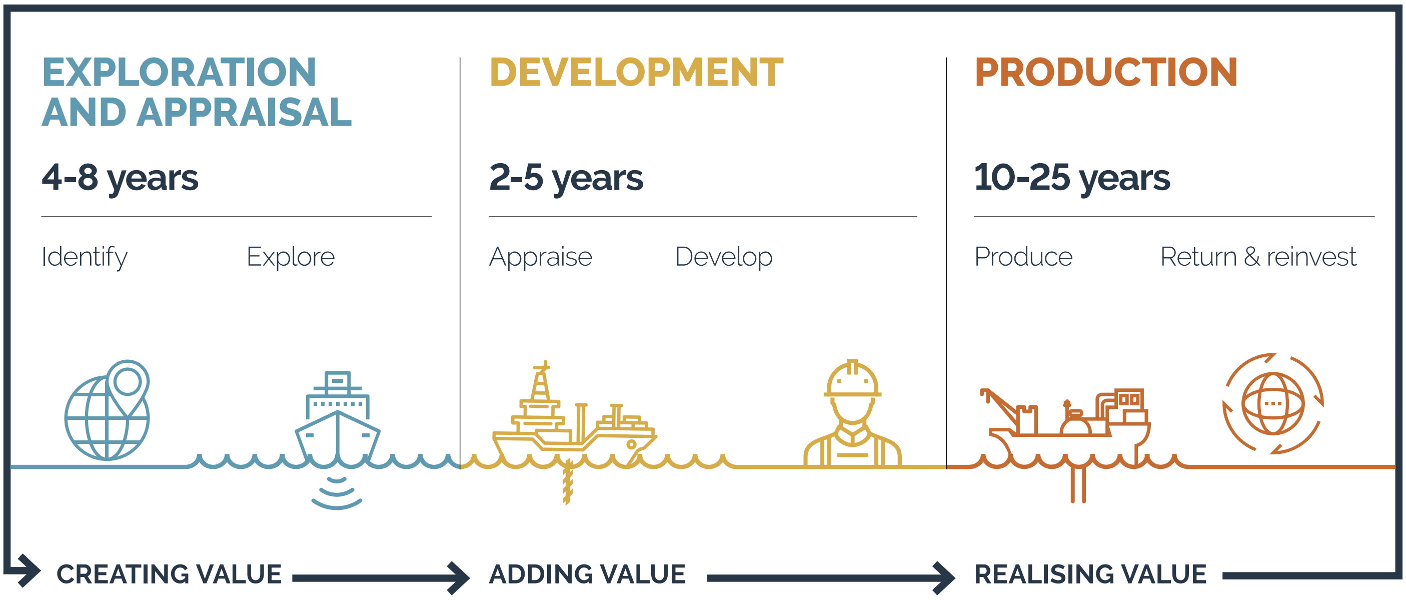
OUR PORTFOLIO

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

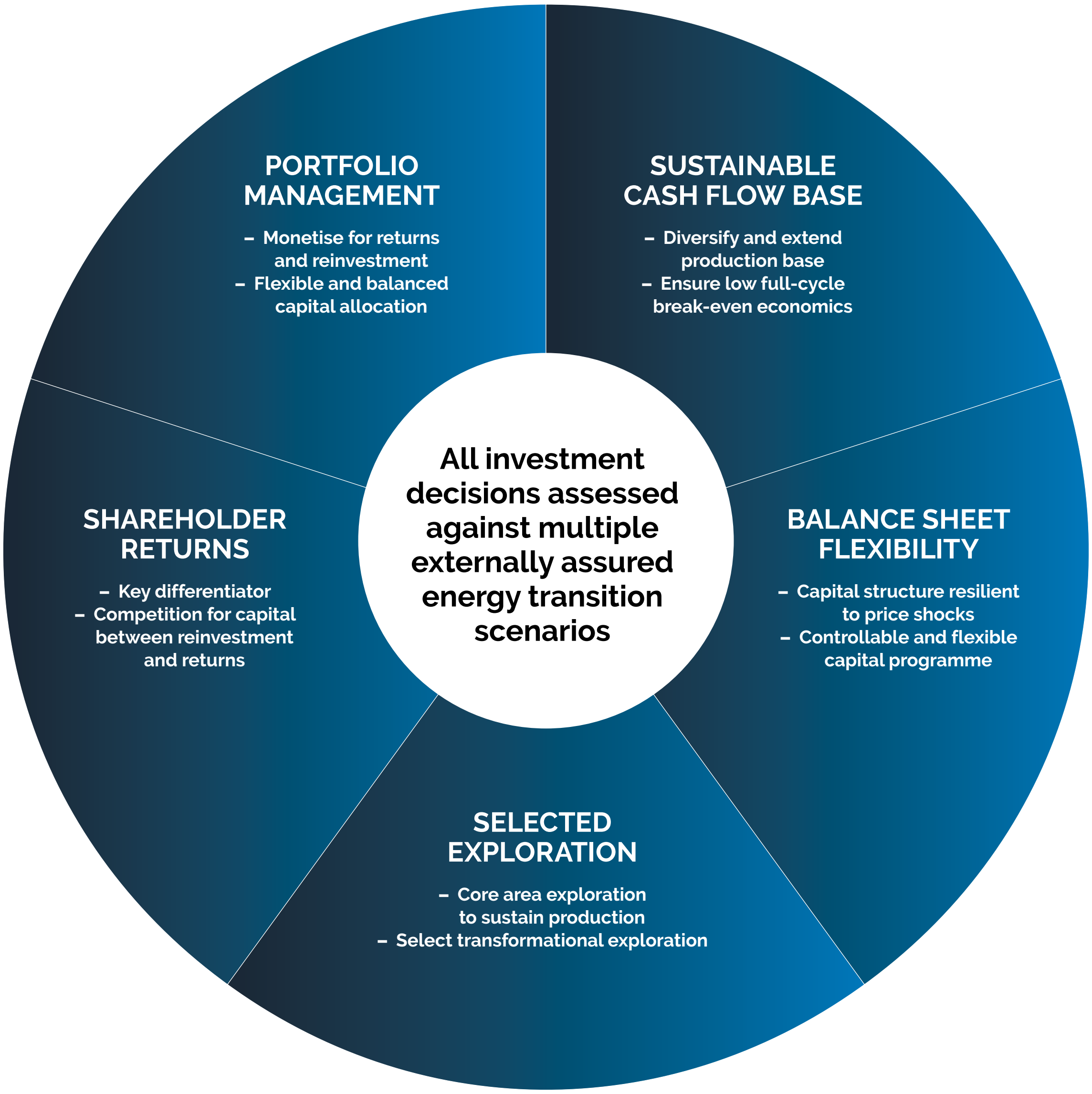
Nicoletta Giadrossi was appointed Chair from 1 January 2021, having first been appointed to the Cairn Energy Board in January 2017.

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.



All investment decisions assessed against multiple externally assured energy transition scenarios

PORTFOLIO MANAGEMENT

- Monetise for returns and reinvestment
- Flexible and balanced capital allocation

SUSTAINABLE CASH FLOW BASE

- Diversify and extend production base
- Ensure low full-cycle break-even economics

BALANCE SHEET FLEXIBILITY

- Capital structure resilient to price shocks
- Controllable and flexible capital programme

SELECTED EXPLORATION

- Core area exploration to sustain production
- Select transformational exploration

SHAREHOLDER RETURNS

- Key differentiator
- Competition for capital between reinvestment and returns

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

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.

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.

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.

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.

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

Oil and gas sales revenue

US$324m

Employees

Employee salaries and benefits

US$49m

Business partners and suppliers

Capital expenditure

US$125m

Governments and regulators

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.

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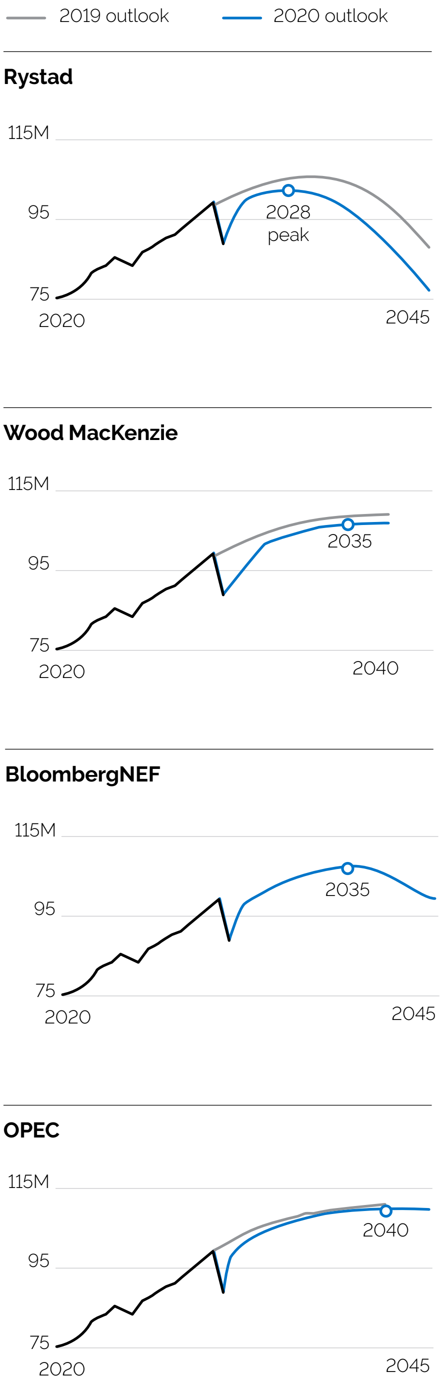
1 Goldman Sachs, August 2020 International Energy Agency (2020), World Energy Outlook 2020, IEA, Paris.
2 Reuters: www.reuters.com/article/uk-oil-opec-survey/opec-april-oil-output-surges-to-13-month-high-before-new-cut-deal-idUKKBN22C2NK.
3 Commodities Trading Corporation.
4 FT 18.1.21; China's economy 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.

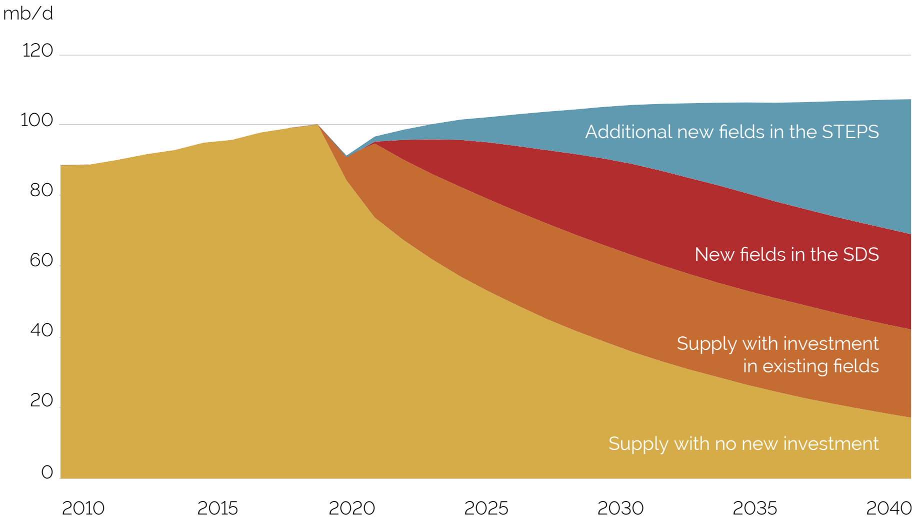
Regardless of the specific date or rate of peak oil demand[12] (see chart from BloombergNEF), forecast natural decline rates of existing oil production means that approximately one third of global oil supply by 2035 (see chart below)[13] will come from new, currently unsanctioned projects, likely requiring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

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[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

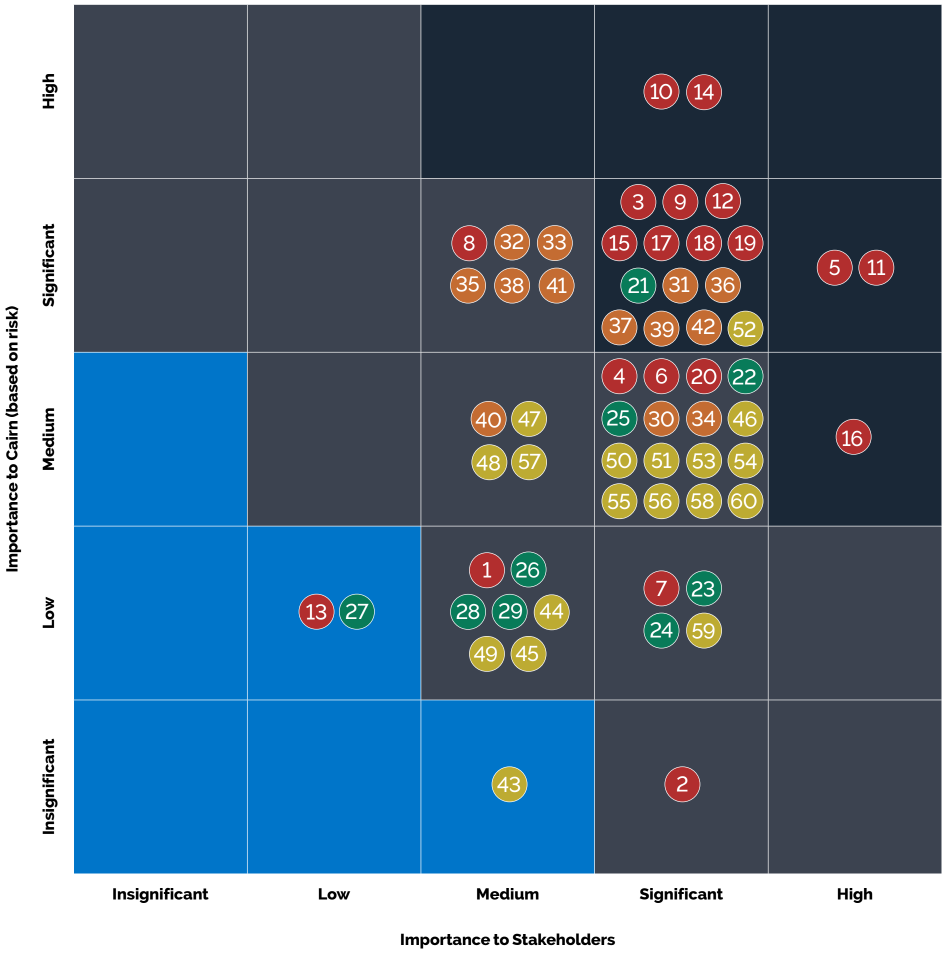
㉑ Biodiversity and Sensitive Areas
㉒ Discharges to Sea, Land and Sound
㉓ Energy Use and Alternative Sources
㉔ Freshwater Use
㉕ GHG Emissions (Including Venting and Flaring)
㉖ Materials Use
㉗ Product Stewardship
㉘ Reuse, Recycle and Waste Management
㉙ Use of Local Resources

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



	Insignificant	Low	Medium	Significant	High
High				10 14	
Significant			8 32 33 35 38 41	3 9 12 15 17 18 19 21 31 36 37 39 42 52	5 11
Medium			40 47 48 57	4 6 20 22 25 30 34 46 50 51 53 54 55 56 58 60	16
Low		13 27	1 26 28 29 44 49 45	7 23 24 59	
Insignificant			43	2	

Theme ● Governance ● Environment ● People ● Society

Materiality ■ High ■ Medium ■ Low

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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

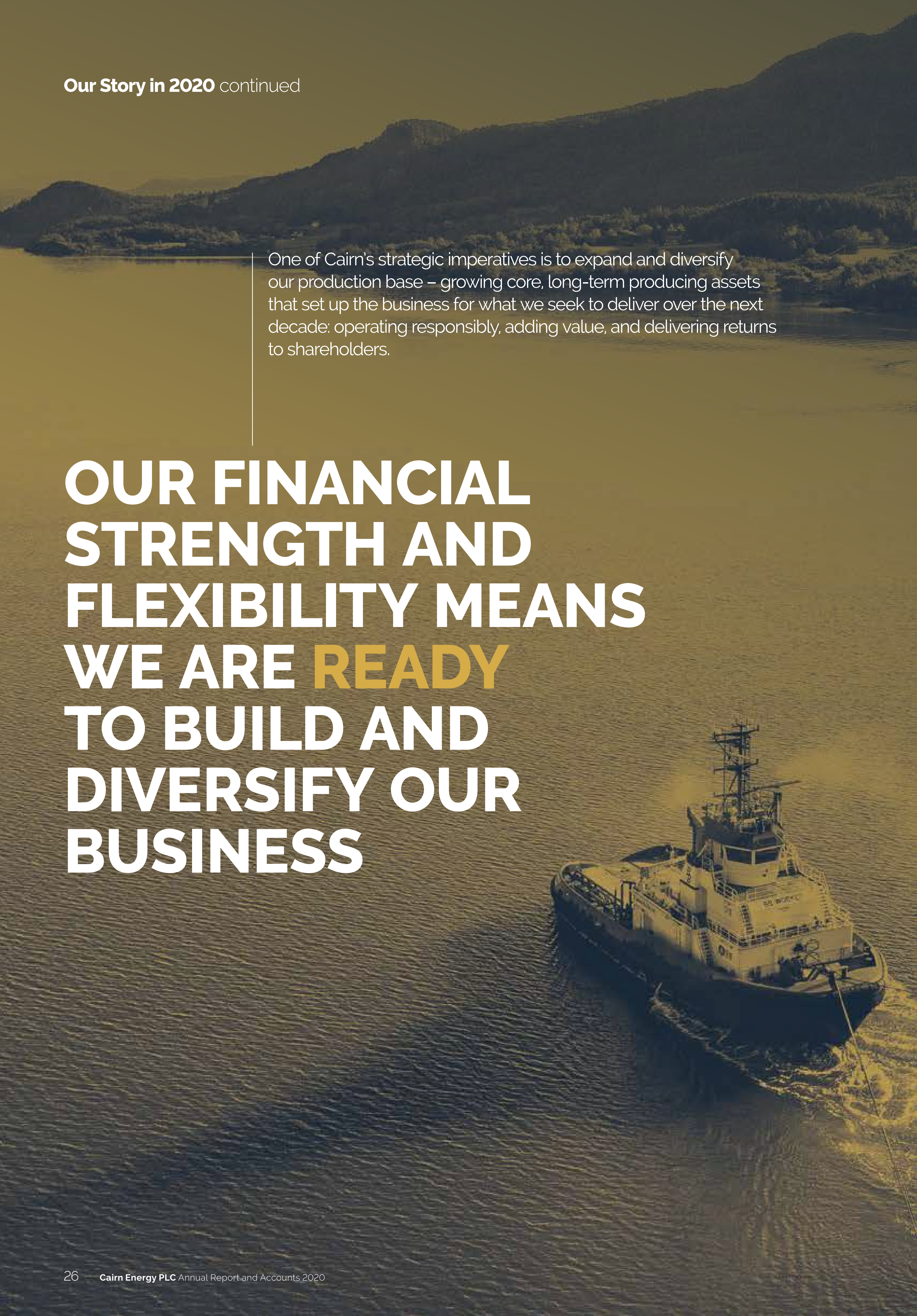
Our financial flexibility sits at the core of Cairn's strategic execution, with an ongoing focus on retaining balance sheet strength, liquidity, and control over our own destiny. That financial flexibility affords us a differentiated freedom to both actively manage the portfolio and to pursue accretive 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.

> **"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."**

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 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 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

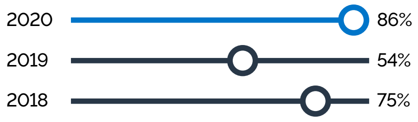
(as % of allocated proportion of maximum opportunity)

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 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 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

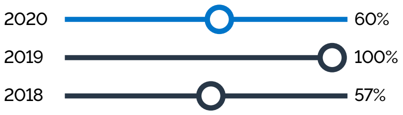
(as % of allocated proportion of maximum opportunity)

10%

Bonus awarded

6%

Past performance in KPI category:



2020 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

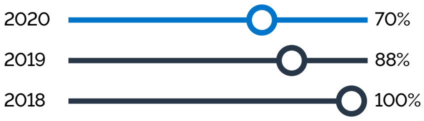
(as % of allocated proportion of maximum opportunity)

5%

Bonus awarded

3.5%

Past performance in KPI category:



2020 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.

> **"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."**

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.

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.

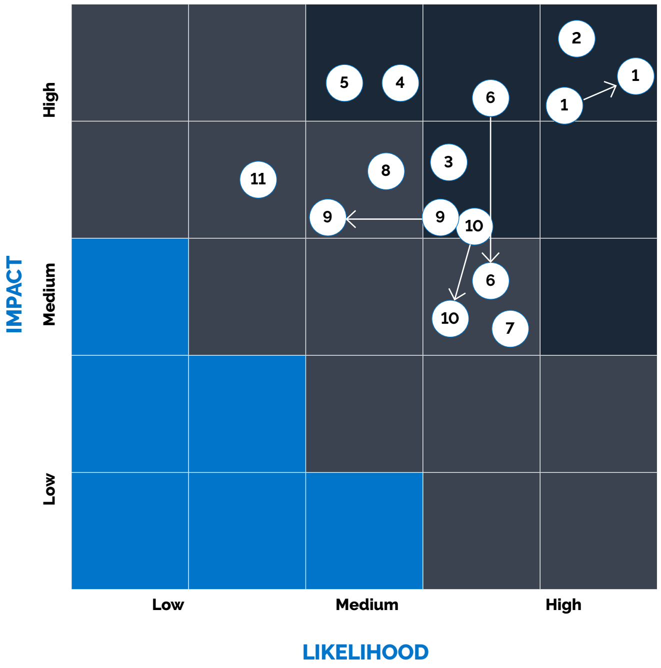
Responding to the Changing Risk Environment in 2020

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

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.

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 86
Male Female

Non-staff

23 8
Male Female

Management

11 1
Male Female

People Managers

38 19
Male 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 31
Staff Non-staff

178 26
Full-time 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.

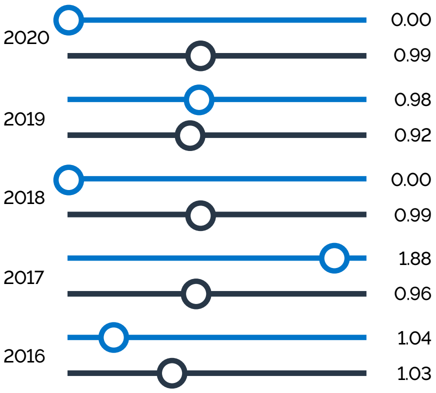
Our 2020 Performance

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).

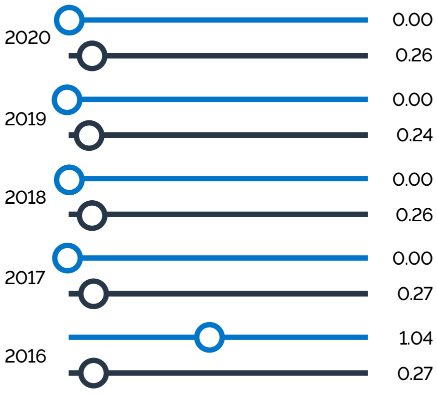
Total Recordable Injury Rate (TRIR)

(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.

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[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.

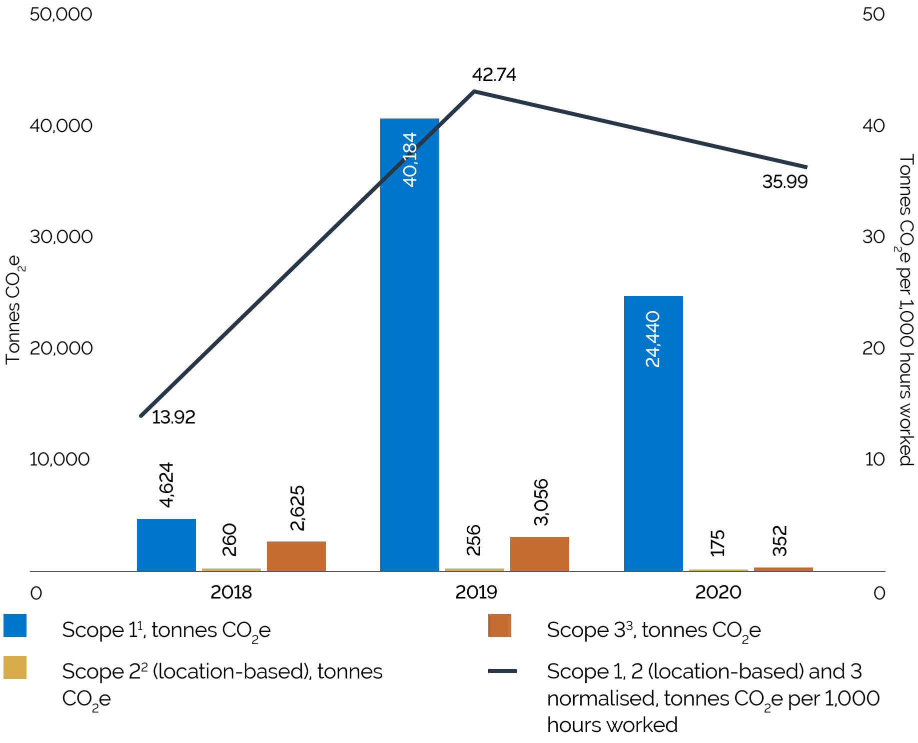
Greenhouse Gas (GHG) Emissions

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$_2$e



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$_2$e in 2020, while normalised emissions also fell to 35.99 tonnes CO$_2$e 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

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[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

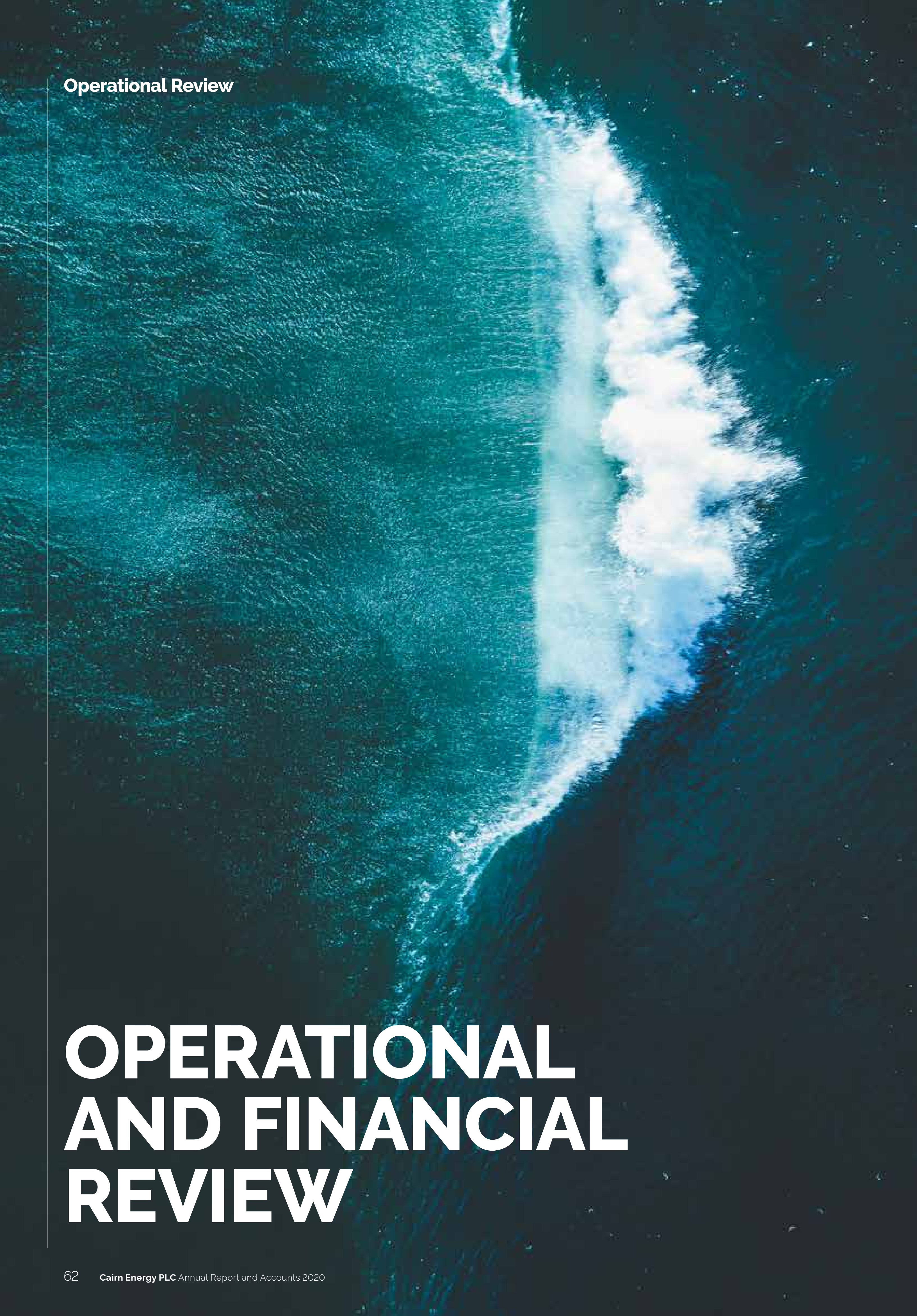
SUPPORTING SUPPLIERS IN SENEGAL

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.



OPERATIONAL AND FINANCIAL REVIEW

2020 Summary

- The impact of COVID-19 has been managed safely across the business
- India Arbitration Tribunal award in December 2020 of US$1.2bn plus interest and costs
- Completion of sale of interests in Norway and Senegal
- Year-end Group cash US$570m with no drawn debt, US$250m subsequently returned to shareholders by special dividend
- Net oil production averaged just over 21,000 bopd, in line with guidance (2019: 23,000 bopd)
- Oil and gas sales revenue of US$324m (2019:US$504m): average realised oil price of US$42.56/bbl (before hedging gains of US$7.27/bbl): (average production cost US$20/boe)
- Net cash inflow from oil and gas production US$239m
- Capital expenditure on continuing operations was US$125m, in line with guidance
- Operating loss US$67m (2019: US$155m operating profit)
- Loss after tax of US$394m (2019: profit of US$94m), including loss on disposals of US$276m; no recognition of gain on arbitration award, held as contingent asset

2021 Outlook

- Completion of proposed acquisition of Shell's Western Desert assets in Egypt for consideration of US$323m[*], adding forecast Cairn WI 2021 production of 33,000-38,000 boepd (66% gas)
- Completion of proposed sale of interests in UK Catcher and Kraken fields for a firm consideration of US$460m[*] plus contingent consideration linked to oil price and production performance, further strengthening the balance sheet to deliver additional portfolio growth
- Continued engagement with the Government of India regarding the arbitration award of US$1.2bn plus interest and costs, whilst all necessary steps are being taken to ensure access to the value of the award for our shareholders
- Estimated exploration and appraisal capital expenditure (excluding Egypt and Catcher and Kraken) of US$90m, including exploration wells planned in Mexico and the UK North Sea

Reserves

The Group 2P reserves decreased during the year by 116.8 mmboe from 149.7 mmboe to 32.9 mmboe. This was principally as a result of disposals (106.5 mmboe relating to Sangomar and Nova) but also accounts for production in the period (7.8 mmboe) and revisions (2.5 mmboe), the latter primarily related to a change in oil price assumptions for the Group.

[*] Consideration at effective date of 1 January 2020, to be adjusted for working capital and interim period cashflows

PRODUCTION

The North Sea production assets delivered 2020 annual net production of just over 21,000 bopd, (cum. 7.81m bbl) in line with revised full year guidance. Crude sales from both fields averaged dated Brent pricing or better during the period.

Catcher
Average 2020 gross production from the Catcher Area (Cairn 20% WI) was 50,200 bopd, with production levels impacted in H2 by planned maintenance, shutdown activity and a produced water plant issue, resolved by the Operator. Drilling of the Varadero infill well (VP1) was completed with the well supporting plateau oil rates.

In 2020 Phase 1 of a gas injection trial took place, with Phase 2 taking place in Q1/Q2 of this year.

Kraken
Average 2020 gross production from Kraken (Cairn 29.5% WI) was 37,500 bopd. The FPSO delivered high production efficiency rates over the period, averaging 87% oil production efficiency and 91% water injection.

In 2020, the Kraken JV successfully brought on-line the Worcester producer-injector well pair. Overall subsurface and well performance has been good, with the rate of water cut evolution remaining stable.

EXPLORATION

Exploration continues to be a core part of Cairn's strategy. We aim to maintain a flexible exploration portfolio with a balance of near infrastructure, short cycle time opportunities alongside select frontier opportunities.

Mexico

Cairn has interests in four blocks in the Gulf of Mexico, two as Operator (Blocks 9 and 15) and two as non-Operator (Blocks 7 and 10*).

In Block 10 in the Sureste basin, an oil discovery was confirmed on the ENI-operated Saasken-1 exploration well (15% non-operated WI)* during Q1 2020, with Operator preliminary estimates of 200 to 300 million barrels of oil in place. Following regulatory approval of the Operator's updated exploration plan, the JV is preparing a second exploration well on the licence in H1 2021. The appraisal plan for the Saasken discovery, with the option to drill an appraisal well, is being assessed by CNH.

On Block 9 (50% WI)*, Cairn completed its second operated well in Mexico in Q1 2020. The exploration objectives were dry and the well was permanently plugged and abandoned. Cairn continues to update its assessment of the prospectivity of Block 9 (50% WI).

On Block 7 (30% WI), the Ehecatl-1 well, operated by ENI, completed operations during Q2 2020 and was permanently plugged and abandoned. The Operator ENI and Cairn are working to identify prospects for drilling a second exploration well, currently planned for 2022.

UK

Following the exchange of 50% WI between Cairn operated P2379 and Shell operated licence P2380 in 2020, Shell expects to spud the Jaws prospect on P2380 during Q2 2021. Cairn aims to drill the Diadem prospect (P2379 50% WI operated) in Q2 2022, with a site survey underway. With both licences close to Shell's Nelson platform, exploration success can be fast-tracked to production via subsea tieback. A drill stem test is planned in a success case for both wells. There is analogous follow-on potential in the event of success on licences P2379 and P2381 (100% WI).

On licence P2468 (50% WI, operated) in the East Orkney Basin, reprocessing of legacy 2D seismic is completed and shallow boreholes and geophysical data will be acquired in 2021 to inform a decision on acquisition of 3D seismic over this acreage.

Cairn exited the Agar-Plantain (P1763) and Chimera (P2312) licences as it proactively managed its portfolio.

Suriname

Cairn (100% WI) operates Block 61, the largest offshore PSC in Suriname at 13,080 km^2. The block is situated within the world-class Guyana-Suriname basin where significant discoveries continued to be made in 2020 and 2021. On Block 61, acquisition of 3D seismic is being considered to develop potential drilling opportunities in both shallow and deep-water areas of the block. The licence has been extended for an additional 12 months until June 2022.

Israel

Cairn has a 33.34% WI as Operator in eight licences offshore Israel. During 2020, as part of the minimum work commitment, Cairn awarded a contract for seismic processing, which is ongoing. The project aims to improve the imaging of existing seismic in order to mature prospectivity.

Côte d'Ivoire

Cairn has assumed Operatorship (90% WI) in blocks CI-301 and CI-302 from Tullow which has exited both licences. Cairn remains in the Tullow-operated CI-520 (30% WI). The JV has exited blocks CI-518, CI-519, CI-521 and CI-522 effective end Q4 2020. The proposed 2021 work programme for blocks CI-301 and CI-302 is focused on completing the planned 2D seismic acquisition, when safe to do so.

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* The National Hydrocarbon Commission (CNH) approved the 15% share of Capricorn Energy Mexico in Block 10 (contract CNH-R02-L01-A10.CS/2017). At the same time CNH approved the acquisition of a 15% share of Eni Mexico in the adjacent Block 9 (contract CNH-R02-L01-A09.CS/2017) operated by Capricorn Energy Mexico. The signature process of the revised Production Sharing Contracts to reflect the change in the JV working interest is ongoing. Capricorn Energy Mexico is a wholly owned subsidiary of Cairn Energy PLC.

BALANCE SHEET STRENGTH AND FINANCIAL FLEXIBILITY

James Smith
Chief Financial Officer

Key Statistics

	Year ended 31 December 2020	Year ended 31 December 2019
Production – net WI share (boepd)[1]	**21,350**	23,739
Sales volumes (boepd)[2]	**20,993**	21,412
Average price per bbl (US$)[3]	**42.56**	65.70
Revenue from production (US$m)	**324.5**	504.2
Average production costs per boe (US$)[4]	**19.73**	17.38
Depletion and amortisation costs per boe (US$)	**27.33**	24.87
Net cash inflow from oil and gas production (US$m)	**239.4**	390.2
Net cash inflow from operating activities (US$m)	**257.9**	406.5

1 Based on 20% Catcher production and 29.5% of Kraken production before deducting FlowStream's entitlement to Kraken volumes during the year of 1,012 boepd (2019: 1,460 boepd).
2 Working interest share of cargoes sold during the period, net of FlowStream entitlement.
3 Excluding hedging gains of US$7.27/bbl (2019: US$1.42/bbl).
4 Based on total production costs of US$155.8m (2019: US$150.5m), including total lease payments; see table below.

Award under the International Arbitration

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 awarded to Cairn damages of US$1.2 billion plus interest and costs, which immediately became payable. The total due at the year-end was US$1.7 billion.

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

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

The taxation of future receipts in respect of the Award is currently uncertain. Further work will be undertaken to assess the tax treatment of future receipts in respect of the Award, which may include discussions with relevant tax authorities.

Post-Balance Sheet Date Transactions

On 8 March 2021, Cairn signed a sale and purchase agreement for the joint purchase by Cairn and Cheiron of Shell's Western Desert assets in Egypt at an initial cost of US$323m. This acquisition is an important step in Cairn's strategic ambition to expand and diversify the producing asset base. It will be funded by existing cash balances and new debt facilities.

Also on 8 March, Cairn agreed the sale of the Group's interests in the UK Catcher and Kraken fields. The divestment of these assets, which are now falling into natural decline, will further strengthen Cairn's ability to pursue Cairn's strategic goals at an opportune point in the cycle. As the sales process was not sufficiently advanced at the year end, the assets were not re-classified as held-for-sale.

Both transactions require shareholder and government approvals.

Neither transaction impacts the results reported for the current year. Assuming all necessary approvals, the acquisition in Egypt shall be assessed for accounting under *IFRS 3 – Business Combinations*. The sale on UK assets is forecast to generate a book loss after tax of ~US$140m as a result of a reversal of deferred tax assets on UK tax losses which currently offset deferred tax liabilities recorded on the assets.

Production

During 2020, daily production volumes on both assets remained within revised guidance at just over 21,000 bopd, net to Cairn. Kraken performance remained strong throughout the year, while Catcher was constrained in the fourth quarter due to operational issues. Catcher production averaged ~51,200 boepd (2019: ~67,200 boepd) gross for the year and Kraken averaged ~37,500 bopd (2019: ~35,600 bopd). Net to Cairn, combined production for 2020, including Catcher gas, averaged 21,350 boepd before adjusting for FlowStream entitlement.

Revenue
Revenue from the sale of oil and gas was US$324.5m (2019: US$504.2m), before adjusting for hedging gains of US$55.9m (2019: US$10.9m). Oil sales realised US$42.56/bbl against an average Brent price of US$41.96/bbl for the year reflecting strong, consistent pricing of both Catcher and Kraken crudes. Release of deferred revenue of US$13.9m (2019: US$17.2m) and royalty income in Mongolia of US$0.4m (2019: US$1.1m), increased total revenue to US$394.7m (2019: US$533.4m).

The gains recorded on hedge options during 2020 reflect volumes of 1.9 mmbbls of collars, settled on weighted-average floor prices of US$62.09/bbl, and 0.9 mmbbls of swaps, with weighted-average strike price of US$61.85/bbl. At 31 December 2020, Cairn has hedged ~1.0m barrels of forecast production through to December 2021. ~0.5m barrels have been hedged using three-way-collar structures with a weighted average floor of US$48.27/bbl and sub-floor of US$35.00/bbl and an average ceiling of US$55.00/bbl, and ~0.5m barrels hedged using swaps with a weighted average strike price of US$45.20/bbl.

Cost of sales
Total production costs of US$155.8m (2019: US$150.5m) include US$23.0m of variable lease payments (2019: US$25.6m) on the Catcher and Kraken FPSOs respectively. Production costs included in the table above are calculated as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Production costs (US$m) (note 2.1)	**75.9**	68.1
Variable lease costs (US$m) (note 2.1)	**23.0**	25.6
Fixed lease costs for FPSOs (US$m)[1]	**56.9**	56.8
Total lease costs (US$m)	**79.9**	82.4
Total production costs (US$m)	**155.8**	150.5
Total production costs per boe (US$)	**19.73**	17.38
Total lease costs per boe (US$)[2]	**10.23**	9.51

[1] Fixed lease costs for FPSOs are included in total lease costs disclosed in note 3.3.

[2] Total lease cost per boe are included in total production costs per boe.

Net decreases in oil inventory and underlift positions, measured at market value, of US$16.6m were charged against cost of sales in the year (2019: increases of US$20.6m credited against cost of sales). Following a change in crude marketing arrangements, where Cairn now receive the Group's WI share of each cargo lifted on both assets, there is no overlift or underlift position at the year end.

The increased depletion and amortisation cost per boe arise as a result of reserve adjustments at the year end, primarily on the Kraken producing asset.

Sale of oil and gas assets
During the year Cairn completed the disposal of its Norwegian subsidiary and its interests in Senegal, freeing the Group from multi-year capital commitments totalling over US$1.7 billion.

Cairn announced the disposal of the Group's interests in Senegal in July 2020 and completed the sale to Woodside in December. Cash received at completion was US$525m, comprising US$300m acquisition consideration and a US$225m reimbursement of expenditure incurred on the sale assets since 1 January 2020. Further consideration of up to US$100m is receivable based on the first-oil date and the oil price prevailing at that time.

The completion of the sale of Capricorn Norge AS to Sval Energi in February 2020 generated total net cash flows of US$102.5m to the Group.

Together, the transactions resulted in a combined loss of U$276.3m recognised within discontinued operations. Post completion of the sale of the Senegal operations, Cairn announced a return of cash to shareholders of £188m (using US$250m of Senegal sales proceeds) by way of dividend and this was paid in January 2021. The return of cash further demonstrates Cairn's commitment to return value to shareholders at the appropriate opportunity.

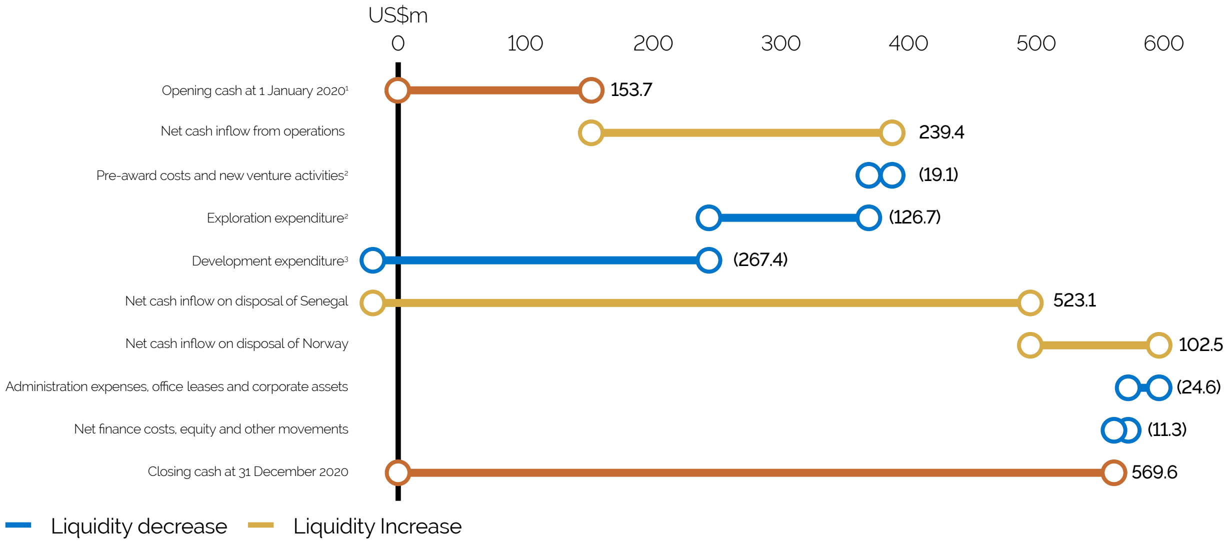
Cairn had cash balances of US$569.6m at 31 December 2020, representing a net cash inflow of US$415.9m over the year. There were no borrowings under the Group's Reserve-Based Lending facility, at either the beginning or end of the current year. US$250m of cash was returned to shareholders in January 2021.

Cairn generated US$239.4m of cash inflow from the sale of oil and gas from Catcher and Kraken. Completing the sale of the Group's interests in Senegal and Norway generated net cash inflows of US$625.6m.

Cash outflows on exploration expenditure in the year include US$89.4m of costs in Mexico on completion of the Bitol-1 and Ehecatl-1 exploration wells, US$14.6m across the seven licences in Côte d'Ivoire, and US$11.3m in Mauritania where new licence terms on the existing acreage is expected to be agreed shortly, and US$11.4m across other regions.

Development cash outflows in the period primarily relate to costs on Senegal, with US$235.9m spent prior to completion of the sale in the year. On Kraken, cash spend of US$17.5m included the drilling of a development well on the Worcester satellite field. US$14.7m was spent on drilling on Catcher with the remaining US$3.3m relating to spend in Norway prior to disposal.

Net cash inflow for the year

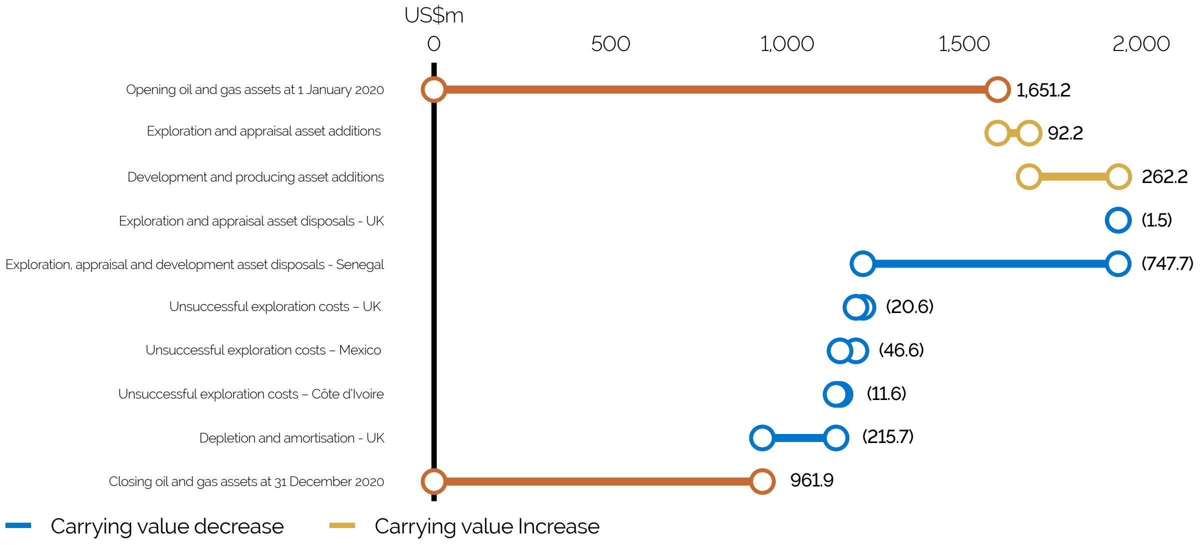


1 Includes cash balance of US$7.2m held by Capricorn Norge AS.
2 Cash outflows on new venture activities of US$7.0m not relating to pre-award activities are reallocated from administration expenses.
3 Development expenditure of US$271.4m per statutory cash flow, offset by lease reimbursements of US$4.0m.

Reconciliation of statutory cash flow to cash inflow from operations:

	Cash inflow from operations US$m
Operating cash flow per statutory cash flow statement	257.9
Non-GAAP Adjustments:	
Administrative costs reallocated	19.7
Pre-award and new venture costs reallocated	19.1
FPSO fixed lease payments	(57.3)
Net cash inflow from operations	**239.4**

Capital expenditure on Oil and Gas Assets



Analysis of additions:

	US$m
UK	8.9
Mexico	56.0
Côte d'Ivoire	8.6
Mauritania	11.3
Others	7.4
Exploration and appraisal asset additions	**92.2**
UK – Catcher and Kraken	35.6
Senegal	223.2
Decommissioning assets additions	3.4
Development and producing asset additions	**262.2**

Senegal
Capital expenditure relating to Senegal was reimbursed on completion of the sale to Woodside in December 2020.

Exploration and Appraisal assets
Exploration and appraisal asset additions and disposals in the UK primarily relate to a swap between Cairn and Shell for interests in licences containing the Jaws and Diadem prospects planned for drilling in 2021. Unsuccessful costs in the UK include US$19.4m on relinquishment of the Agar-Plantain licence relinquished early in 2021.

In Mexico, US$47.3m of costs relate to drilling of Bitol-1 and Ehecatl-1 wells completed in 2020, with further non-well costs of US$8.7m incurred. Both wells were declared unsuccessful and costs of US$47.3m charged to the Income Statement.

In Côte d'Ivoire additions of US$8.6m were incurred across the seven licences held by Cairn during the year. Cairn took over operatorship of two blocks during the year, retain a non-operating interest in a third and the remaining four blocks were relinquished. Costs relating to those four of US$11.6m were expensed.

Finally, in Mauritania the Group completed the farm-in to Block 7 early in 2020, however the licence was relinquished after the operator withdrew. Cairn expects to complete the signing of a new licence across the acreage in the near term.

UK Development and Producing assets
Development additions in the year totalling US$35.6m include further development drilling on both assets with Worcester satellite well completed on Kraken and the Varadero infill well completed on Catcher. Drilling of the Catcher North and Laverda development wells, originally planned for the year, have been delayed due to COVID-19.

Impairment testing
At the year end, Cairn reassessed its long-term oil and gas price assumptions. Cairn's long-term oil price assumption has reduced from US$65/bbl to US$55/bbl with escalation of prices removed (previously 2%). The Group's short-term price assumption remains on a rolling average of the forward curve, but the period has been reduced from three to two years. The Group's discount rate remains at 10%.

Despite this reduction in the oil price assumptions, no impairment was recorded on tests performed on the two producing assets. Sensitivity analysis is provided in the note to the accounts. Impairment reviews on the Group's exploration and appraisal assets identified no indicators of impairment.

Results for the year – Other operating income and expense

Other operating income and costs, administrative expenses and net finance costs

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Pre-award costs	(12.1)	(17.2)
Unsuccessful exploration costs	(78.8)	(107.0)
Administrative expenses and other income/costs	(41.1)	(32.3)
Operational and administrative expenses	**(132.0)**	(156.5)
Net finance costs and financial assets	**(50.3)**	(35.4)

Pre-award costs reflects ongoing activity as Cairn seeks new opportunities to add to its portfolio of assets.

Unsuccessful exploration costs, discussed further within asset movements, include wells in Mexico and the relinquishment of licences in Côte d'Ivoire and the UK.

Administration costs have increased year-on-year, largely due to current year costs incurred in advance of the arbitration award and increased accruals relating to share-based payments.

Significant components of net finance costs include an exchange loss of US$26.4m, largely arising on intercompany lending across subsidiaries with differing functional currencies, and £ denominated decommissioning provisions. Exchange losses in the Income Statement are offset by gains of US$21.6m included within other comprehensive income on the translation of non-USD functional companies to the presentational currency. Further significant finance costs include US$13.3m of lease interest charges and US$6.4m of borrowing cost and facility fee amortisation charges.

Discontinued Operations
Prior to disposal, neither the Norwegian business nor Senegal operations generated significant profit or loss with a small profit of US$0.5m recorded.

On disposal of Capricorn Norge, cumulative historic translation losses of US$44.6m arising on consolidation of the NOK denominated subsidiary in US$, were recycled from reserves to the Income Statement, and this generated a loss on disposal of US$39.5m. The assets and liabilities of Capricorn Norge, including goodwill allocated, had been written down to their recoverable value in 2019.

The sale of operations in Senegal generated a loss on disposal of US$237.3m. Prior to disposal, Cairn entered a Bridge Financing Facility to fund development expenditure until the date of completion of the sale. All associated borrowing costs are included in the loss on sale, through capitalisation within the development costs disposals, and the facility was repaid in full in December following receipt of proceeds.

The calculation of the loss on the sale of Senegal does not assume any further income associated with the deferred consideration of up to US$100m.

Taxation – UK unrecognised deferred tax assets
During the year, Cairn made a UK ring fence profit which was fully offset by brought forward losses. At 31 December 2020, Cairn had total UK ring fence losses of US$486.3m and supplementary charge losses of US$409.8m. All of the UK ring fence losses (at the applicable tax rate of 30%) and the supplementary charge tax losses (at the applicable tax rate of 10%), and activated UK investment allowance and decommissioning liabilities of US$579.2m and US$2.3m respectively, are recognised as deferred tax assets only to the extent they fully offset the deferred tax liabilities of US$245.7m. The remainder of the decommissioning liability represents an unrecognised deferred tax asset of US$148.7m at 31 December 2020.

This Strategic report has been approved by the Board and is signed on their behalf by

Simon Thomson
Chief Executive
8 March 2021

LEADERSHIP AND GOVERNANCE

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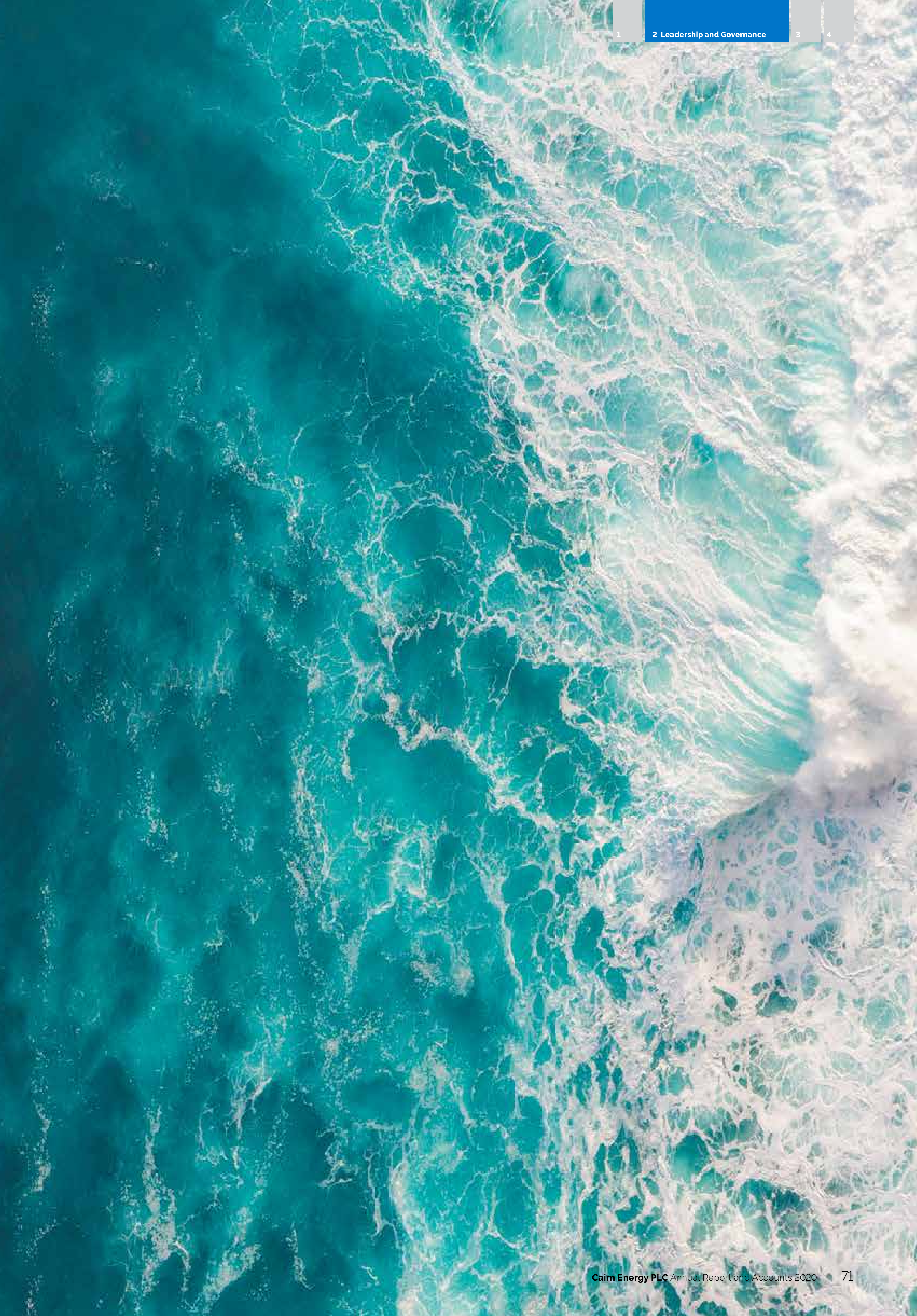


Board of Directors




Executive Directors		Non-Executive Directors	
Simon Thomson Chief Executive (56)	**James Smith** Chief Financial Officer (44)	**Nicoletta Giadrossi** Non-Executive Chair (54)	**Keith Lough** Non-Executive Director (62)
Committee membership EC RM N	EC RM	N R	A N
Term of office Simon was appointed to the Board in November 2006 as Legal and Commercial Director and became Chief Executive in July 2011.	James was appointed to the Board in May 2014 as Chief Financial Officer.	Nicoletta was appointed as an independent Non-Executive Director in January 2017 and became Non-Executive Chair in January 2021.	Keith was appointed as an independent Non-Executive Director in May 2015.
Independent Not applicable	Not applicable	Yes	Yes
Skills and experience LLB (Hons), Aberdeen University Diploma in Legal Practice, Glasgow University Simon Thomson was appointed Chief Executive in July 2011 having been Legal and Commercial Director since 2006 and having held various posts across the organisation, including Head of Assets. Simon originally joined Cairn in 1995.	MA (Hons), English University of Oxford James Smith joined Cairn in March 2014 from Rothschild where he was a director of the Energy and Power Team with 15 years' experience advising exploration and production companies, oil majors and national oil companies on their merger and acquisition transactions and equity and debt market financing.	BA in Mathematics and Economics, Yale University MBA, Harvard Business School Nicoletta Giadrossi has held several global executive roles in energy and capital equipment. She has been: General Manager in GE Oil and Gas, Refinery & Petrochemicals Division until 2008; Vice President and General Manager, EMEA at Dresser-Rand (now Siemens), until 2012; Head of Operations in Aker Solutions Asa, and President (Europe, Africa, Middle East, Russia & India) at Technip, a role she held until 2016. Nicoletta is currently Senior Adviser, Industry and Energy, for Bain Capital Partners, Europe.	MA Economics, University of Edinburgh MSc in Finance, London Business School Keith Lough is a Fellow Chartered Certified Accountant (FCCA) and has formerly held the position of Finance Director of British Energy PLC and Chief Executive of Composite Energy Ltd. Keith was also a Non-Executive Director of the UK Gas and Electricity Markets Authority from 2012 to July 2019.
Key external appointments Public companies: None Non-public companies: Non-Executive Director of Graham's The Family Dairy Limited Director of Graham's The Family Dairy Group Limited Non-Executive Director of Edinburgh Art Festival	No external appointments	Public companies: Non-Executive Director of Brembo S.p.A Non-Executive Director of IHS Markit Ltd (a position that Nicoletta will retire from with effect from early summer 2021 following the Company's announced merger with S&P Global) Non-Executive Director of Koninklijke Vopak N.V. Non-Executive Director of Falck Renewables Non-public companies: TecHouse AS	Public companies: Non-Executive Chairman of Southern Water Non-Executive Chairman of Rockhopper Exploration PLC Non-Executive Director (and senior independent director) of Hunting PLC Non-public companies: None

Committee membership key

■ Committee Chair	A Audit Committee	R Remuneration Committee	N Nomination Committee

			
Peter Kallos Non-Executive Director (61)	**Alison Wood** Non-Executive Director (57)	**Catherine Krajicek** Non-Executive Director (59)	**Erik B. Daugbjerg** Non-Executive Director (51)
R N EV	R A	A	R
Peter was appointed as an independent Non-Executive Director in September 2015.	Alison was appointed as an independent Non-Executive Director in July 2019.	Catherine was appointed as an independent Non-Executive Director in July 2019.	Erik was appointed as an independent Non-Executive Director in May 2020.
Yes	Yes	Yes	Yes
BSc (Hons) Applied Physics, Strathclyde University MEng Petroleum Engineering, Heriot-Watt University	BA in Engineering, Economics and Management, Oxford University MBA, Harvard Business School	BSc and MSc in Petroleum Engineering, Colorado School of Mines	BA in Business Administration, Southern Methodist University, Dallas
Peter Kallos has held a number of posts at Enterprise Oil including Head of Business Development, CEO Enterprise Italy and General Manager of the UK business before his appointment in 2002 as Executive Vice President International and Offshore at Petro-Canada. In 2010, Peter became Chief Executive of Buried Hill Energy.	Alison Wood's previous executive roles include Group Strategic Development Director at BAE systems and Global Director of Strategy and Corporate Development at National Grid. She has also previously held a number of non-executive positions and board committee memberships, including at BTG plc, THUS plc, e2V plc and Cobham plc. Alison is currently a Non-Executive Director and Remuneration Committee Chair of Costain plc, TT Electronics plc and The British Standards Institution.	Catherine Krajicek started her career with Conoco as an associate engineer and remained with the company for a total of 22 years, progressing through a variety of oil and gas technical and subsequently asset management roles in both the US and Indonesia. In 2007, Catherine left ConocoPhillips and joined Marathon Oil where she went on to hold a number of senior executive (Vice President) roles before retiring from Marathon in 2018.	Erik B. Daugbjerg has over 20 years' experience in both midstream and upstream oil and gas sectors in the US including founding roles at two oil and gas operators based in the Permian Basin. In 2006, Erik co-founded Pecos Operating Company, and in 2010, co-founded RSP Permian, Inc. Erik has extensive public markets experience, including delivery of acquisitions and disposals, and he played an integral role in the disposal of RSP Permian to Concho Resources, Inc in July 2018 for US$9.5 billion.
Public companies: Executive Chairman of Buried Hill Energy Non-public companies: None	Public companies: Non-Executive Director of Costain plc Non-Executive Director of TT Electronics plc Non-Executive Director of Oxford Instruments plc Non-public companies: Non-Executive Director of The British Standards Institution	Public companies: None Non-public companies: None	Public companies: Kimbell Royalty Partners Non-public companies: Pecos Operating Company, LLC

As at 8 March 2021

EC Executive Committee

RM Group Risk Management Committee

EV Employee Voice Forum

GOVERNANCE

Strong corporate governance and effective risk management are vital in delivering our strategy, achieving our objectives and creating long-term shareholder value. We have a comprehensive framework of policies and management systems in place to assess and manage risks effectively, including emerging risks from climate change. These are underpinned by our core values, Business Principles and Cairn Operating Standards, all of which are understood and adhered to across the Group.

BUSINESS PRINCIPLES

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

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

③ ⑤ ⑨ ⑩ ⑪ ⑫
⑭ ⑮ ⑯ ⑰ ⑱ ⑲

Read More: Materiality Matrix on p15

OUR CONTRIBUTION TO THE UN SDGS

8 DECENT WORK AND ECONOMIC GROWTH

Impacts
Continued to implement policies for local procurement and supplier development.

Continued to support the development of a National Institute of Oil and Gas (INPG) in Senegal, through the JV.

10 REDUCED INEQUALITIES

Impacts
Continued to support EITI in promoting transparent payments to governments and fair distribution of benefits in host nations.

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

17 PARTNERSHIPS FOR THE GOALS

Impacts
Continued to support the UNGC and the EITI.

Ethics

We take seriously our responsibility for operating in an ethical, transparent way, as it is critical in helping us build trust, maintain our licence to operate, access funding and deliver value.

We track emerging ethical issues of importance, ranging from the concerns of local people in areas where we operate to the potential for environmental impacts in sensitive habitats. Our integrated audit plan assesses the supply chain risks for all partners and projects, with a focus on modern slavery, anti-bribery and corruption, and health, safety, security and environment (HSSE).

Code of Ethics

Our Code of Ethics (www.cairnenergy.com/working-responsibly/policies) underpins the way we work, and sets out our core values, behaviours and Business Principles. Every employee is required to sign up and adhere to its terms; their performance is also assessed against the Code. In turn, we require contractors and service providers working on our behalf to comply with the Code and we audit them against it to ensure consistent application.

The Code – available in English, Spanish and now Dutch – details our position and provides guidance on a range of issues that shape our business relationships, including conflicts of interest, bribery and corruption, political contributions, tax principles, insider trading, and anti-competitive behaviour. Internal audits conducted by third parties regularly assess our overall compliance with different elements of the Code.

ABC Training and Assessments for New Ventures

All entries into new territories require an anti-bribery and corruption (ABC) risk assessment, which is intended to highlight exposure to potential risks and ensure due diligence across all aspects of potential projects. It is critical to identify high-risk locations where official corruption could impact our operations and our reputation. Our new ventures activity is often located in such high-risk locations but there have been no ABC risk assessments for new ventures in 2020.

Our Investment Proposal (IP) process involves screening for a range of potential risks, including specific ABC issues. If the threat is significant, further assessments are undertaken, using specialists where necessary, and actions for managing the risks developed or the decision not to proceed is taken.

While we have held country-specific ABC risk assessments in the past, none were required in 2020. However, our first independent assessment of our Group-wide ABC management system was conducted by a third party. No conflicts of interest or political connections within our supply chain were identified. A recommendation was made for additional workshops, and these may be held virtually. We provide staff training on our Code of Ethics and our ABC management system, as well as tax evasion, GDPR, human rights and modern slavery, health and safety, and CMAPP, through the Cairn Academy. All employees were trained in Cairn's anti-corruption policies and procedures in 2020. Where a heightened threat of ABC risks is identified in a new venture, the staff involved must complete further training.

Reporting Issues of Concern

Employees are encouraged to report any incident they believe may not comply with the Code of Ethics or when they have any concerns surrounding ethical issues, by speaking directly to their line manager or using a confidential phone line. The whistleblowing charity Public Concern at Work also offers an external channel for staff to use anonymously if they prefer. Where appropriate, independent investigations are conducted.

Transparency and Reporting

As a listed public company, we report annually in line with UK regulations. In 2020, we responded to all queries associated with our Annual Report and Accounts and to information requests from stakeholders including investor analysts and shareholder representatives.

Our Corporate Responsibility Report is intended to provide investors, analysts, interest groups and broader communities with easy access to comprehensive information about our approach and performance. We apply global standards to ensure our reporting is of the highest quality and, having reviewed the evolving trends and requirements in ESG reporting in 2020, we refreshed our reporting against our shareholders' preferences, as well as a number of established frameworks and standards.

Relevant information and regular announcements are provided via the Investors section of our website and through investor meetings and roadshows, most of which were held remotely during 2020.

Data Protection

In compliance with EU General Data Protection Regulation (GDPR) legislation, we document the processing of personal data, by both Cairn and third parties on our behalf, and publish revised privacy notices for greater transparency. We have also delivered mandatory training and a Data Privacy Coordinator supports the Group in complying with GDPR and internal risk governance. There were no reportable GDPR incidents in 2020.

Payments to Governments

We are committed to transparent compliance in the UK, EU and other jurisdictions where we work, many of which are increasingly complex and uncertain from a legislative perspective. We also comply with a number of voluntary standards. We report payments to governments (see page 11) in compliance with EU legislation and as part of our voluntary commitment as a member of the Extractive Industries Transparency Initiative (EITI).

Public Policy and Lobbying

We do not engage in party politics or make donations to political parties, candidates or lobbyists. Nonetheless, given the significance of legislation, regulation and the awarding of new licences to our business, the governments of the countries where we operate are key stakeholders. Each of our asset teams is responsible for engaging with host governments as part of its local Stakeholder Engagement Plan, which encompasses licence agreements, regulatory requirements and interfaces with a wide range of non-governmental stakeholders.

Our involvement in public policy development and lobbying is mainly conducted through industry bodies such as the International Association of Oil & Gas Producers (IOGP) or regional industry groups including Oil & Gas UK, the Association of British Independent Oil Exploration Companies (BRINDEX) and the Association of Mexican Hydrocarbon Businesses (AMEXHI).

Economics and Funding

The cash flow from our production assets funds our exploration and development activity. This self-funding business model enables us to deliver our strategic objectives. In a challenging business environment that has seen falling oil prices and the impact of COVID-19 on markets, we have remained flexible to fluctuating market conditions, by actively managing our asset portfolio and working closely with our Joint Venture partners to allocate capital and financial resources efficiently.

Anti-Bribery and Corruption

Maintaining transparent relationships free from bribery and corruption with governments, authorities, contractors and suppliers in the locations where we operate is a high priority for Cairn.

Our zero-tolerance position on bribery, fraud and corruption continues to protect our reputation, our ability to access funding and our impact on people and communities.

We have continued to provide training throughout the company. Bespoke e-learning sessions to staff in higher-risk roles were delivered during the year. Additional specialist ABC training was given to the Management Team and the Board in October and November 2020.

Reserves Valuation and Capital Expenditure

Our Board and Senior Leadership Team examined our business model in the context of the energy transition and the UK's commitment to net zero over the coming years, to ensure that Cairn's business proposition is attractive, sustainable and resilient. Targeting hydrocarbon projects that can be produced responsibly and contribute to multiple UN SDGs will ensure we manage climate-related resilience, and create value for shareholders and stakeholders.

We calculate Group reserves and resources in accordance with the Petroleum Resource Management System (PRMS 2018), while third parties carry out independent assessments of our reserves and resources to provide additional assurance to our reserves estimates.

To illustrate the robustness of the reserves under the ongoing energy transition, sensitivity analyses have been performed using IEA's published assumptions for its 2020 'Stated Policies' and 'Sustainable Development Scenario' cases. These cover a range of alternative scenarios in terms of demand for hydrocarbons and carbon taxes. Under all variations of the model, each of our existing assets are economically robust.

For more information, see our Group Reserves Report and our Corporate Responsibility Report on our website.

A Responsible Approach

At Cairn, working responsibly means striving to deliver value in a safe, secure, environmentally and socially responsible manner for all our stakeholders. Within the business, our comprehensive systems and standards help to reinforce our culture while externally, we support a range of agreements and standards that promote responsible working practices.

Guided by strong leadership and corporate governance, we operate in accordance with these standards and frameworks.

Internal	External
Values Our core values are known as the 3Rs: Building Respect, Nurturing Relationships and Acting Responsibly.	**United Nations Global Compact** We support this initiative for businesses committed to aligning their strategies with universally accepted principles in human rights, labour, the environment and anti-corruption.
Code of Ethics Employees and partners are required to work in accordance with the Code, which sets out our core values, behaviours and Business Principles.	**Extractive Industries Transparency Initiative (EITI)** We participate in the EITI, a coalition of governments, companies and organisations promoting payment transparency in the oil, gas and mining sector.
Key Policies – Health, Safety and Security – Environment – Social Responsibility – Major Accident Prevention – People – Tax	**United Nations Sustainable Development Goals (UN SDGs)** We support the 17 goals, which help to guide us in minimising the impacts and maximising the benefits of our activities in countries where we work.
Corporate Responsibility Management System (CRMS) Our key management system instructs employees how to carry out business activities in accordance with the business strategy, Code of Ethics and CR Policies, and is reviewed annually by the Board.	**International Finance Corporation (IFC)** We align our CRMS with the IFC Performance Standards on Social and Environmental Sustainability.
Human Rights Our Human Rights Guidance defines how we identify, assess and manage potential human rights issues at key project stages.	**Modern Slavery Act (MSA)** We operate in accordance with the UK MSA. Our selection procedure for service providers includes modern slavery assessments, and our MSA Statement is available online.
Anti-Bribery and Corruption (ABC) We have a zero-tolerance position on ABC matters – everyone we work with must sign up to our ABC Policy.	**Task Force on Climate-related Financial Disclosures (TCFD)** We assess our reporting against TCFD and are committed to complying with its requirements. This year we enhance our reporting by developing a TCFD Index, available at www.cairnenergy.com/working-responsibly.
	Sustainability Accounting Standards Board (SASB) We have assessed and aligned our reporting against SASB to improve the quality and transparency of our reporting.

ALWAYS OPERATING WITH INTEGRITY

Dear Shareholder

The Cairn Board recognises that its primary purpose is to promote the long-term sustainable success of the Company, generating value for shareholders and other stakeholders and contributing to wider society. In this context, the Board has clearly articulated the Company's purpose, values and strategy (as set out in the Strategic Report section on pages 2 to 69) and each of our Directors plays a critical role in ensuring that Cairn's culture is aligned with these elements.

Our Board sets the 'tone from the top' by acting with integrity at all times and leading by example to promote our culture of 'working responsibly' across the business. Our culture promotes honesty and openness in everything we do and we pursue a deep understanding at every level of our organisation of the core set of values which underpin how we do business and the behaviours expected of our people (see page 52). During the year, the Board continued to focus on Corporate Responsibility and ESG-related matters as part of the Company's commitment to 'working responsibly'.

In driving the delivery of the Company's strategy, the Board has also placed much focus on ensuring that the necessary resources are in place for Cairn to meet its strategic objectives and measure performance against them. Further information on our strategy and Key Performance Indicators are included on pages 30 to 33. The Board has also established a framework of prudent and effective controls, which enable opportunities and risks to the future success of the business to be considered and addressed. These are further described in the risk management section (which includes the Company's viability statement) and in the internal control statement on pages 84 and 85.

The Board also understands that, in order for the Company to meet its responsibilities to shareholders and other stakeholders, it should ensure effective engagement with, and encourage participation from, these parties. Our approach to stakeholder engagement is set out on pages 16 to 19, which also includes a statement from our Directors in accordance with section 172 of the Companies Act 2006. This includes a description of how the Board has sought to ensure that it has a clear understanding of the views of shareholders and identifies some of the key issues we have engaged on during 2020.

There has also been a continuing focus on succession planning by both the Board and Nomination Committee, with the aim of assessing the executive, non-executive and senior management succession pipelines at Cairn, and identifying the skills that are needed to support our strategy and business for the long term. We provide further information in relation to our succession planning in the separate Nomination Committee Report on pages 92 and 93. This will continue to be a key area of focus for the Board in future years.

Compliance with the UK Corporate Governance Code
As a company incorporated in the United Kingdom with a Premium Listing on the London Stock Exchange, Cairn is required to report against the UK Corporate Governance Code (as published by the Financial Reporting Council and available on its website at www.frc.org.uk) (the 'Code'). This statement reports compliance with the version of the Code published in July 2018. Cairn is fully committed to achieving compliance with the principles and provisions set out in the Code and the Board is responsible for ensuring that an appropriate framework is in place to do so.

The information in this statement (together with the Strategic Report, Audit Committee Report, Nomination Committee Report, Directors' Remuneration Report and Directors' Report) describes the manner in which the Company has applied the main principles of governance set out in the Code and complied with the individual Code provisions. It is the Board's view that the Company has complied with the 2018 version of the Code throughout 2020.

Following publication of the 2018 version of the Code, the Board carefully considered the new provisions included in the Code and related Guidance on Board Effectiveness, as well as new requirements introduced by The Companies (Miscellaneous Reporting) Regulations 2018 (which also apply to financial years beginning on or after 1 January 2019). The Board considers that a number of the new Code and regulatory requirements are already satisfied by Cairn's existing policies and practices, and where any gaps were identified, the Company developed its governance arrangements as necessary in preparation for reporting against the new requirements for the first time last year. The Board recognises that reporting in some areas will continue to evolve in future years and will continue to monitor, review and develop its governance arrangements to ensure these are effective.

An ongoing area of focus during 2020 has been to expand the Company's existing channels of engagement with employees and, in line with the Code, the Company established a formal workforce advisory panel in early 2019. This panel, which we refer to as the Employee Voice Forum (EVF), comprises seven employees who provide a broad representative mix of regions and functions across the business and is chaired by one of our independent Non-Executive Directors. Nicoletta Giadrossi chaired the EVF during 2020 and, following the Board changes summarised below, Peter Kallos has assumed the role of chair with effect from January 2021.

The COVID-19 pandemic placed even more emphasis on the importance of the EVF (alongside our other employee engagement mechanisms) during 2020 given most of our employees have been working from home since March 2020. The EVF met twice during the year with the first of these meetings taking place in May 2020, and a further meeting in September 2020. The employee members also hold a pre-meeting (without the chair present) in advance of scheduled EVF meetings in order to identify agenda items and topics for discussion. Due to the UK and Scottish Government guidance and restrictions in place for much of 2020, all of these meetings were held remotely by video conferencing and all forum members were present. Employee members are also provided with summarised outputs from the Company's employee engagement surveys to assist in stimulating discussion and to help identify any other matters for prioritisation and discussion at EVF meetings. Following each meeting, the chair reports to the Board on the matters discussed by the EVF, thereby allowing for broader Board discussion of any topics or issues identified by the workforce and appropriate consideration of these in the context of the Board's decision-making.

The Board

Cairn's business is international in scope and carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has wide experience of the industry and regulatory environment in which Cairn operates, and appropriate financial, operational and risk management skills. In each Board appointment, whether executive or non-executive, objectivity and integrity, as well as skills, experience, ability and diversity, are prerequisites for appointment and considered necessary to assist the Board in its key functions. This also applies to senior management appointments below Board level and, accordingly, to our succession planning.

The Company considers ongoing refreshment of the Non-Executive Directors to be positive as it brings new thinking to the Company as well as ensuring there is a healthy level of independent challenge of management. The Board's collective skills and experience equip it to direct the Company's strategy and meet its business needs as they evolve over time. The Board is also mindful, however, that an appropriate balance between directors who can bring a new perspective and those who provide continuity is essential for the business.

Board Changes

Erik B. Daugbjerg was appointed as a Non-Executive Director with effect from 14 May 2020 to replace Todd Hunt, who retired as a Non-Executive Director immediately following the AGM on the same date. The Company also announced in May 2020 that Ian Tyler intended to step down as Non-Executive Chair of the Company within the following 12 months, having served on the Board for seven years including six as Chair.

Following a thorough and comprehensive succession process, which was led by one of the independent Non-Executive Directors, the Company announced in November 2020 that I would be appointed Chair with effect from 1 January 2021. I was an existing Non-Executive Director and was appointed to the Board in January 2017. I have extensive experience in oil and gas and other energy markets, both in executive and non-executive roles, including wide engagement on Environmental, Social and Governance issues.

The Chair succession and handover process during 2020 has enabled an effective and seamless transition of the leadership of the Board. Further information on Board succession planning and the appointment process for Erik B. Daugbjerg and for the position of Chair is included in the Nomination Committee Report on pages 92 and 93.

In line with Code recommendations, from 1 January 2021, I stepped down as chair of the remuneration committee and retired as a member of the audit committee. Alison Wood was appointed chair of the remuneration committee and has extensive experience in this area, having served on the remuneration committees of a number of other listed companies. In addition, Erik B. Daugbjerg was appointed a member of the remuneration committee and Catherine Krajicek was appointed a member of the audit committee. Further details of the changes to the composition of the various Board committees are detailed on pages 82 and 83.

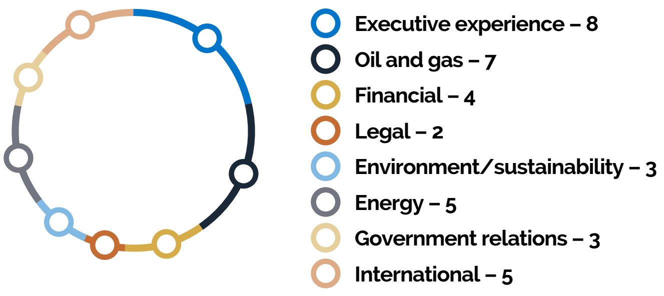
In view of the above changes, the Board currently comprises two Executive Directors and six Non-Executive Directors, including the Chair. The Directors of the Company as at the date of this statement are set out in the table to the right and further biographical information about our Directors is included in the Board of Directors section on pages 72 and 73.

Name	Role	Date of appointment (in current role)	Date of last re-election
Simon Thomson	Chief Executive	July 2011	14 May 2020
James Smith	Chief Financial Officer	May 2014	14 May 2020
Nicoletta Giadrossi	Non-Executive Chair	January 2021	14 May 2020
Keith Lough	Non-Executive Director	May 2015	14 May 2020
Peter Kallos	Non-Executive Director	September 2015	14 May 2020
Alison Wood	Non-Executive Director	July 2019	14 May 2020
Catherine Krajicek	Non-Executive Director	July 2019	14 May 2020
Erik B. Daugbjerg	Non-Executive Director	May 2020	N/A*

* Erik B. Daugbjerg will seek re-election by shareholders at the AGM to be held on 11 May 2021.

Diversity is a key element of the Cairn Board, with emphasis placed not only on gender but also on culture, nationality, experience and cognitive diversity. Following the appointment of Alison Wood and Catherine Krajicek as Non-Executive Directors, the number of women on the Board increased from one to three with effect from 1 July 2019 and the position of Chair is also now occupied by a woman. The Board continues to demonstrate diversity in a wider sense, with Directors from Europe and the USA as well as the UK, bringing a range of domestic and international experience to the Board. The Board's diverse range of experience and expertise covers not only a wealth of experience of operating in the oil and gas industry but also extensive technical, operational, financial, governance, legal and commercial expertise. Further information on diversity within Cairn is included in the Nomination Committee Report on page 93 and in the Strategic Report section of this Annual Report.

Board Competencies



Division of Responsibilities between Chair and Chief Executive

The Company has a clear division of responsibilities between the positions of Chair and the Chief Executive, which is set out in writing and agreed by the Board.

Chair key responsibilities:	Chief Executive key responsibilities:
– Leading the Board in an ethical manner and promoting effective Board relationships. – Ensuring that the Board plays a full and constructive part in the determination and development of the Company's strategy. – Building a well-balanced Board, considering Board composition and Board succession. – Ensuring the effectiveness of the Board and individual Directors. – Overseeing the annual Board evaluation and acting on its results. – Ensuring appropriate induction and development programmes for Directors. – Setting the Board agenda, chairing Board meetings and overseeing implementation of the Board's decisions. – Engagement with shareholders and other stakeholders when appropriate.	– Managing the business and proposing and developing the Company's strategy and overall objectives in consultation with the Board. – Driving the successful and efficient achievement of the Company's Key Performance Indicators (KPIs) and strategic objectives. – Leading the Executive Committee in ensuring the effective implementation of decisions of the Board and its committees. – Providing strong and coherent leadership of the Company and effectively communicating the Company's culture, values and behaviours internally and externally. – Engagement with shareholders and other stakeholders.

Senior Independent Director

Peter Kallos continues to be the Company's Senior Independent Non-Executive Director. The main responsibilities of this role are as follows:

- To provide a sounding board for the Chair and to serve as an intermediary with other Directors when necessary;
- To be available to shareholders and other stakeholders if they have any concerns which contact through the normal channels of Chair, Chief Executive or Chief Financial Officer has failed to resolve or for which such contact is inappropriate;
- To meet with the other Non-Executive Directors without the Chair present, at least annually, in order to appraise the Chair's performance; and
- To act as Chair of the Employee Voice Forum.

Performance Evaluation

The Board continually strives to improve its effectiveness and recognises that the performance evaluation process represents an annual opportunity to enhance overall Board effectiveness. In line with the Code recommendation to conduct an externally facilitated Board evaluation at least every three years, the Board appointed Independent Audit to facilitate its performance evaluation for 2018 (previous externally facilitated evaluations took place in 2012 and 2015, with evaluations conducted internally in the intervening years). In view of the external evaluation carried out in 2018, the Board conducted an internal performance evaluation in 2019.

The main action points arising from the 2019 internal performance evaluation and progress against these are set out in the table below.

Key action points/Implementation (disclosed in last year's Corporate Governance Statement)	Progress made in 2020
Communications between Board meetings The Board considered how best to continue to optimise communications between scheduled Board meetings, with a focus on the provision of additional 'event driven' updates from the Executive Directors.	During the year, the Executive Directors provided regular updates between scheduled Board meetings by way of e-mail or ad hoc remote calls. During the year, regular updates were provided on the progress of the Sangomar sale and Indian arbitration.
Ongoing focus on culture The Board will continue to pursue a deep understanding of the culture of the organisation from the 'bottom up', through ongoing engagement with employees and other stakeholders.	The Board recognises the importance of its role in driving the culture of the business and seeking feedback on culture and strategy within the organisation. Despite most employees working from home during the majority of 2020, engagement between the Board and staff continued through the EVF with employee engagement surveys also being regularly distributed to the workforce.

For 2020, in view of the external evaluation carried out in 2018, it was agreed at the September 2020 Board meeting that an internal Board performance evaluation would be carried out. The Company Secretary prepared a questionnaire for this purpose, which was then reviewed and approved by the Chair. The questionnaire was subsequently completed by all Directors to evaluate the performance of the Board, its committees, and individual Board members. The performance evaluation of the Chair was also carried out by internal questionnaire. This was prepared by the Company Secretary and reviewed and approved by the Senior Independent Non-Executive Director.

Following completion of the internal questionnaires, the Chair held individual meetings with all Board members to discuss the results of the performance evaluation. The Senior Independent Non-Executive Director also held a meeting with Board members (without the Chair present) to discuss the performance evaluation of the Chair. The outcome and findings from the 2020 internal performance evaluation were then discussed at the November 2020 Board meeting. The main action points arising from the 2020 performance evaluation include the following:

Key action points	Implementation
ESG reporting to the Board	The Board considered how best to optimise discussion on ESG matters and it was agreed that the Board should receive updates on a more formal basis in respect of such matters. ESG is now a standing agenda item at each Board meeting.
Board meetings – the management presentation	The Board considered that the format, content and structure of the management presentation had been developed during the year and timely distribution ahead of meetings allowed the Board members sufficient time to understand the detail of the ongoing operations of the organisation. The Board considered that there was an opportunity to streamline the presentation itself to allow greater time for discussion around key areas.

Key action points	Implementation
Communications between Board meetings	In addition to event-driven updates provided by the Executive Directors between scheduled Board meetings, the Board considered how to further optimise communications amongst its members and there will be a focus on regular monthly updates from Executive Directors.
Risk discussion	The Board will continue to discuss risk at each meeting and will increase the time given to the risk discussion in a structured, extensive and formalised manner.

As explained above, some improvements have been identified and have already been implemented or will be addressed during 2021.

Following the Board performance evaluation process conducted in 2020, the Board and Board committees are satisfied that they are operating effectively and that each Director has performed well in respect of that Director's role on the Board and its committees. The Board believes that all of the Directors' performance continues to be effective and that they each demonstrate commitment to their role. The Nomination Committee has also reviewed the outcomes of the 2020 evaluation to consider how these influence or otherwise impact on Board composition.

The Executive Directors also have their performance reviewed by the Remuneration Committee against the Group KPIs which are set annually (further details of the KPIs can be found on pages 30 to 33). The 2020 bonuses payable to the Executive Directors under the Company's discretionary cash bonus scheme (described further in the Directors' Remuneration Report on pages 94 to 121) are linked directly to the Group's performance against these KPIs. As the KPIs set out our strategic objectives, this ensures that executive performance is directly linked to Group strategy.

Independence of Non-Executive Directors

The Board considers the independence of each of the Non-Executive Directors on an ongoing basis, taking into account their integrity, their objectivity and their contribution to the Board and its committees. The Board is of the view that the following behaviours are essential for a Director to be considered independent:

- Provides an objective, robust and consistent challenge to the assumptions, beliefs and views of senior management and the other Directors;
- Questions intelligently, debates constructively and challenges rigorously and dispassionately;
- Acts at all times in the best interests of the Company and its shareholders and other stakeholders;
- Has a detailed and extensive knowledge of the Company's business and of the market as a whole which provides a solid background against which they can consider the Company's strategy objectively and help the Executive Directors develop proposals on strategy; and
- Has no close ties or material relationships with the Company, either directly or indirectly.

Having reviewed the independence of each of the Non-Executive Directors against these criteria, the Board concluded that all Non-Executive Directors demonstrated each of the required competencies to a high level and are, therefore, each considered independent by the Board.

Time Commitment of Non-Executive Directors

The Board recognises its responsibility under the Code to take into account other demands on each Director's time, with a view to ensuring that its Directors (particularly those Non-Executive Directors who sit on other public company boards) have sufficient time to devote to their role on the Cairn Board. Prior to appointment, each individual's other significant commitments are disclosed and there is also a policy in place to ensure that additional external appointments are not undertaken without prior consultation. The other directorships held by each Non-Executive Director (where applicable) are disclosed in the Board of Directors section on pages 72 and 73.

None of our Non-Executive Directors currently sit on more than four public company boards (including Cairn) and those who do sit on other public company boards have taken appropriate steps to ensure that they have sufficient time to devote to their role on the Cairn Board. By way of example, I am actively reducing the number of directorships I hold in order to ensure that I have sufficient time to devote to my new role as Chair of the Company.

Re-Election of Directors

In accordance with the Code, all of the Company's Directors are subject to annual re-election by shareholders. As such, each of the current Directors will seek re-election at the AGM to be held on 11 May 2021.

Induction and Development

New directors receive a full and appropriate induction on joining the Board. This involves a tailored programme of meetings with other Board members, senior management and the Company Secretary.

In addition, new directors receive a comprehensive induction pack which contains a wide range of materials including:

Board	Board papers and minutes of previous meetings; schedule of matters reserved to the Board; list of Board and committee members and dates of appointment; and schedule of dates for Board and committee meetings.
Committees	Terms of reference for all Board committees.
Risk	Terms of reference for Risk Management Committee and minutes of last meeting; current Group Risk Matrix and Risk Appetite Statement; FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.
Key policies	Cairn Operating Standards, Group Corporate Responsibility Guiding Principles; Group Code of Ethics; Anti-Bribery-and-Corruption (ABC) Management System; Dealing Code; Insider Lists Process; Procedures, Systems and Controls for Compliance with the Market Abuse Regulation, the Listing Rules and the Disclosure Guidance and Transparency Rules.
Organisation	Organisational structure, Group structure chart; latest Annual Report and Accounts.
Governance	UK Corporate Governance Code; all supporting FRC Guidance; FRC Feedback Statement on UK Board Succession Planning; FRC Report Corporate Culture and the Role of Boards; ICSA and Investment Association Guidance on the Stakeholder Voice in Board Decision Making.
Legal/regulatory	Memorandum on continuing obligations of directors of premium listed companies; ICSA Guidance on Directors' General Duties; ICSA Guidance on Liability of Non-Executive Directors; GC 100 Guidance on Directors Duties: Section 172 and Stakeholder Considerations; GC 100 and Investor Group Guidance on Directors' Remuneration Reporting.
Insurance	Full details of Directors' and Officers' liability cover.

The Company ensures that new directors also receive additional induction support and training when assuming any additional responsibilities such as membership of Board committees. By way of example, Alison Wood and Erik B. Daugbjerg, upon their appointment to the remuneration committee, had induction meetings with each of the Company's remuneration advisers, and Catherine Krajicek had an induction meeting with the lead audit partner and Cairn staff responsible for audit work. Where appropriate, the Company arranges for new non-executive directors to receive additional briefings on key matters regularly discussed by the Board.

The Company provides, on an ongoing basis, the necessary resources for developing and updating its existing Directors' knowledge and capabilities. In particular, the Company is committed to the provision of continuing professional development training for its Directors. In 2020, the Company continued with its practice of providing a Directors' education programme consisting of a number of seminars for Board members, which are presented by the Company's external advisers/guest speakers/members of senior management, on subjects appropriate to the Company's business, including changes to legislation, regulation and market practice. During 2020, the subjects covered by these seminars included:

Q1 An externally facilitated discussion on succession planning

Q2 A pre-strategy session (on the same day as the Board's annual strategy session) including a presentation delivered by Wood Mackenzie on 'Exploration in the current environment'; and 'ESG and the evolution of expectations from investors and the public

Q3 A workshop provided by PwC on 'Corporate Governance and Reporting'

Q4
- Annual ABC update delivered by Pinsent Masons
- Board risk workshop on cyber security, delivered by EY

These seminars are incorporated into the schedule for the relevant Board meeting and are attended by all Directors present at such meetings as well as the Chief Operating Officer and Director of Exploration (the Company keeps a record of attendance). Any Director may request that a particular subject be covered in a seminar.

Information and Support

The Board has full and timely access to all relevant information to enable it to discharge its duties. Under the direction of the Chairman, the Company Secretary is responsible for ensuring good information flows within the Board and its committees and between executive management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. The Company Secretary ensures the presentation of high quality information to the Board and its committees and that all papers and information are delivered in a timely fashion. Board and committee papers are delivered securely through an electronic platform.

The Company Secretary is responsible for advising the Board, through the Chairman, on all corporate governance matters, and each Director has access to the advice and services of the Company Secretary.

There is also a procedure agreed by the Board for directors, in furtherance of their duties, to take independent professional advice if necessary, at the Company's expense.

Conflicts of Interest

The Board has in place a procedure for the consideration and authorisation of conflicts or possible conflicts with the Company's interests. All Directors are aware of the requirement to submit details to the Company of any current situations (appointments or otherwise) which may give rise to a conflict, or potential conflict, of interest. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

Whistleblowing

The Group has a robust Whistleblowing Policy in place through which the workforce can raise any matters of concern – further information on the Group's Whistleblowing Policy is included in the Audit Committee Report on page 87.

Matters Reserved to the Board and Delegation of Authority

The Board has a formal schedule of matters specifically reserved to it for decision, which is divided into categories covering different types of decisions, including: corporate; Board/Directors; financial/operational; and legal/regulatory.

By way of example, some of the matters which the Board considered and/or approved during 2020 and Q1 2021 were:

Corporate	Board/Directors
The Company's 2019 and 2020 Annual Report and Accounts and 2020 Half Yearly Report	Appointment of new Chair
The Company's 2020 AGM circular	Appointment of one new Non-Executive Director
The Company's Risk Appetite Statement	Changes to Board committees
Review of the Company's Corporate Responsibility Management System	Detailed review of talent management and of succession contingency planning

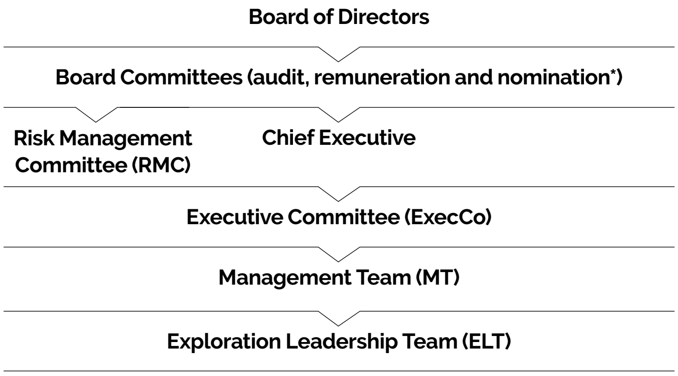
Financial/Operational	Legal/Regulatory
The sale of the Company's interest in the Sangomar asset in Senegal and the subsequent return of ~US$250m to shareholders	Oversight of the arbitration process seeking resolution of the Indian tax issue
The appropriateness of the Group going concern sign-off for the 2019 and 2020 full year accounts and 2020 half year Financial Statements	Approval of the Company's Modern Slavery Statement and its publication on the Company's website
The Company's viability statement	Approval of the Group Tax Strategy and its publication on the Company's website
The Company's annual work programme and budget	
Group Reserves and Resources	

In addition to the above, the Board conducts an annual review of the effectiveness of the Company's internal controls (with ongoing monitoring throughout the year), an intensive annual strategy session (normally in June each year), and an annual 'deep dive' risk management workshop (normally in November each year).

The Board also has an approved set of financial delegations of authority to ensure clarity throughout the business concerning the distinction between financial matters which require Board approval and those that can be delegated to senior management.

The senior management structure beneath Board level has changed from that disclosed in last year's corporate governance statement, with the Senior Leadership Team (SLT) having been replaced by a smaller, more focused Executive Committee (ExecCo) with effect from 1 December 2020. Both the ExecCo and Management Team (MT) continue to play a key role in supporting the Board.

Board and Management Committee Structure



Board of Directors

Board Committees (audit, remuneration and nomination*)

Risk Management Committee (RMC)

Chief Executive

Executive Committee (ExecCo)

Management Team (MT)

Exploration Leadership Team (ELT)

* Further information on our Board committees is contained later in this statement on pages 82 and 83 and in the separate Audit Committee Report, Nomination Committee Report and Directors' Remuneration Report.

During the year, the SLT comprised the Executive Directors and, prior to completion of the sale of Capricorn Norge A/S, six other members of senior management. Following completion of that sale, the SLT comprised the Executive Directors and five other members of senior management. With effect from 1 December 2020, the SLT was replaced by the ExecCo, which comprises the Executive Directors (the Chief Executive and the Chief Financial Officer), the Chief Operating Officer and the Director of Exploration. The ExecCo (and previously the SLT) is chaired by the Chief Executive and meets at least six times per year with those meetings scheduled in advance of Board meetings.

Key elements of the ExecCo's role include the following:
- Devising and generating the Company's strategy to be proposed to the Board for approval and implementing and communicating this strategy across the business;
- Implementing the business plan, the Key Performance Indicators and annual work programme and budget following their approval by the Board;
- Considering business development and new venture projects prior to recommending these to the Board; and
- Providing leadership and guidance to the Company on vision, strategy, culture, corporate governance, corporate responsibility and HSE matters.

The MT is chaired by the Chief Operating Officer and meets formally six times per year, with four of those meetings focusing on a quarterly performance review of the business.

The key elements of the MT's role include the following:
- Developing and executing the annual work programme and budget, which will deliver the Company's strategic objectives;
- Assessing and determining the mitigation plans for key business risks and ensuring that risks are captured and reviewed regularly;
- Coordinating operations and licence management along with resource allocation and organisational alignment to ensure timely and cost-effective delivery against approved budgets;
- Oversight of the Company's commitment to working responsibly; and
- Reviewing and approving the Company's Operating Standards.

A number of members of the MT are also members of the RMC, which identifies and reviews key business risks – further information on the role of the RMC is contained in the internal control section of this statement on pages 84 and 85.

The Exploration Leadership Team (ELT), which is chaired by the Director of Exploration, meets on a monthly basis to assist the Director of Exploration in delivering a robust exploration portfolio, with a particular focus on the following:
- Providing assurance that opportunities being pursued by new ventures are sufficiently value-added and meet Cairn's strategic objectives;
- Considering whether opportunities being pursued have acceptable subsurface, above ground and fiscal attributes to continue evaluation;
- Developing a timeline for each existing or proposed opportunity which drives to a decision, including drill or drop, as expeditiously as practical;
- Ensuring that the subsurface geoscience aspects of all exploration and appraisal and new venture opportunities align with Cairn's strategic objectives;
- Ensuring consistent, efficient screening and ranking of exploration opportunities, following initial data room assessment but prior to detailed evaluation, utilising the significant knowledge and experience of the team;
- Ensuring that the significant knowledge and experience of the team is utilised appropriately and consistently in the delivery of best practice across all areas of geological and geophysical (G&G) analysis in accordance with Cairn's business plan and core business principles; and
- Considering and/or seeking appropriate data subscriptions, purchases and academic collaborations to ensure rapid opportunity evaluation and capture.

Board Meetings

During 2020, a total of nine scheduled meetings of the Board were held. Due to the COVID-19 pandemic and related UK and Scottish Government guidance and restrictions in place during 2020, only one Board meeting was held in person and all other Board meetings were held virtually. Five of these meetings were conducted over two consecutive days following the usual format for Board meetings described below, with another four shorter meetings held to update the Board and/or to approve specific matters during 2020.

The first day of Board meetings normally includes a CEO meeting with the Non-Executive Directors and (when applicable) a Board education session, followed by a report from the CEO and CFO and a management presentation, both of which form part of the formal business of the Board meeting. The CEO and CFO report and management presentation provide a detailed update from senior management and other employees on key projects, assets or matters to be considered at the Board meeting, allowing opportunity for a technically rigorous discussion. This information allows the Board to understand more fully any risks or challenges to the business plan and strategy and also provides broad exposure to the employee base within the Company.

Board committee meetings are also scheduled for the same dates as Board meetings and are either split over two days or scheduled for one day, depending on the number of committee meetings required. All Board committee meetings take place prior to the main part of the Board meeting so that the chair of each committee can provide a report to the Board. These are followed by the remainder of the formal business of the Board meeting. The Chair also holds a short meeting with the other Non-Executive Directors (without the Executive Directors) at the end of the second day.

Details of attendance at each of the Board meetings during 2020, and at meetings of each of the Board committees, are set out on page 82. As disclosed above, the COVID-19 pandemic and related restrictions have meant that only one Board meeting during 2020 was able to be held in person. The Company has, however, very successfully used its technological communication platforms to ensure that Directors could continue to attend all scheduled Board and committee meetings and were also able to do so 'on camera'.

When it is deemed appropriate by the Board, and in line with the applicable UK and Scottish Government guidance and/or restrictions, the Directors hope to transition back to safely meeting in person during 2021.

The annual timetable for Board and committee meetings is discussed at least 18 months prior to its commencement allowing the Directors to plan their time accordingly. The Board and committees have agreed dates for all scheduled meetings in 2021 and 2022. This process ensures that the Chair can be comfortable that each Director is able to devote sufficient time and resources to their role on the Board and, where relevant, its committees.

The formal agenda for each scheduled Board meeting is set by the Chair in consultation with the Chief Executive and the Company Secretary. The system for establishing agenda items means that the Chairman, the Board and each of the Board committees have the confidence that all required items are included on their agenda at the most appropriate time of the year and that there is sufficient time allocated for discussion, allowing the Directors to discharge their duties effectively.

Formal minutes of all Board and committee meetings are circulated to all Directors prior to the subsequent Board meeting and are considered for approval at that Board meeting. In addition, the members of the Board are in frequent contact between meetings regarding progress of the Group's business plan, one example being an annual Board update call in January ahead of the other scheduled Board meetings for the year. There is also a procedure in place to allow Board meetings to be convened at short notice where required to deal with specific matters which need to be considered between scheduled Board meetings.

As noted above, the Non-Executive Directors have a practice of meeting informally at the end of each Board meeting without Executive Directors being present. At these Non-Executive forums, the Non-Executive Directors are invited by the Chair to bring forward any matter pertaining to the business of the Board that they believe would benefit from discussion in such forum. This practice also applies after Board committee meetings to ensure that Non-Executive Directors can discuss any relevant issues arising from those meetings without management being present.

Directors' Attendance at 2020 Board and Committee Meetings

The table below sets out the attendance record of each Director at scheduled Board and Board committee meetings during 2020.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held during 2020[1]	9	4	4	2
	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Executive Directors				
Simon Thomson (Chief Executive)	9	n/a[2]	n/a[2]	2
James Smith (Chief Financial Officer)	9	n/a[3]	n/a	n/a
Non-Executive Directors				
Nicoletta Giadrossi (Chair[4])	9	4[5]	4	2
Peter Kallos (Senior Independent Director)	9	n/a	4	2
Keith Lough	9	4	n/a	2
Alison Wood	9	4	n/a	n/a
Catherine Krajicek	9	n/a	n/a	n/a
Erik B. Daugbjerg[6]	5	n/a	n/a	n/a
Former Non-Executive Directors				
Todd Hunt[7]	4	n/a	n/a	n/a
Ian Tyler[8] (former Chair)	9	n/a	4	2

Notes:

n/a not applicable (where a Director is not a member of the committee).

1 During 2020, certain Directors who were not committee members attended meetings of the Audit Committee, Remuneration Committee and Nomination Committee by invitation. These details have not been included in the table.

2 Simon Thomson is not a member of the Remuneration Committee but attends its meetings by invitation (other than parts of meetings where he would be conflicted). Mr Thomson also attends Audit Committee meetings by invitation.

3 James Smith is not a member of the Audit Committee but attends its meetings by invitation.

4 Nicoletta Giadrossi was appointed Chair of the Company with effect from 1 January 2021 and attended all Board meetings during 2020.

5 Nicoletta Giadrossi was a member of the Audit Committee until 31 December 2020. The number of meetings she attended is stated up to that date.

6 Erik B. Daugbjerg was appointed as a Non-Executive Director with effect from 14 May 2020. The number of meetings he attended is stated from that date.

7 Todd Hunt retired as a Non-Executive Director on 14 May 2020. The number of meetings he attended is stated up to that date.

8 Ian Tyler retired as Non-Executive Chair of the Company on 31 December 2020. The number of meetings he attended is stated up to that date.

Board Committees

Board Committee Structure During 2020

Board of Directors

Audit Committee | **Remuneration Committee** | **Nomination Committee**

Each of the Board committees is provided with all necessary resources to enable them to undertake their duties in an effective manner and has formal terms of reference approved by the Board. Copies of the terms of reference, which were reviewed and updated in line with the 2018 version of the Code and approved by the Board in March 2019, are available on the Company's website. The Company Secretary acts as secretary to the Remuneration and Nomination Committees and during the year, the Deputy Company Secretary acted as secretary to the Audit Committee. The minutes of all committee meetings are circulated to all Directors.

In line with best practice, more detailed reports from the Audit and Nomination Committees are presented as separate reports (on pages 86 to 93) rather than including these in the Corporate Governance Statement. In addition, full details of the Company's remuneration policy are given in the separate Directors' Remuneration Report on pages 94 to 121. Summary details of the composition of each committee and meetings held during 2020 are set out below.

Audit Committee

The members of the Audit Committee during the year were as follows:

– Keith Lough (Chair);
– Nicoletta Giadrossi (member of the Committee until 31 December 2020); and
– Alison Wood.

The Audit Committee met four times during 2020 and currently comprises three independent Non-Executive Directors. In line with Code requirements and following her appointment as Chair of the Company, Nicoletta Giadrossi retired as a member of the Committee with effect from 31 December 2020 and Catherine Krajicek was appointed a member of the Committee with effect from 1 January 2021. The Chair of the Board is not a member of the Committee but attends its meetings by invitation. Further information on the role, responsibilities and work of the Audit Committee is included in the Audit Committee Report on pages 86 to 91.

Remuneration Committee

The members of the Remuneration Committee during the year were as follows:

– Nicoletta Giadrossi (Chair until 31 December 2020);
– Ian Tyler (retired as Chair of the Company and as a member of the Committee on 31 December 2020); and
– Peter Kallos.

The Remuneration Committee met four times during 2020 and with effect from 1 January 2021 comprises four independent Non-Executive Directors. In line with Code requirements and following her appointment as Chair of the Company, Nicoletta Giadrossi retired as Chair of the Committee but remains a member of the Committee. With effect from 1 January 2021, Alison Wood was appointed Chair of the Committee and Erik B. Daugbjerg was appointed a member of the Committee. The Chief Executive is not a member of the Committee but attends its meetings by invitation. The Committee's remuneration advisers (Alvarez & Marsal) and management's remuneration advisers (Deloitte) are also invited to attend the Committee's meetings as required.

None of the members of the Remuneration Committee, nor the Chief Executive, nor the Chair, participated in any meetings or discussions relating to their own remuneration. The Committee has established a practice of meeting informally without any Executive Directors or advisers present after each Committee meeting to allow the Non-Executive Directors to discuss any matter which has arisen in the meeting (or relating to the duties of the Committee) which they believe would benefit from discussion in such forum.

Further information on the role, responsibilities and work of the Remuneration Committee is included in the Directors' Remuneration Report on pages 94 to 121.

Nomination Committee

The members of the Nomination Committee during the year were as follows:

- Ian Tyler (Chair and member of the Committee until 31 December 2020);
- Simon Thomson;
- Keith Lough;
- Peter Kallos; and
- Nicoletta Giadrossi.

The Nomination Committee met two times in 2020. Following her appointment as Chair of the Company, Nicoletta Giadrossi was appointed Chair of the Committee with effect from 1 January 2021. As such, the current members of the Committee include the new Chair and two of the Company's independent Non-Executive Directors. In addition, to ensure continuing executive input on nomination matters, the Chief Executive is also a member of the Committee.

Further information on the role, responsibilities and work of the nomination committee is included in the separate Nomination Committee Report on pages 92 and 93.

Shareholders and Annual General Meeting (AGM)

Communications with shareholders are given high priority by the Board. The Company has implemented the provisions of the Companies Act 2006 regarding electronic communication with its shareholders, in order to give shareholders more choice and flexibility in how they receive information from the Company. Cairn responds promptly to correspondence from shareholders and the Company's website contains a wide range of information on the Company, including a dedicated investor relations section.

In order to ensure that the members of the Board develop an understanding of the views of major shareholders, there is regular dialogue with institutional shareholders, including meetings with executive management after the announcement of the year-end and half-year results. The Board is kept informed of any issues raised by shareholders both as a standing agenda item in Board papers and through feedback at Board meetings and following results or other significant announcements. In addition, the Company maintains an investor relations database which details all meetings with investors or other related stakeholders. All analyst reports relating to the Company are also distributed to the Board.

A list of the Company's major shareholders can be found in the Directors' Report on page 124. The Company recognises that the success of the comply-or-explain approach under the Code depends on an ongoing and open dialogue with shareholders, and remains committed to engaging with shareholders, as well as governance and proxy voting agencies, on any matter which they wish to discuss in relation to the Company's governance.

The Company has a rolling programme of investor roadshows to ensure that senior management are regularly engaging with current and potential investors. During the last 18 months, certain Directors have also engaged directly (either through meetings or by telephone/ written correspondence) with specific investors, investor groups, and proxy advisory agencies on a range of matters including progress against strategic objectives, diversity and remuneration. During 2020, the majority of investor meetings were held through virtual communications platforms due the restrictions in place in response to the COVID-19 pandemic. Following the announcement of her appointment as Chair, Nicoletta Giadrossi met with a number of shareholders by way of introduction.

AGM details (2020 and 2021)	Overview
2020 AGM: held as a closed meeting due to COVID-19 on Thursday, 14 May 2020 at the Company's Head Office	– At least 73% of all issued shares voted by shareholders in each resolution – Highest votes in favour >99% for nine resolutions – No resolutions with <91% in favour
2021 AGM: to be held on Tuesday, 11 May 2021 at 50 Lothian Road, Edinburgh, EH3 9BY (full details, including restrictions in place due to COVID-19 are set out in the Notice of AGM)	– Director attendance will be dependent upon UK and Scottish Government restrictions in place due to COVID-19 – 13 ordinary resolutions and four special resolutions being proposed to shareholders

The Board uses the AGM to communicate with private and institutional investors and has always welcomed their participation in annual general meetings. However, as a result of the COVID-19 pandemic and the measures that the UK and Scottish Governments had put in place restricting public gatherings of more than two people and all but essential travel, for the safety of our shareholders, our employees, our advisers and the general public, attendance at the 2020 AGM in person was unfortunately not possible and as such, just the Executive Directors were present, in order to constitute the quorum of two shareholders required for the meeting to be held, and to deal with the formal business of the meeting.

The Notice of AGM sent to shareholders on 14 April 2020, which was also published on the Company's website, fully explained these arrangements to shareholders and recommended that shareholders submit their votes on each of the resolutions being proposed by proxy in advance of the meeting, or to authorise the Chair of the meeting to vote on their behalf. The Company also enabled shareholders to submit any questions in advance of the meeting. These arrangements were implemented in line with regulatory guidance published in relation to holding AGMs during the COVID-19 pandemic, as well as the approach adopted by other FTSE companies in order to safely conduct their AGMs.

Under normal circumstances, it is policy for all Directors to be present at the AGM, with the Chair of each of the Board committees also expected to attend and be prepared to answer shareholder questions on areas within their remit. Our employees based in Edinburgh are also normally invited to attend the AGM as the Directors recognise that this provides a valuable opportunity for workforce engagement with the Board. In 2020, given employees were not able to attend the AGM, the Company held a virtual staff meeting immediately after the AGM.

As part of our commitment to transparency we look to involve shareholders fully in the affairs of the Company and to give them the opportunity at the AGM to ask questions about the Company's performance and activities. Details of resolutions to be proposed at the AGM on 11 May 2021 and an explanation of each resolution can be found in the separate Notice of AGM Circular accompanying this Annual Report and Accounts.

The proxy votes for and against each resolution, as well as abstentions, will be counted before the AGM and the results will be made available following the meeting after the shareholders have voted in a poll on each resolution. Both the Form of Proxy and the poll card for the AGM include a 'vote withheld' option in respect of each resolution, to enable shareholders to abstain on any particular resolution. It is explained on the Form of Proxy that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'for' or 'against' a resolution. To date, the Company has never received 20% or more of votes cast against the Board recommendation for any resolution proposed at an AGM.

Information Pursuant to the Takeover Directive

The Company has provided the additional information required by the Disclosure and Transparency Rules of the UK Listing rules (and specifically the requirements of DTR 7.2.6 in respect of directors' interests in shares; appointment and replacement of directors; powers of the directors; restrictions on voting rights and rights regarding control of the Company) in the Directors' Report.

Internal Control

The Board has overall responsibility for the Group's system of internal control, which includes all material controls, including financial, operational and compliance controls and related risk management, and for regularly reviewing its effectiveness. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's strategic objectives. Because of the limitations inherent in any system of internal control, Cairn's system is designed to meet its particular needs and the risks to which it is exposed, with a focus on managing risk rather than eliminating risk altogether. Consequently, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has in place an Integrated Internal Control and Assurance Framework (the 'Framework'), which plays a critical role in setting out how the Company manages and assures itself that the risks relating to the achievement of corporate vision, strategy and objectives are effectively controlled. The Framework is based on the Committee of Sponsoring Organisations (COSO) framework and its five key components, which is a commonly used and recognised international framework for considering internal control systems. The COSO framework seeks to help organisations develop systems of internal control which help facilitate the achievement of business objectives and improvements in Company performance. The COSO framework also supports organisations in adapting to increasingly complex business environments and managing risks to acceptable levels with the aim of safeguarding shareholders' interests and Company assets.

The Framework has been in place for the 2020 financial year and up to the date of approval of the Annual Report and Accounts. The Board, supported by the Audit Committee, has carried out a review of the effectiveness of the systems of internal control during 2020 and will ensure that a similar review is performed in 2021. In so doing, the Board and Audit Committee took into account the assurance provided by the Chief Executive in respect of the effectiveness of the Group's system of internal control. The Board is accordingly satisfied that effective controls are in place and that risks have been mitigated to a tolerable level across the Group in 2020.

Particular attention has been placed by the Company's management on ensuring that an effective system of internal control has been maintained during the year in relation to the key risks in the Company's business activities. Enhancements have been made during 2020 to the following key controls, business processes and procedures:

- 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 further insight into the growing threats from cyber risk, with a focus on the changing risk environment resulting from the increase in home working. The workshop was facilitated by EY who provided an external view on some of the projects identified as priorities from our peers;
- The MT conducted a review of the risks, mitigations and actions identified on the Group risk register each quarter to ensure ownership for the risks, mitigations and actions were clearly assigned and implementation dates for actions were tracked;
- A compliance dashboard, developed in 2019 to assess compliance with a number of key regulations impacting the Group including UK Bribery Act, GDPR, CCO, CMAPP and modern slavery was presented at each RMC meeting and is presented annually to the Audit Committee as part of the year end control assessment;
- 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 a number of risk areas identified from the risk register. Topics covered in 2020 included New Ventures, Tax Governance, Mexico Operations and IT general controls. The Group has been working through the year to implement any 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 modern slavery, anti-bribery and corruption and cyber security.

The following describes the key elements of the Framework and the processes used by the Board during 2020 to review the effectiveness of the system and the approach to be taken in 2021.

1. Strategic Direction

The Company's strategy and business plan are proposed by the ExecCo and approved by the Board. The Chief Executive is responsible for managing the Company's business and implementing the Company's strategic objectives in consultation with the Board and ExecCo. The Chief Executive is also responsible for implementing the decisions of the Board and its committees and driving performance measured against the Company's KPIs.

2. Operating Management

The Company operates two regional units covering different countries and assets and with multiple partners on both an operated and non-operated basis, with a further operating unit responsible for UK production assets. The assets within each region are the principal focus for our regional managers, who are tasked with delivering the strategic objectives for their particular region, with a combination of operational and technical teams as well as functional departments providing support to each of the assets. The implementation of the Cairn Operating Standards supports this process, providing assurance, standards and consistency in the delivery of our strategic objectives.

The Executive Directors continue to be supported by the ExecCo as well as by the MT and ELT. Further information on these teams and their remit can be found on pages 80 and 81. There are also a number of functional department heads whose roles include providing expert input and challenge to the Company's work programmes, budgets and business plan; and supplying the Directors with full and accurate information with which to make statements on the adequacy of internal control.

The Company refreshes its business plan, work programme and budget on an annual basis in line with its overall strategy. These documents start at asset level before being consolidated at regional and Company levels. The business plan sets out detailed objectives and KPIs for each asset and supporting functional departments and is consolidated into the Company's strategic planning. After an iterative process, the annual business plan, work programme and associated budget are presented to the Board for approval.

The asset management teams then have the required authority to implement the business plan and to deliver the agreed work programmes within the approved budget and delegations of authority, and in accordance with the internal control framework.

3. Risk Management

The Board is responsible for maintaining sound risk management and internal control systems across the Cairn Group. The Board must satisfy itself that the significant risks faced by the Group are being managed appropriately and that the system of risk management and internal control is sufficiently robust to respond to internal or external changes in the Group's business environment.

The RMC continues to be responsible for the development of risk management strategy and processes within the Company and for overseeing the implementation of the requirements of this strategy. It does this by ensuring that the framework for the identification, assessment, mitigation and reporting on all areas of risk is fit for purpose and that appropriate assurance arrangements are in place in relation to these risks to bring them within the Risk Appetite Statement approved by the Board. To supplement the role of the RMC, the Group Risk Management Procedure defines the processes through which Cairn seeks to systematically identify, analyse, assess, treat and monitor the business risks faced by the Group. The Group Risk Management Procedure also identifies the risk management organisational structure through which business risks are managed and regularly reviewed at operating, asset, country and Company levels. Asset-level, project-level, country-level and functional-level risk registers are used to capture, assess, monitor and review risks before the principal risks are consolidated into the Group risk register.

In 2020, the Board carried out a robust assessment of the emerging and principal risks facing the Company, details of which can be found on pages 42 to 51. Risk management updates were presented at each Board meeting and as part of an annual process, the Board undertook a strategic risk workshop in November 2020.

The RMC, which meets on a quarterly basis, is currently chaired by the Chief Executive and comprises the Executive Directors and senior functional management. The internal auditor also attends RMC meetings, in order to ensure integration of the Group's internal audit plan with the risk management process. Regular MT risk sessions were also held during 2020 to manage and facilitate the assessment and treatment of business risks that may affect the Company's ability to deliver its strategy.

Enhancements to our approach to risk management during 2020 included the following:

- The MT formally conducted a review of the risks, mitigations and actions identified on the Group risk register each quarter to ensure ownership for the risks. Mitigations and actions were clearly assigned and implementation dates for actions were tracked; and
- 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 RMC reports on the Company's risk profile to both the Audit Committee and the Board. Additionally, the Audit Committee and the Board receive internal reviews of the effectiveness of internal controls relative to the key risks. The conclusion of the Board following these reviews during 2020 is that the internal controls in respect of key risks are effective.

4. Assurance

The 'three lines of defence' framework adopted by the Board provides three levels of assurance against the risks facing the Company: firstly at the operational level; secondly through overview by functional management and the RMC; and thirdly through internal or joint venture audits.

The integrated internal control and assurance framework document includes a description of the Company's business and assurance models and of its organisation and committee structure and defines the relevant roles and responsibilities. The framework defines the key policies and procedures which govern the way in which Cairn conducts its business and is therefore a core part of its system of internal control.

During 2020, the Directors reviewed the effectiveness of the Company's system of financial and non-financial controls, including operational and compliance controls, risk management and high-level internal control arrangements through the completion of internal control self-assessment questionnaires. These questionnaires, which are tailored to each region or function, are designed to provide an internal assessment of the effectiveness of key controls for the Group's principal risks.

Additionally, assurance maps for principal risks are developed, which outline the key sources of assurance across the 'three lines of defence'. The 'three lines of defence model' is a method of assessing different sources of assurance the Group can rely on when analysing key risks and controls. Assurance is gained through the application of the business management system which directs the day-to-day running of the business (first line), the oversight functions within Cairn which provide challenge to the risk and control environment (second line) and any third-party reviews the Group instructs to assess the status of a risk/control (third line). The assurance maps help identify potential areas of control weakness and/or ineffective use of assurance resources across the Group, which influenced the topics included in the 2020 Group internal audit plan.

The Directors derived assurance from the following internal and external controls during 2020:

- A schedule of matters specifically reserved for decision by the Board;
- Implementation of the Cairn Operating Standards for key business activities;
- An appropriate organisational culture and structure;
- Control over non-operated joint venture activities through delegated representatives;
- Specific delegations of authority for all financial transactions and other key technical and commercial decisions;
- Segregation of duties where appropriate;
- Business and financial reporting, including KPIs;
- Functional management reviews;
- An annual 'letters of assurance' process, through which asset and functional managers review and confirm the adequacy of internal financial and non-financial controls and their compliance with Company policies, and report any control weaknesses identified in the past year and actions taken in respect of any weaknesses identified in the prior year;
- A 'letter of assurance' from the Chief Executive confirming the adequacy of internal controls within the Company in line with its policy, and reporting of any control weaknesses identified in the past year and actions taken in respect of any weaknesses identified in the prior year;
- An annual internal audit plan, which is approved by the Audit Committee and Board and is driven by risks and key controls;
- Reports from the Audit Committee and RMC;
- Reports from the external auditor on matters identified during its statutory audit;
- Reports from audits by host governments and co-venturers;
- Independent third-party reviews; and
- The skills and experience of the workforce.

Nicoletta Giadrossi
Chair

8 March 2021

Audit Committee Report

Keith Lough, Chair of the Audit Committee

In a year of unprecedented global uncertainty and volatile commodity prices, the Audit Committee's strong focus on the Group's risk management process and the implications on financial reporting are key for ensuring that it delivers on its responsibilities to shareholders.

Members and Meetings in 2020

	Member since	Meetings attended
Keith Lough (Chair)	05/14	👤👤👤👤
Nicoletta Giadrossi	05/18	👤👤👤👤
Alison Wood	07/19	👤👤👤👤

Dear Shareholder

The Audit Committee's primary responsibilities include the integrity of the Group's Financial Statements, the effectiveness of the Group's risk management and internal assurance processes and related governance and compliance matters.

Composition and Summary of Audit Committee Meetings in 2020
I served as Chair of the Audit Committee for the duration of the year having been appointed Chair in 2018.

Serving with me on the Audit Committee during 2020 were two fellow Non-Executive Directors; Nicoletta Giadrossi and Alison Wood. From 1 January 2021, Nicoletta stepped down from the Committee following her appointment as Chair of the Board and was replaced by Catherine Krajicek. The members of the Committee have been chosen to provide the wide range of financial and commercial experience needed to fulfil these duties. Alison and I are qualified accountants with recent and relevant financial experience. Both Nicoletta and Catherine bring comprehensive industry knowledge. Nicoletta, Alison and Catherine are considered by the Board to be Independent.

During 2020, Ian Tyler also attended meetings in his capacity as Chair of the Board but was not a member of the Committee. Similarly, Nicoletta attended the March 2021 meeting in her new role as Chair but was not a member of the Committee.

At our request, the Chief Executive (in his capacity as executive responsible for internal audit) and CFO along with senior members of the finance and risk and compliance departments attend each meeting. Both internal and external auditors also attend. I also met with the external audit partner to discuss matters relevant to the Group throughout the year.

The Audit Committee met four times in 2020 with meetings arranged around the key external reporting dates. The first meeting in March focused on the 2019 year-end external audit process (reported in the 2019 Annual Report and Accounts). Meetings in June and August both centred on the Group's half year reporting and the November meeting focussed on planning for the 2020 year-end, external audit process and the internal auditors work programme for 2021. Subsequent to the year end, a meeting was held in March 2021 to conclude the 2020 audit and any significant issues.

Responsibilities and Activities During the Year

The Terms of Reference of the Committee take into account the requirements of the UK Corporate Governance Code and are available on the Group's website. A summary of the Committee's principal responsibilities and activities during the year are set out below.

	Principal Responsibilities of the Committee	Activities during the year	Key areas formally discussed
Financial Statements	– Monitoring the integrity of the Financial Statements of the Group and formal announcements relating to the Group's financial performance; – Reviewing any significant financial reporting judgements; and – Reviewing the appropriateness of accounting policies, their consistent application and disclosures in Financial Statements.	– March 2020: 2019 Financial Statements approval (included in 2019 Annual Report and Accounts). – June 2020: Half-year key accounting issues, estimates and assumptions. – September 2020: Approval of half-year financial statements. – November 2020: Year-end key accounting issues, estimates and assumptions. – March 2021: Approval of 2020 year-end financial statements.	– Going concern conclusions and linkage to the viability statement; and – Significant accounting issues at the half-year and year-end (see below);
External audit	– Overseeing the Group's relationship with the external auditors, including: • making recommendations to the Board on the appointment or reappointment of the external auditor; • reviewing their terms of engagement and engagement for non-audit services; and • monitoring the external auditors' independence, objectivity and effectiveness.	– At each meeting, the Committee receives an updated report from the external auditor which either explains the plans and scope for the forthcoming audit or review or contains the conclusions from the work performed.	– Reviewing the external auditors' scope and audit plan for the 2020 year-end; – Discussing the materiality levels set by the auditor; – Approval of the auditors' remuneration; – Consideration of the results of the external audit with the auditor and management; and – Assessment of the effectiveness of the external audit (see overleaf).
Internal risk management and assurance	– Reviewing the Group's internal financial controls and internal control and Risk Management systems and oversight of the Group's Risk Management Committee; and – Monitoring and reviewing the effectiveness of the Group's internal audit function.	– At each meeting, the Audit Committee receives: • An update from management on the latest Risk and Assurance Committee meetings and Risk Management process; and • a report from the internal auditors, tracking the progress of internal audits and their output and recommendations. – In November, the Audit Committee agreed on the proposed programme of internal audit for 2021.	– Reviewing the Group's Corporate and Operational risk register; – Reviewing reports on the activities of the Risk Management Committee; – Selection of internal audit work planned for 2021 and consideration for future years; and – Assessment of key findings raised from internal audits conducted in the year.
Whistleblowing procedures	– Reviewing the Group's whistleblowing procedures and ensuring that arrangements are in place for the proportionate and independent investigation of possible improprieties in respect of Financial Reporting and other matters and for appropriate follow-up action.	– The Committee's annual review and approval of the Group's Whistleblowing Procedures was performed at the November meeting.	– Reviewing and approving of the Group's whistleblowing procedures.
Other matters	– Reviewing the Group's policy for approval of non-audit work to the Company's auditor; and – Reviewing booking of Group reserves and resources.	– The Committee's annual review and approval of the Group's policy for approval of non-audit work was undertaken at the November meeting.	– Review and approval of the Group policy for approval of non-audit work to the Company's auditor; and – Classification of reserves and resources for disclosure in the Annual Report.

The review of the Annual Report and Accounts for fair, balanced and understandable presentation and disclosure, while considered by the Audit Committee, is formally performed and approved by the full Board of Directors.

Financial Statements

At each reporting date, the Audit Committee reviews the results for the relevant period and the key assets and liabilities in the Group balance sheet, focussing on the key estimates, assumptions and judgments that management has used in applying the relevant accounting standard.

The key issues identified at the December 2020 year end were the sale of Cairn's interests in Senegal, impairment testing on the Group's remaining oil and gas assets, notably the two UK producing assets, and accounting for the award under the Indian Tax arbitration. As always, the assessment of the ability of the Group to continue to operate as a going concern is also considered by the Audit Committee.

2020 Year-End Significant Accounting Issues:

Sale of Cairn's Interests in Senegal

Cairn announced that it had reached agreement to sell its interest in Senegal in July 2020. The timing of the transaction had implications for the carrying value in the Group's half-year financial statements where an initial impairment was recorded, before recording a loss on disposal in the full-year financial statements.

Audit Committee action	Audit Committee conclusions
The Audit Committee reviewed the initial accounting for the Group's interests in Senegal at the half-year in June and September 2020 and concluded on the accounting treatment for the sale of the assets on completion in November 2020. Key for the Audit Committee was ensuring that the presentation in the half-year and year-end Financial Statements was consistent with the principal risks to successfully completing the sale assessed at each reporting date.	During the year, the Audit Committee concluded that at the 30 June 2020 Balance sheet date, the proposed sale of the Senegal assets was not sufficiently progressed to allow the assets to be reclassed as 'held-for-sale' as at the half year reporting date. The Committee reviewed and agreed with the impairment charge recorded by management at that time. Subsequent to completion of the sale in the second half of 2020, the Audit Committee reviewed and agreed with management's calculation of the loss on disposal, noting the differing treatment of the fair value of deferred consideration which was included in half-year impairment tests, but not recognised as consideration on completion of the sale in accordance with the applicable accounting standard.

Impairment Testing on Oil and Gas Assets

The Committee review and, in conjunction with the full Board, approve Group corporate assumptions which, together with reserve estimates, feed into the Group's impairment tests produced by management and reviewed by the Committee.

Audit Committee action	Audit Committee conclusions
During 2020, management proposed changes to the Group's corporate assumptions, reducing the forward-curve based short-term oil price assumption period from three to two years and reducing the Group's long-term oil price assumption to be used in impairment test valuations to US$55/bbl, with future price escalation removed. The Committee reviewed all changes proposed and compared against analysis provided by the auditor on the market range of assumptions. Subsequent impairment test calculations were reviewed by the Committee, noting the key assumptions that management had highlighted including the approach for determining fair value and the interaction of deferred tax on asset carrying values. This review included both the Group impairment test on producing assets and the Company's impairment of investment in subsidiaries.	The Committee agreed with the approach that management had adopted in determining the appropriate valuation method for measuring the recoverable value of the Group's assets. The Committee were satisfied that the Group Corporate assumptions were correctly applied in the Group's impairment tests, where no impairment was recorded, and in measuring the impairment charges recorded in the Financial Statements of the Company.

Accounting for the Award Under the India Tax Arbitration

In December 2020, the tribunal established to rule on Cairn's claim against the Government of India ruled unanimously in Cairn's favour. Damages of US$1.2 billion plus interests and costs are now payable to Cairn.

Audit Committee action	Audit Committee conclusions
The Committee carefully considered the accounting implications of the award under the arbitration. While the Audit Committee acknowledged the robustness of the award in the Company's favour and the strength of the enforcement rights afforded to it, there was significant debate as to whether the recognition criteria under the accounting standards had been met.	The Committee concluded that, while both negotiations with the Government of India over settlement and legal processes to enforce the award in various jurisdictions had commenced, neither recovery route was sufficiently advanced to allow the Committee to conclude that the "virtually certain" requirement required by the accounting standards for realising income and therefore recognising an asset, had been achieved. Therefore, the Committee agreed that it was appropriate for the asset to remain classified as a contingent asset at this time.

Going Concern and Viability

At each reporting date, management considers the factors relevant to support a Statement of Going Concern included in note 1.2 to the Financial Statements. The Audit Committee reviews and challenges management's conclusions so that we may, in turn, provide comfort to the Board that management's assessment has been considered, challenged and is appropriate.

The Audit Committee carefully reviewed management's Going Concern conclusion based on the Group's latest cash and debt position and the forecast exploration and appraisal spend in the period ending 31 March 2021, including the implications of the completion of the Shell Western Desert acquisition within the conditions of the associated financing facilities for which the Group has obtained Commitment letters from external lenders. This year, the assessment included the increased risks associated with COVID-19 and the mitigating actions that management has taken. This review confirmed that the Group has the necessary funding agreed to meet its work programme and firm commitments over the period of 12 months from the date of signing the Financial Statements. The Audit Committee subsequently recommended to the Board that the Group continues to use the Going Concern basis in preparing its Financial Statements.

The Committee also reviews and challenges management on the sensitivity analysis performed to support the Group's Viability Statement, included in the Strategic Report on page 43. Following this challenge, the Committee recommended approval of the Viability Statement to the Board.

External Audit

The current version of the UK Corporate Governance Code states that FTSE 350 companies should put the external audit contract out to tender at least every ten years. Cairn complied with this provision before it came into force and completed an external audit re-tendering process in 2013. PwC were subsequently appointed as external auditors of the Group, on the recommendation of the Audit Committee at that time. The 2020 year-end audit therefore represents the eighth year of PwC's tenure as Group auditors.

Lindsay Gardiner continued as PwC's lead audit partner on the Cairn engagement for a third year. Lindsay, who was not previously involved with the audit of the Group or its subsidiaries, indicated that he intended to step-down from his role as lead audit partner at the end of the 2020 audit. Lindsay will be replaced by Bruce Collins, who was previously Director on the Cairn audit engagement between 2013 and 2015. Bruce was not involved in the Cairn audit between 2015 and 2020 and therefore is not precluded from accepting the role of lead audit partner.

Cairn will re-tender for the role of Group auditors at the end of the 2022 year-end audit, complying with the Competition and Markets Authority 2014 Order requiring a mandatory tender after ten years.

Assessment of External Audit Process

The Committee has an established framework to assess the effectiveness of the external audit process. This comprises:

Audit Committee action	Audit Committee conclusion
An assessment of the independence of the auditors.	The Audit Committee consider PwC to be independent.
A review of the Audit Plan including the materiality level set by the auditors and the process they have adopted to identify Financial Statement risks and key areas of audit focus summarised in the Independent Auditors' Report on pages 128 to 133.	The Committee accepted the level of materiality set by the auditors.
A review of the Audit Quality Inspection ('AQI') report on our auditor, published by the FRC with particular emphasis on any key messages applicable to Cairn.	There were no matters raised in the AQI report that caused concern for the Audit Committee.
A review of the final Audit Report, noting key areas of auditor judgement and the reasoning behind the conclusions reached.	The Audit Committee reviewed findings on the key audit issues identified. The Committee was satisfied that appropriate challenge had been made of management and that the audit process was robust.
Regular communications through formal papers submitted and presentations to the Committee, including a review by the Committee of the extent to which the auditors have challenged management.	The Audit Plan for the year ending 31 December 2020 was presented to the Audit Committee in June 2020 and is summarised in the Independent Auditors' Report on pages 128 to 133. Audit findings on significant matters are presented to the Committee, together with the work performed by the auditors to challenge management's key estimates and assumptions.
Separate meetings between myself as Chair of the Audit Committee and the lead audit engagement partner.	Separate meetings were held in advance of all Committee meetings during the year.
A formal questionnaire issued to all Audit Committee members and senior Cairn management who are involved in the audit, covering the robustness of the audit process, the quality of delivery, the quality of reporting and the quality of the auditors' people and service.	No matters of significance were reported.

Of particular focus for the Committee is the assessment of the judgement applied by PwC during each stage of the audit process including setting audit materiality, identifying the risks to the Financial Statements, evaluating audit findings and communicating those areas of judgement to the Committee.

The Audit Committee noted the level of planned materiality and agreed on the level of mis-statements to be reported to the Committee. The final Audit Report was presented to the Audit Committee in March 2021. The Committee agreed with the conclusions reached by the auditors, noting the degree of judgement around areas of significant audit risk.

The significant accounting issues identified by the Audit Committee were included in the significant matters identified by the external auditors in their Audit Plan. There were no other specific areas that the Audit Committee requested the auditors to look at.

At the end of each annual reporting cycle, the Audit Committee reflect on the quality of the audit provided by the auditors. At each Audit Committee meeting, the auditor presents an update on their progress and, where appropriate, conclusions on their half-year review and full-year audit and how the audit has been conducted in relation to the plan presented to the Audit Committee, with the Committee able to challenge the audit at any point.

Following conclusion of the 2019 year-end audit, the Committee discussed the quality of the audit service provided, using the questionnaire responses as a basis for the discussion. Although there were no significant matters reported, where the Committee believed improvements to the audit process could be made, these were fed back to the engagement partner in our separate meetings. The Audit Committee did conclude that the auditors had delivered an audit of appropriate quality. The formal assessment of the 2020 audit has yet to be formally undertaken.

Internal Risk Management and Assurance

The Audit Committee reviews the Group's principal risks at each meeting. The Group Risk Management Committee meet in advance of the Audit Committee and minutes are reviewed by the Audit Committee and follow-up queries addressed with management. The Group's Risk Management project plan is also presented, with the Audit Committee closely monitoring the close-out of recommendations raised during completed internal audits, as well as noting progress of ongoing audits and plans for future audits, ensuring they remain on schedule. The Audit Committee also complete an annual review of management's formal internal controls assessment.

The Group's principal risk dashboard is updated in advance of every meeting and changes to operational and corporate risks noted and discussed. The Audit Committee will challenge management on the classification of risks where further clarification is sought on either the assessment of the likelihood of a risk materialising or the estimated financial impact. During the current period, risks were reviewed against a back-drop of falling commodity prices and the ongoing COVID-19 pandemic, together with the ability of the Group to successful monetise its interests in Senegal.

Internal Audit

Following a competitive tender process, Ernst & Young LLP ('EY') were appointed as the Group's internal auditors with effect from July 2013. Prior to the beginning of each year, an internal Audit Plan is developed by the internal auditors, in consultation with senior management, based on a review of the outcome of the previous year's internal audits, the outcome of the annual assessment of effectiveness of internal control (refer to pages 128 to 133), the results of historical audits of fundamental business processes and the significant risks in the Group Risk Matrix and identified mitigation measures. The plan is then presented to the Audit Committee for review and approval. The internal auditors also participate in meetings of the Group Risk Management Committee to maintain an understanding of the business activities and associated risks and to update the Group Risk Management Committee on the internal audit work plan. The Audit Committee also receive updates on the internal audit work plan on an ongoing basis. The external auditor does not place any reliance on the work undertaken by the Group's internal audit function due to the nature of the scope and the timing of their work. The external auditor does, however, attend all Committee meetings where internal audit updates are given and meets separately with the internal auditor and the Audit Committee Chair to discuss areas of common focus in developing their audit plan.

During 2020, the Group's internal auditors conducted audits on the Group's new venture activities, tax governance, Mexico operations and IT general controls. No high risk findings were identified across the audits conducted.

Working Responsibly – Whistleblowing and Related Policies

The Group is committed to working responsibly as part of its strategy to deliver value for all stakeholders. This means delivering value in a safe, secure, environmentally and socially responsible manner.

The Audit Committee is responsible for ensuring the Group has a robust Whistleblowing Policy in place and this policy is reviewed annually by the Committee. The Group's current version of the policy was first presented to, and approved by, the Audit Committee at the March 2018 meeting and most recently re-approved at the November 2020 meeting.

The Committee is also responsible for and is satisfied that arrangements are in place for the proportionate and independent investigation of possible improprieties in respect of Financial Reporting and other matters and for appropriate follow-up action.

The Group has in place a comprehensive Anti-Bribery and Corruption management system and Code of Ethics. Regular training updates are provided to all employees and long-term contractors in addition to the training that is provided to all new employees joining the Company. As Cairn enters new countries, monitoring is undertaken and training is refreshed. Further information regarding these policies can be found on the Group's website.

Other Matters:

Provision of Non-Audit Services

We have a long-established policy in relation to the supply of non-audit services by the external auditor. The Group will engage an external adviser to provide non-audit services on the basis of the skills and experience required for the work, where benefit will be derived as a result of the third party's knowledge of the Group and at a reasonable cost. These advisers may include the Group's external auditor, under a restricted set of circumstances, although before the engagement commences, the Audit Committee must be satisfied that the auditors' objectivity and independence would not be compromised in any way as a result of being instructed to carry out those services.

The policy on approval of non-audit fees for the Group's auditor is re-approved annually. All non-audit fees should be approved by the Audit Committee in advance of the engagement with a practical work around of only seeking approval from the Committee Chair, rather than seeking full Committee approval, in advance for fees below an approved threshold of £100,000. This approval will then be ratified at the next meeting of the Committee.

The policy is available online on the Group's website.

During the year, PwC undertook significant work on the Circular to shareholders associated with the disposal of the Group's interests in Senegal. What was initially expected to be a relatively routine transaction, became a more complex working capital exercise due to the lengthy negotiations with the potential acquirer, the COVID-19 pandemic and pre-emption of the transaction by the current operator. Consequently, the non-audit fees payable to the auditors associated with this work exceeded the 70% fee-cap based on the average of fees paid in the last three consecutive financial years for the audit of the Group and its subsidiaries. Cairn sought and received authorisation from the FRC for an exemption from this fee-cap for the current year. As this reflects a one-off transaction for the Group, the fees are also expected to be one-off.

PwC also provided other services during the year including certification of the Group's EITI submission in Senegal and non-statutory audits of the Group's time writing recharges to operated assets.

A full analysis of remuneration paid to the Group's external auditor in respect of both audit and non-audit work is provided in note 6.4 to the Financial Statements.

Board and Committee Performance Evaluation

The Board retains overall responsibility for implementation of its annual performance evaluation and the process and outcomes of the 2020 internally conducted evaluation are described in the Corporate Governance Statement on pages 78 and 79. The process included a review of all Board Committees and it was concluded that the relationship between the Board and its Committees is functioning well, with all Committees fully meeting their remit. The Audit Committee works together with the Board in seeking to address any performance evaluation outcomes relating to the work of the Committee.

K G Lough

Keith Lough
Chair of the Audit Committee

8 March 2021

Nomination Committee Report

Nicoletta Giadrossi, Chair of the Nomination Committee

Role and Membership of the Committee

Cairn recognises that the role of its Nomination Committee, working together with the Board as a whole, is key to promoting effective Board succession and the alignment of Board composition with the Company's culture, values and strategy.

The membership of the Committee is set out in the table at the top of the next column and comprises a majority of independent Non-Executive Directors. The Chief Executive is also a member of the Committee.

The role of the Nomination Committee includes:
- Evaluating the balance of skills, knowledge, experience, diversity and independence on the Board;
- Leading the process for Board appointments and ensuring plans are in place for orderly succession to both Board and senior management positions;
- Overseeing the development of a diverse pipeline for succession; and
- Working with the Board to address any performance evaluation outcomes linked to Board composition and succession planning.

Members and Meetings in 2020

	Member since	Meetings attended
Ian Tyler (Chair)[1]	05/14	👤👤
Nicoletta Giadrossi[2]	05/18	👤👤
Peter Kallos	09/15	👤👤
Keith Lough	05/15	👤👤
Simon Thomson	03/13	👤👤

[1] Ian Tyler was Chair of the Committee during the year until his retirement on 31 December 2020.

[2] Nicoletta Giadrossi became Chair of the Committee with effect from 1 January 2021.

Board Changes

As disclosed in last year's Annual Report, Alison Wood and Catherine Krajicek were appointed as Non-Executive Directors with effect from 1 July 2019. The process in respect of each of these appointments was described in last year's Nomination Committee Report. At the time of publishing last year's report, the Company also disclosed that it was in the final stages of the appointment process for one further Non-Executive Director to replace Todd Hunt. The Company subsequently announced in March 2020 that Erik B. Daugbjerg would be appointed as a Non-Executive Director with effect from 14 May 2020. Todd Hunt retired as a Non-Executive Director immediately following the AGM on 14 May 2020.

The Company did not instruct an independent recruitment consultant in connection with the appointment of Erik B. Daugbjerg and, as such, the Committee confirms that there are no circumstances in existence which are likely to impair, or could appear to impair, Mr Daugbjerg's independence. Following his identification by the Company as a suitable candidate, Mr Daugbjerg was interviewed by the Committee and by all other members of the Board. Following these interviews, the Committee recommended to the Board that Mr Daugbjerg be appointed as an independent Non-Executive Director and his appointment was unanimously approved by the Board. As with Alison Wood and Catherine Krajicek, Mr Daugbjerg was also given the opportunity to carry out due diligence on the Company prior to his appointment and was provided with the Company's induction materials for new directors, as well as attending a tailored programme of induction meetings with other members of senior management and the company secretarial team.

Chair Succession

The Company announced in May 2020 that Ian Tyler intended to step down as Non-Executive Chair of the Company within the following 12 months, having served on the Board for seven years including six as Chair. Following a thorough and comprehensive succession process, which was led by one of the Company's independent Non-Executive Directors, Cairn announced in November 2020 that I would be appointed Chair with effect from 1 January 2021. The Chair succession process and subsequent period of handover during 2020 has enabled a highly effective and seamless transition of the leadership of the Board. As disclosed in the Corporate Governance Statement on pages 82 and 83, the composition of the various Board Committees has also been refreshed with effect from 1 January 2021 in line with Code recommendations.

Succession Planning and Development of Executive Talent

The Nomination Committee regularly evaluates the combination of skills, experience, independence and knowledge of the Company on the Board and makes recommendations to the Board as appropriate. In so doing, the Committee fully supports the principle that both appointments and succession plans should be based on merit and objective criteria, and within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Working together, the Board and Nomination Committee maintain a comprehensive succession plan for appointments to the Board ensuring there is an appropriate balance of skills and experience that continues to align with our strategic aims. During 2020, we worked with a strategic partner to undertake an extensive talent development exercise to support succession plans for a key executive role and, as a result, the participants have robust development plans in place. We have also made very good progress on our talent development programme for other value-creating and value-enabling roles across the business which is shared annually with the Board.

Our mentor programme, which launched in May 2019, continues to provide invaluable support to colleagues whose aspirations are to grow and develop into senior roles within the business. We have partnered colleagues with some of our Board members as well as senior managers so that they gain strategic and tactical insights.

The Company's succession planning also includes contingency plans for the sudden or unexpected departure of Executive Directors (including the Chief Executive) and other senior roles, which is reviewed by the Board.

Following the sale of the Sangomar asset in Senegal in 2020, the Company undertook an internal reorganisation to ensure the organisation was set up appropriately to best implement the Company's strategy and support the changed asset base. Details of this reorganisation were shared with the Board.

Consequently, the Board has a deep understanding of our talent management and succession planning processes across the Company as well as knowledge of the range of measures being used to continue to develop and recruit talented senior employees.

Diversity

The Nomination Committee very much recognises the benefits of building a diverse Board, not just in terms of gender and social and ethnic background, but also to promote diversity of cognitive and personal strengths. Following the appointment of Alison Wood and Catherine Krajicek as Non-Executive Directors, the number of women on the Board increased from one to three with effect from 1 July 2019 (representing 33% of total membership as at 31 December 2020 and 37.5% from 1 January 2021 following Ian Tyler's retirement from the Board on 31 December 2020). The Board remains diverse in terms of the range of culture, nationality and international experience of its members. The directors' diverse range of practise and expertise cover not only a wealth of experience of operating in the oil and gas industry but also extensive technical, operational, financial, governance, legal and commercial expertise. The Committee will continue to monitor and consider diversity for all future Board appointments, whilst also continuing to recruit on merit.

Beneath Board level, we are also thinking more broadly than gender diversity in all that we do and this means taking into account diversity in all its dimensions – national origin, age, race and ethnicity, religion/belief, gender, marital status and socioeconomic status, as well as other factors such as personality type, educational background, training, sector experience, and organisational tenure. Our Group People Policy supports this approach and one of the key principles of this is to promote, develop and maintain an inclusive workplace and to enhance the successful advancement of diversity in the workforce. In this context, our people are also actively encouraged to take responsibility for their own development, and to challenge conventional thinking and share knowledge, as well as recognising and creating opportunities for personal growth.

Whilst it is by no means the sole consideration, the Company recognises the value of developing and increasing the number of women in senior management roles across the Group. Like others in our sector, we do face challenges in achieving this, as it is generally recognised that more males study science, technology, engineering and mathematics (STEM) subjects, which in turn tends to mean more men than women apply to join energy companies.

Following the internal reorganisation described above, the Board decided to replace the Senior Leadership Team with a smaller, more focused Executive Committee comprising the two Executive Directors, the Chief Operating Officer and the Director of Exploration. This change took effect from 1 December 2020. There are currently no women on the Executive Committee. As at 31 December 2020, of the 20 roles directly reporting to the newly formed Executive Committee, 5% are female, however, of the value-creating and value-enabling roles identified in our talent management programme, 38% of the talent pool are female. The gender split of our management population is two-thirds male to one-third female and looking at our broader talent pool, the gender diversity of our employee population is 50.2% female and 49.8% male.

The Company has participated fully in the annual submission of gender performance data to the UK Government as part of the Hampton-Alexander review aimed at improving the representation of women in leadership positions in the FTSE 350 (from 2016 to 2020 inclusive). It should be noted that the data submitted by the Company by the required deadline in November 2020 reflected the position prior to the new organisational structure taking effect on 1 December 2020. Our ranking in the Hampton-Alexander Review Report published in February 2021 improved compared to the previous year, from position 95 following the 2019 submission to position 89 following the 2020 submission (in the FTSE 250 category).

Cairn will continue to promote diversity in its widest possible sense and the Board and Nomination Committee remain committed to ensuring that our policies and practices support this approach, with a view to harnessing the potential of our workforce and driving the success of the business.

Board and Committee Performance Evaluation

The Board retains overall responsibility for implementation of its annual performance evaluation and the process and outcomes of the 2020 internally conducted evaluation are described in the Corporate Governance Statement on pages 78 and 79. The process included a review of all Board committees and it was concluded that the relationship between the Board and its committees is functioning well, with all committees fully meeting their remit. The Nomination Committee works together with the Board in seeking to address any performance evaluation outcomes relating to Board composition and succession planning.

Nicoletta Giadrossi
Chair of the Nomination Committee

8 March 2021

Directors' Remuneration Report

Alison Wood, Chair of the Remuneration Committee

Part 1 – Annual Statement from the Chair of the Committee

Dear shareholder,

As the Chair of Cairn's remuneration committee, I am pleased to present our Directors' Remuneration Report for 2020.

At last year's Annual General Meeting, shareholders were asked to vote separately on our 'Annual Report on Remuneration' for the year to 31 December 2019 and a new 'Directors' Remuneration Policy' to be applied in 2020 and later years. The committee was delighted by the strong support for both resolutions shown by the Company's members, with 91.20% of votes cast being in favour of the former and 93.01% in favour of the latter.

Part 2 of this report, which contains our Annual Report on Remuneration, explains how the overall executive remuneration framework that was approved at the meeting on 14 May 2020 was subsequently applied throughout the remaining part of the year. It also sets out how the same policy will be operated in 2021. The Annual Report on Remuneration will be subject to an advisory vote at the AGM to be held on 11 May 2021.

Although shareholders are not being asked to approve a new Directors' Remuneration Policy at the 2021 AGM, the substantive provisions of the policy adopted at last year's Annual General Meeting are repeated in Part 3 of this report for ease of reference.

Members and meetings in 2020

	Member since	Meetings attended
Nicoletta Giadrossi (Chair during 2020[1])	01/17	👤👤👤👤
Peter Kallos	09/15	👤👤👤👤
Ian Tyler[2]	06/13	👤👤👤👤

1 Nicoletta Giadrossi was Chair of the Committee during 2020. From 1 January 2021, she sits on the Committee as a member. Alison Wood was appointed Chair of the Committee from 1 January 2021.

2 Ian Tyler was a member of the Committee until his retirement from the Board on 31 December 2020.

New Chair of the Committee

On 1 January 2021 I joined the committee and, with effect from that date, replaced Nicoletta Giadrossi as its Chair. I would like to express my thanks to Nicoletta for leading the committee so effectively over the past few years and wish her well as she takes on her new role as Chair of the Company.

Summary of 2020 Business Context and Key Remuneration Decisions

The work of the committee in 2020 was conducted against a backdrop of a year in which the Company continued to progress its main initiatives, including portfolio management and retaining a resilient balance sheet, whilst striving to deliver value in a safe, secure, environmentally and socially responsible manner for all of our stakeholders. The sale of the Company's interests in Senegal; announcing a subsequent return of cash to shareholders; and obtaining the final India arbitration award (which found unanimously in Cairn's favour) clearly demonstrated the Company's positive response to the challenges that were faced in 2020.

The committee was also mindful of the potential impact of COVID-19 on the business and, at the start of the crisis, conducted a full review of the Company's remuneration structures for executive directors with the aim of ensuring that the pay arrangements and outcomes for our senior leadership team appropriately reflected the experience of the Company's shareholders and its wider employee population during this difficult time. The committee's deliberations on this issue took into account relevant guidance issued by institutional investors and their representative bodies. They also reflected the fact that the Company was less impacted by the COVID-19 crisis than many other organisations and, in particular, that:

- the Company did not access any UK Government loan scheme;
- Cairn did not make any use of the UK Government's furlough scheme; and
- given the resilience of the business, there was no need to impose salary reductions across the Group's wider workforce.

Against this background, the key remuneration related decisions made by the committee in 2020 (including those influenced by COVID-19) are described in more detail in the Annual Report on Remuneration contained on pages 97 to 111 and can be summarised as follows:

- **Standard base salary increases**
  In accordance with its normal practice, the base salaries of the Company's Executive Directors (being Simon Thomson and James Smith) were reviewed by the committee at its meeting in November 2020 and it was agreed that an increase of 1% would be applied to both individuals with effect from 1 January 2021.

  The above increase was consistent with the level of standard annual salary increase awarded to other employees at that time.

- **Alignment of pension contributions**
  During the year, and in satisfaction of the commitments given in the Directors' Remuneration Report for the year ended 31 December

2019, the committee carried out a detailed review of pension provision across the Group. This review took into account the now wide spread preference of investors that pension benefits for executive directors (including those currently in post) should be aligned to those applicable to the wider workforce. The conclusion reached by the committee was that this alignment should be delivered by:

- increasing the contribution rates applicable to the wider workforce from 10% of salary to 12.5% of salary; and
- reducing the contribution levels of the incumbent executive directors from their current level of 15% of salary to 12.5% of salary.

The committee is of the view that the above changes, which will be implemented with effect from 1 January 2023, will result in the Company's pension arrangements becoming aligned with both market practice and institutional investors' guidelines. For the avoidance of doubt, and in accordance with the terms of the Company's approved remuneration policy, if a new executive director were to be appointed prior to the above implementation date, their pension contribution would immediately be capped at a level that was equal to the amount paid to the wider UK employee population from time to time.

– **2020 annual bonus – structure**

Under the Executive Directors' bonus scheme for 2020 (the overall structure of which was unchanged from the prior year), the whole of the individuals' entitlements were dependent on the achievement of Group KPIs.

The above KPIs, and their respective weightings for the purposes of the bonus scheme, were set by the committee in advance of the start of the year and, in accordance with normal practice, were thereafter regularly reviewed in order to ensure that they remained appropriate. In 2020, this process led the committee to exercise its discretion and make an adjustment to the weightings ascribed to two KPIs part way through the period. In particular, the committee decided that, in order to reflect the significant re-calibration of the Company's overall strategy that took place during the year (in terms of which a greater emphasis was placed on expanding the production base and reducing the overall exploration investment), it would be appropriate to reduce the weighting applicable to the exploration related KPIs (from 35% of total bonus opportunity to 25%) and apply a corresponding increase to the KPIs relating to balance sheet strength (from 25% of total bonus opportunity to 35%).

The committee is of the view that the above decision, which was made in accordance with the terms of the Company's approved remuneration policy, was appropriate in light of the change of strategic emphasis and reflected the particular circumstances (including the oil price environment) that existed at the time the committee's discretion was exercised. The committee is also clear that this change to the weightings was not implemented to make the bonus scheme for 2020 less demanding than when the structure of the plan was originally set.

Throughout the year, the committee also considered whether the ongoing impact of the COVID-19 crisis required further adjustments to be made to the structure of the bonus scheme. The conclusion reached was that, notwithstanding the exceptional circumstances that prevailed over the majority of 2020, the terms of the arrangement (as adjusted in the manner described above) remained appropriate on the basis that they helped ensure that there was an enhanced level of focus on the financial stability of the business during a period of significant economic uncertainty.

– **2020 annual bonus – outturn**

Based on an assessment of the extent to which the relevant targets were achieved, awards made under the annual bonus scheme to the Executive Directors during the year (as a percentage of annual salary) were 93.75% for both Simon Thomson and James Smith.

Under the Company's current approved remuneration policy, any part of an executive director's bonus that is in excess of 100% of the individual's base salary is deferred into Cairn shares for three years. Given that this threshold was not reached by the above bonuses, they were paid out wholly in cash.

Further details of the way in which these awards were determined and paid are set out on pages 102 and 103 of the Annual Report on Remuneration.

– **Long Term Incentive Plan (LTIP) – partial vesting of 2017 awards**

The performance period applicable to the LTIP awards granted in 2017 came to an end during 2020. Over this period, the Company's Total Shareholder Return was sufficient to place it between the eighth and ninth positions in a group of 17 comparator companies with the result that:

- the 'core' elements of these awards vested in respect of 34.29% of the shares over which they were granted; and
- no part of the 'kicker' elements of these awards vested and they lapsed in full.

As part of the above vesting process, the LTIP's rules required the committee to review the Company's overall performance over the three years from the grant of the awards. After due and careful consideration, the committee concluded that there had been a sustained improvement in such overall performance during that time.

The vested awards held by the Executive Directors are subject to a further two-year holding period during which they cannot normally be exercised and any shares that are ultimately acquired by them will constitute 'relevant shares' for the purposes of the post-employment shareholding requirement described on page 118.

– **LTIP – grant of 2020 awards**

During 2020, the committee made the fourth annual grant under the Company's LTIP that was adopted at the 2017 AGM.

Normally, LTIP awards are granted by the committee in March of each year. However, as a result of the significant market uncertainty that existed in March 2020 due to the COVID-19 crisis, it was decided that it would be appropriate to defer the grant process until there was some degree of stability in the Company's share price. As a result, the 2020 awards under the LTIP were granted on 28 July 2020.

Notwithstanding the above deferral of the award process, the committee was also aware that these grants were still being made at a time when, along with many other listed companies, Cairn had experienced a material fall in its share price (when compared to the 'pre-COVID 19' level). The Company's remuneration policy makes it clear that any such share price movement should be considered by the committee at the time any grants under the 2017 LTIP are being formulated, principally to mitigate against the risk of participants realising a 'windfall' gain on their subsequent vesting. As a result, the committee determined that a 20% reduction should be applied to the number of ordinary shares over which each individual's award would otherwise have been granted if Cairn's standard approach had been adopted on that occasion. In the case of the Executive Directors, this resulted in awards being granted with a face value equal to 2 x base salary (rather than the 2.5 x base salary awards envisaged by the policy). The quantum of this reduction in the size of awards reflects general market practice in these circumstances and was arrived at by the committee after taking independent advice. For the avoidance of doubt, no change was made to the overall structure or weightings of the performance conditions that were applied to the above grants.

The committee is also conscious of the fact that the Company's remuneration policy (and the terms on which recent awards under the 2017 LTIP have been granted) gives it a broad discretion to reduce the vesting levels that arise from the formulaic operation of the performance conditions applicable to the above awards where it is deemed appropriate to do so. The question of windfall gains is one factor that will be considered by the committee at the expiry of the relevant performance measurement periods.

Full details of the awards made to Executive Directors in July 2020 are set out in the Annual Report on Remuneration.

- **Share Incentive Plan (SIP) – operation during 2020**
  As explained on page 108, the Company operates a tax-advantaged, all-employee SIP that is used on an annual basis to provide a range of different share related benefits to the Group's employees. Although the Executive Directors were eligible to participate in the 'free share' and 'matching share' elements of this scheme during the first half of 2020, they elected not do so in light of the Company's share price performance at that time.

- **Non-Executive Directors' fees and Chair's fee**
  During 2020, the Committee (excluding Nicoletta Giadrossi) reviewed the Chair's annual fee in the context of market data and the time commitment for the role. Following this review, it was decided that the fee for 2021 should be maintained at the level paid in 2020.

  The fees paid to Non-Executive Directors were also reviewed during the year by the Executive Directors and the Chair and it was determined that their basic annual fee would be maintained at £75,500 for 2021. Similarly, no change was made to the additional fee payable for chairing the audit and/or remuneration committee.

- **Details of additional discretions exercised by the Committee during 2020 in relation to Executive Directors' pay**
  In early 2020, the Committee exercised its overarching discretion in relation to the 2019 annual bonus scheme and reduced the amount of the awards that would otherwise have been paid to the Executive Directors for the levels of achievement delivered against the Group KPIs for that period. This decision, which reflected a number of macro economic considerations, was made as part of the committee's established practice of reviewing all variable remuneration awards to ensure they are fair and reasonable in the circumstances which exist at the relevant time. Appropriate details of this reduction were included in last year's Directors' Remuneration Report.

  The only other additional substantive discretions exercised by the committee during 2020 related to the operation of the Company's various share-based incentive schemes. In particular, the committee:

  - exercised its discretion to disapply "dividend equivalent" rights attaching to 2017 LTIP awards in relation to the special dividend paid to shareholders as part of the return of cash that was approved by shareholders on 8 January 2021 (see page 105 for further details);
  - decided to give participants in the SIP the ability, if they so wished, to reinvest the above noted special dividend that was paid in respect of their plan holding in further "dividend shares"; and
  - made various decisions in relation to the treatment of a small number of leavers (none of whom were Executive Directors).

- **Consideration of remuneration arrangements for the wider workforce during 2020**
  In accordance with the terms of the Company's approved remuneration policy, the committee regularly reviewed the remuneration levels and incentive arrangements for employees below senior management level. This exercise was particularly relevant in the context of the above noted decisions around the alignment of pension contributions across the Group that will come into effect on 1 January 2023.

  During the year, members of staff were also given the opportunity to raise issues on a variety of matters, including executive pay, via a number of mechanisms, including the Company's Employee Voice Forum which, throughout 2020, was hosted by Nicoletta Giadrossi.

Each of the committee's decisions described above was made in the context of the requirements of the 2018 UK Corporate Governance Code and, in particular, after considering the various factors set out in its Provision 40. For example, the decision to amend the weightings ascribed to certain Group KPIs for the purposes of the 2020 annual bonus scheme was based on a desire to ensure that the Company's incentive schemes encouraged behaviours that were consistent with the Company's purpose, values and strategy. Similarly, the decision to defer the grant of the 2020 LTIP awards and apply a reduction to their overall quantum reflected an intention to mitigate reputational and other risks from excessive rewards. The committee was satisfied that, during 2020, the approved remuneration policy operated as intended and delivered outcomes that fairly reflected the resilient nature of the business and its achievements over the year.

Applying the Policy in 2021
An overview of the way in which the current remuneration policy will be applied in 2021 is set out on pages 110 and 111 in the Annual Report on Remuneration. In summary:

- on 1 January 2021, the above noted increases to the base salaries of the Chief Executive and CFO came into effect;
- the Group KPI measures used for the annual bonus scheme (and their respective weightings and payment scales) have been reformulated for 2021 in order to ensure consistency with the Company's strategic priorities for the period. In particular, the selected KPIs reflect the Company's increased focus on its business within the energy transition whilst delivering value for our shareholders. They also encourage delivery of a unique value proposition that is supported by strong financial management in a responsible manner; and
- no material changes have been made to the manner in which the LTIP will operate in 2021.

When administering executive pay throughout 2021, the committee will continue to monitor wider business performance and the ongoing impact of the COVID-19 crisis.

Feedback on Directors' Remuneration Report
We welcome questions and feedback from all those interested on both the content and style of this report. We also look forward to receiving your support for the Directors' Remuneration Report at the AGM to be held on 11 May 2021.

Alison Wood

Alison Wood
Remuneration Committee Chair

8 March 2021

Part 2 – Annual Report on Remuneration

Introduction

This Annual Report on Remuneration provides details of the way in which the committee operated during the financial year to 31 December 2020 and explains how Cairn's approved Directors' Remuneration Policy that is described on pages 113 to 117 was implemented during that period. It also summarises how that policy will be applied in 2021.

In accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"), this part of the report will be subject to an advisory vote at the 2021 AGM.

The Company's auditor is required to report to Cairn's shareholders on the "auditable parts" of this Annual Report on Remuneration (which have been highlighted as such below) and to state whether, in their opinion, those parts have been properly prepared in accordance with the Regulations and the Companies Act 2006.

On the basis that Cairn has fewer than 250 UK employees, the Company is not required to publish or report its gender pay gap information.

Operation of the Remuneration Committee During 2020

Members of the Remuneration Committee

The members of the remuneration committee during the year were as follows:

- Nicoletta Giadrossi (Chair of the committee).
- Ian Tyler; and
- Peter Kallos.

The individuals who served on the committee, each of whom is an independent Non-Executive Director of the Company, had no personal financial interest (other than as shareholders) in the matters decided, no potential conflicts of interest from cross-directorships and no day-to-day involvement in running the business. Prior to her original appointment as Chair in May 2018, Nicoletta Giadrossi had served on the committee for more than 12 months.

In anticipation of her joining the committee and taking on the role of its Chair with effect from 1 January 2021, Alison Wood was invited to attend a number of the committee's meetings throughout the year.

Biographical information on the individuals that were committee members as at 31 December 2020 is shown on pages 72 and 73 and details of attendance at the committee's meetings during 2020 are shown on page 82.

Internal Assistance Provided to the Committee

The Chief Executive is not a member of the remuneration committee but may attend its meetings by invitation and is consulted in respect of certain of its proposals. The Chief Executive is not involved in any discussions in respect of his own remuneration. During the year, the committee also received material assistance and advice on remuneration policy from the Company Secretary.

External Assistance Provided to the Committee

As and when the remuneration committee considers it appropriate, it takes external advice on remuneration from a number of sources. During the year, it received the following assistance:

Adviser	Assistance provided to the committee during 2020	Fees for committee assistance in 2020[1]	Other services provided to the Company during 2020
Aon[2,3,4]	Appointed by the committee to give periodic advice during the period to 31 May 2020 on various aspects of the directors' remuneration packages. Also assisted with a number of miscellaneous remuneration-related projects (including the impact of COVID-19 on Executive Director pay).	£8,910	Provided advice on various aspects of remuneration practice across the Group in the period to 31 May 2020.
Alvarez & Marsal Taxand, LLP[3,4]	Appointed by the committee to give periodic advice during the period from 1 June 2020 on various aspects of the directors' remuneration packages. Also assisted with the preparation of the Directors' Remuneration Report and provided support on a number of miscellaneous remuneration-related projects.	£8,286	Provided advice on various aspects of remuneration practice across the Group in the period from 1 June 2020.
Deloitte LLP[4]	Appointed by the Company's management team but provided assistance to the committee in relation to the design, communication and implementation of the new policy approved at the 2020 AGM.	£1,188	Provided advice on various aspects of remuneration practice across the Group.
Ernst & Young LLP	Appointed by the Company to carry out an independent verification of its achievement against performance conditions applicable to the Company's LTIPs and share option schemes.	N/A – no advice provided to the committee	Internal auditor of the Company throughout the year.
Shepherd and Wedderburn LLP	Appointed by the Company to carry out regular calculations in relation to the LTIP performance conditions. Also assisted with the preparation of the Directors' Remuneration Report.	£24,351	General legal services to the Group throughout the year.

Notes:
1 The bases for charging the fees set out in the table were agreed by the committee at or around the time the particular services were provided and, in general, reflected the time spent by the adviser in question on the relevant matter.
2 Aon Hewitt Limited, part of Aon plc.
3 Cairn's advisory team at Aon transferred to Alvarez & Marsal Taxand, LLP on 1 June 2020. With effect from that date, the committee appointed Alvarez & Marsal Taxand, LLP as its independent advisor in place of Aon.
4 Each of Aon, Alvarez & Marsal Taxand, LLP and Deloitte LLP are (or were when providing advice to the committee) members of the Remuneration Consultants Group and their work is governed by the Code of Conduct in relation to executive remuneration consulting in the UK.
5 The committee reviews the performance and independence of all its advisers on a continuous basis. No issues relating to performance or independence were noted by the committee during the year.

Statement of Shareholder Voting at General Meetings

The table below shows the voting outcome at the last general meeting(s) at which shareholders were asked by the Company to approve a resolution relating to its Directors' Remuneration Report and Directors' Remuneration Policy:

Description of resolution	Date of general meeting	Number of votes 'For' and 'Discretionary'	% of votes cast	Number of votes 'Against'	% of votes cast	Total number of votes cast	Number of votes 'Withheld'[1]
To approve the 2019 Directors' Remuneration Report	14 May 2020	409,788,514	91.20%	39,547,428	8.80%	449,335,942	19,676
To approve the 2020 Directors' Remuneration Policy	14 May 2020	417,923,175	93.01%	31,405,942	6.99%	449,329,117	26,501

Note:
1 A vote withheld is not a vote in law.

The committee welcomed the endorsement of both the above resolutions that was shown by the vast majority of shareholders at the relevant meetings and gave due consideration to any concerns raised by investors who did not support the resolutions.

Payments to Past Directors During 2020 (Audited)

During the year to 31 December 2020, there were no payments to past directors of the kind which require to be disclosed in terms of the Regulations.

Single Total Figure Table for 2020 (Audited)

The tables below set out the remuneration received by Executive Directors and Non-Executive Directors during the year in the following categories.

Salary + **Benefits** + **Pension** + **SIP** + **Annual Bonus** + **Long-term incentives** = **Total remuneration**

Executive Directors

		Fixed remuneration				Variable remuneration				Totals		
						Annual bonus[4]...						
	Financial year	Salary and fees	Benefits[1]	Pension[2]	SIP[3]	...paid in cash	...deferred into shares	....total bonus	Long-term incentives[5]	Total remuneration	Total fixed remuneration	Total variable remuneration
Directors												
Simon Thomson	**2020**	**£586,650**	**£35,291**	**£87,998**	**£0**	**£549,984**	**£0**	**£549,984**	**£219,808**	**£1,479,731**	**£709,939**	**£769,792**
	2019	£576,844	£34,376	£86,527	£7,197	£468,686	£0	£468,686	£0	£1,173,630	£704,944	£468,686
James Smith	**2020**	**£381,561**	**£38,611**	**£57,234**	**£0**	**£357,713**	**£0**	**£357,713**	**£142,965**	**£978,084**	**£477,406**	**£500,678**
	2019	£375,183	£36,787	£56,277	£7,197	£304,836	£0	£304,836	£0	£780,280	£475,444	£304,836

Notes:
1 Taxable benefits available to the Executive Directors during 2020 were a company car/car allowance, private health insurance, death-in-service benefit and a gym and fitness allowance. This overall package of taxable benefits was largely unchanged from 2019, with the higher figures for both the Executive Directors in 2020 primarily being attributable to increased costs for private health insurance cover.
2 Additional disclosures relating to the pension provision for the Executive Directors during 2020 are set out on page 101.
3 This column shows the face value (at date of award) of matching and free shares provided to the Executive Directors under the SIP during the relevant period. Further details on the way in which the SIP was operated during 2020 are set out on page 108.
4 Under the Company's annual bonus scheme for 2019 and 2020, any sums awarded in excess of 100% of salary are delivered in the form of deferred share awards, which normally vest after a period of three years from grant. Further information in relation to the annual bonus scheme for 2020 is provided on pages 102 to 104. For the avoidance of doubt, the quantum of awards made under this arrangement is not attributable, either wholly or in part, to share price appreciation.
5 This column shows the value of shares that vested in respect of LTIP awards with performance conditions that ended during the period in question. Further details of the LTIP's operation during 2020, including how the level of award was determined, confirmation of the amount (if any) of the above vesting value that was attributable to share price appreciation and a summary of any discretions that were exercised, are provided on pages 105 to 108.
6 Following the end of the year to 31 December 2020, the committee considered whether there were any circumstances that could or should result in the recovery or withholding of any sums pursuant to the clawback arrangements contained within the Company's remuneration policy. The conclusion reached by the committee was that it was not aware of any such circumstances.

Non-Executive Directors

		Fixed Remuneration			Variable Remuneration		Totals		
	Financial year	Salary and fees[1]	Benefits	Pension[2]	Annual bonus[2]	Long-term incentives[2]	Total remuneration	Total fixed remuneration	Total variable remuneration
Directors									
Nicoletta Giadrossi[3]	**2020**	**£85,500**	**–**	**–**	**–**	**–**	**£85,500**	**£85,500**	**–**
	2019	£85,500	–	–	–	–	£85,500	£85,500	–
Keith Lough[3]	**2020**	**£85,500**	**–**	**–**	**–**	**–**	**£85,500**	**£85,500**	**–**
	2019	£85,500	–	–	–	–	£85,500	£85,500	–
Peter Kallos	**2020**	**£75,500**	**–**	**–**	**–**	**–**	**£75,500**	**£75,500**	**–**
	2019	£75,500	–	–	–	–	£75,500	£75,500	–
Alison Wood[4]	**2020**	**£75,500**	**–**	**–**	**–**	**–**	**£75,500**	**£75,500**	**–**
	2019	£37,750	–	–	–	–	£37,750	£37,750	–
Catherine Krajicek[4]	**2020**	**£75,500**	**–**	**–**	**–**	**–**	**£75,500**	**£75,500**	**–**
	2019	£37,750	–	–	–	–	£37,750	£37,750	–
Erik B. Daugbjerg[5]	**2020**	**£47,527**	**–**	**–**	**–**	**–**	**£47,527**	**£47,527**	**–**
	2019	£0	–	–	–	–	£0	£0	–
Former directors									
Todd Hunt[6]	**2020**	**£28,071**	**–**	**–**	**–**	**–**	**£28,071**	**£28,071**	**–**
	2019	£75,500	–	–	–	–	£75,500	£75,500	–
Ian Tyler (former Chair)[7]	**2020**	**£180,000**	**–**	**–**	**–**	**–**	**£180,000**	**£180,000**	**–**
	2019	£177,000	–	–	–	–	£177,000	£177,000	–

Notes:
1 As disclosed in the 2019 Annual Report on Remuneration, the Chairman's fee for 2020 was increased from £177,000 to £180,000. The basic annual fee for Non-Executive Directors in 2020 remained at £75,500, being the same level paid in 2019.
2 The Non-Executive Directors do not participate in any of the Company's long-term incentive arrangements and are not entitled to a bonus or pension contributions.
3 A further annual fee of £10,000 was payable to both Keith Lough and Nicoletta Giadrossi for their roles as Chair of the audit committee and the remuneration committee respectively during 2019 and 2020.
4 Alison Wood and Catherine Krajicek were both appointed as Non-Executive Directors on 1 July 2019. Their respective fees for 2019 reflect the period from that date to the year end.
5 Erik B. Daugbjerg was appointed as a Non-Executive Director on 14 May 2020. His fees for 2020 reflect the period from that date to the year end.
6 Todd Hunt retired as a director on 14 May 2020. His fees for 2020 reflect the period from the start of the year to that date.
7 Ian Tyler retired as Non-Executive Chair of the Company on 31 December 2020.

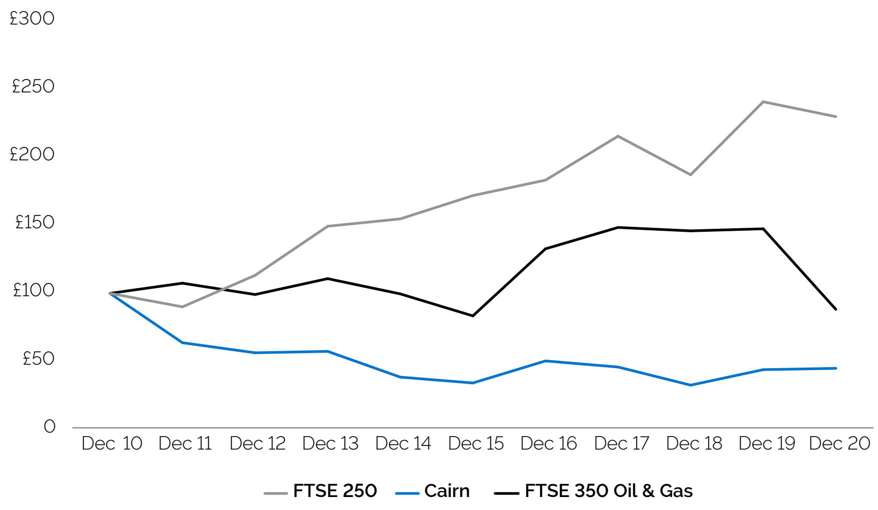
TSR Performance Graph and Further Information on Chief Executive Pay

Introduction

The following chart demonstrates the growth in value of a £100 investment in the Company and an investment of the same amount in both the FTSE 250 Index and the FTSE 350 Oil & Gas Producers Index over the last ten years. These comparisons have been chosen on the basis that: Cairn was a constituent member of the FTSE 250 Index for the whole of 2020; and the FTSE 350 Oil & Gas Producers Index comprises companies who are exposed to broadly similar risks and opportunities as Cairn.

The table following the graph illustrates the movements in the total remuneration of the Company's Chief Executive during the same 10-year period.

Performance Graph – Comparison of 10-Year Cumulative TSR on an Investment of £100



Total Remuneration of Chief Executive During the Same 10-year Period

Financial year	Chief Executive	Total remuneration of Chief Executive[1]	Annual variable element award rates for Chief Executive (as % of max. opportunity)	Long term incentive vesting rates for Chief Executive (as % of original award level)
2020	Simon Thomson	£1,479,731	75%	27.4%[2]
2019	Simon Thomson	£1,173,630	65%	0%
2018	Simon Thomson	£2,204,001	70%	56.7%
2017	Simon Thomson	£2,992,615	76.9%	90.8%
2016	Simon Thomson	£2,081,601	80.2%	81.7%
2015	Simon Thomson	£1,292,167	75%	23.4%
2014	Simon Thomson	£1,073,425	78.5%	0%
2013	Simon Thomson	£962,765	63%	0%
2012	Simon Thomson	£1,018,570	86%	0%
2011	Simon Thomson	£3,405,719	82%	121%
2011[3]	Sir Bill Gammell	£4,053,822	N/A	106%

Notes:

1 The amounts disclosed in this column have been calculated using the same methodology prescribed by the Regulations for the purposes of preparing the single total figure table shown on page 98.

2 As explained on page 106, Simon Thomson's 2017 LTIP award vested in respect of 34.29% of its "core" award (being the element granted over ordinary shares worth 2 x base salary). This represents 27.4% of the total award (i.e. "core" plus "kicker" awards) that was granted over shares worth 2.5 x salary.

3 Sir Bill Gammell stood down as Chief Executive on 30 June 2011 and was replaced by Simon Thomson (who had previously been Legal and Commercial Director) with effect from that date. Sir Bill Gammell's "total remuneration" for 2011 shown in the above table reflects the amount of salary, benefits and pension paid to him in respect of the period to 30 June 2011. However, during the year to 31 December 2011, Sir Bill Gammell also received, in connection with the termination of his employment and in settlement of his contractual entitlements, a payment of salary and benefits in lieu of his contractual notice period of one year (£770,000) and a cash bonus under the Company's annual bonus scheme (£625,000).

Pay Ratio Information in Relation to Chief Executive's Remuneration

The Regulations require certain companies to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table, to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees.

Although the above requirement does not technically apply to Cairn (on the basis that it had fewer than 250 UK employees during 2020), the committee felt that it would be appropriate to include the relevant disclosures this year on an entirely voluntary basis as it helps to demonstrate the link between the Chief Executive's pay and the remuneration of the wider workforce. A similar decision was made for the last two years, with the result that the following table shows the relevant ratios for each of 2020, 2019 and 2018:

Year	Method of calculation adopted	25th percentile pay ratio (Chief Executive : UK employees)	Median pay ratio (Chief Executive : UK employees)	75th percentile pay ratio (Chief Executive : UK employees)
2020	Option A	22 : 1	14 : 1	8 : 1
2019	Option A	19 : 1	12 : 1	7 : 1
2018	Option A	36 : 1	22 : 1	11 : 1

The median, 25th percentile and 75th percentile figures used to determine the above ratios were calculated by reference to the full-time equivalent annualised remuneration (comprising salary, benefits, pension, SIP, annual bonus and long term incentives) of all UK based employees of the Group as at 31 December 2020 (i.e. "Option A" under the Regulations). The committee selected this calculation methodology as it was felt to produce the most statistically accurate result.

The committee considers that the median pay ratio for 2020 that is disclosed in the above table is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole. It reflects the fact that a greater proportion of Executive Director pay is linked to annual performance through a higher annual bonus opportunity (a percentage of which is subject to deferral into shares).

The committee notes that each of the pay ratios for 2020 is higher than in the immediately preceding year. This is largely attributable to the fact that, unlike during 2019, awards vested under the Company's various discretionary share incentive plans in the period of 12 months to 31 December 2020. Given that the Executive Directors receive a higher level of annual award (as a percentage of salary) under these arrangements than almost all other employees, this vesting had a greater proportionate impact on the total remuneration level of the Chief Executive. For the avoidance of doubt, the differences in the ratios between 2020 and 2019 are not attributable to any material change in the Company's employment models or the use of a different calculation methodology.

Pay details for the individuals whose 2020 remuneration is at the median, 25th percentile and 75th percentile amongst UK based employees are as follows:

	Chief Executive	25th percentile	Median	75th percentile
Salary	£586,650	£36,869	£59,959	£130,000
Total pay and benefits	£1,479,731	£66,646	£107,062	£192,234

Percentage Annual Change in Directors' Remuneration Elements Compared to all Group Employees

The table below compares the percentage change in various elements of the Directors' remuneration between 2019 and 2020 with the percentage change in the remuneration of all the Group's employees in respect of that same period.

	% change in base salary/fees	% change in taxable benefits	% change in annual bonus
All Group employees	3.0%[1]	(0.4)%[2]	2.2%
Executive Directors			
Simon Thomson	1.7%	2.7%[3]	17.3%[4]
James Smith	1.7%	5.0% [3]	17.3%[4]
Non-Executive Directors			
Keith Lough	0%	0%	N/A
Peter Kallos	0%	0%	N/A
Nicoletta Giadrossi	0%	0%	N/A
Alison Wood[5]	100%	0%	N/A
Catherine Krajicek[5]	100%	0%	N/A
Erik B. Daugbjerg[6]	N/A	0%	N/A
Former directors			
Todd Hunt[7]	(62.8%)	0%	N/A
Ian Tyler[8]	1.7%	0%	N/A

Notes:

1 The standard level of salary increase across the Group in 2020 was 1.7%. However, a small number of individuals received higher percentage increases which raised the average for all employees to 3%.

2 This fall in average taxable benefits for all Group employees has arisen due to a lower level of relocation expenses being paid in 2020.

3 As explained on page 98, the above increases in the taxable benefits for both the Executive Directors was primarily attributable to increased costs for private health insurance cover.

4 The above noted percentage change in annual bonus for Simon Thomson and James Smith has been impacted by the fact that, as highlighted on page 96, the committee exercised its overarching discretion in relation to the 2019 annual bonus scheme and reduced the amount of the awards that would otherwise have been paid to members of the Executive Committee for the levels of achievement delivered against the Group KPIs for that period. No such reduction was applied to the Group KPI elements of the 2019 bonus awards made to the general employee population.

5 Alison Wood and Catherine Krajicek were both appointed as Non-Executive Directors on 1 July 2019.

6 Erik B. Daugbjerg was appointed as a Non-Executive Director on 14 May 2020.

7 Todd Hunt retired as a director on 14 May 2020.

8 Ian Tyler retired as Non-Executive Chair of the Company on 31 December 2020.

9 The Non-Executive Directors are not eligible to participate in the annual bonus scheme.

Executive Directors' Base Salaries During 2020

Based on a review carried out in November 2019, the following salary increases for Executive Directors became effective on 1 January 2020:

2020 Annual Salary Details

	Job title	Annual salary as at 31 December 2019	**Annual salary as at 1 January 2020**	% increase with effect from 1 January 2020
Current directors				
Simon Thomson	Chief Executive	£576,844	**£586,650**	1.7%
James Smith	CFO	£375,183	**£381,561**	1.7%

The increases shown in the above table for both Simon Thomson and James Smith were consistent with the level of standard annual salary increase awarded to other employees on 1 January 2020.

Executive Directors' Pension Provision During 2020 (Audited)

In accordance with the terms of the Directors' Remuneration Policy described on pages 113 to 117, the Company operates a defined contribution, non-contributory Group personal pension plan which is open to all UK permanent employees. During 2020, the Company contributed 10% of basic annual salary (15% in respect of current Executive Directors) on behalf of all qualifying employees.

As explained in the Chair's Annual Statement on pages 94 and 95, the committee has decided that, with effect from 1 January 2023, the above contribution rates will be aligned so that all employees and Executive Directors will benefit from an annual Company pension contribution of 12.5% of basic salary.

The Company also has a pension committee which meets on a regular basis to assess the performance and suitability of the Company's pension arrangements.

James Smith is a member of the Company scheme and, during the year, received Company contributions up to his statutory annual allowance. The balance of his 15% of basic salary entitlement was paid as additional salary.

During the year, Simon Thomson received an amount equal to 15% of his annual basic salary in the form of additional salary as his pension arrangements have already reached the relevant lifetime limit.

Details of the actual amounts of pension contributions/additional salary that were paid to the Executive Directors during 2020 are set out in the "pension" column of the single total figure table on page 98.

Annual bonus – 2020 structure and outcome (audited)

During 2020, Cairn operated an annual bonus scheme for all employees and Executive Directors. The maximum level of bonus award for Executive Directors and certain PDMRs for the year was 125% of annual salary.

For all participants other than the Executive Directors, 2020 bonus awards were based on achievement against a mixture of personal objectives and Group-wide KPIs. When determining the level of award attributable to the personal performance element of these individuals' bonuses, consideration was also given to the extent to which they demonstrated the Company's "high performance behaviours" during the period and also the level of their understanding, application and compliance with the Company's various standards and policies. The final level of all bonuses awarded to employees below Executive Director/PDMR level was reviewed and approved by the committee.

Consistent with the approach adopted in 2019, 100% of each Executive Director's bonus opportunity for the year to 31 December 2020 was determined by reference to the extent to which certain Group KPIs were achieved. Taking into account commercial sensitivities around disclosure, a summary of the relevant targets, ascribed weightings, payment scales and achievement levels is set out below.

2020 Annual Bonus Scheme – Group KPI Performance Conditions (100% Weighting) and Achievement Levels

KPI measures and performance achieved in 2020				Weighting	Bonus awarded	KPI remuneration committee decision
Purpose	2020 KPI	Measurement and payment scale	2020 performance	(as % of allocated proportion of maximum opportunity)		
Maintain licence to operate						
Deliver value in a safe, secure and environmentally and socially responsible manner.	– 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. – Establish a consistent methodology for estimating carbon intensity of existing and proposed new assets for use in strategic decision-making. – 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.	– Achievement of leading indicators linked to the categories listed. – Lagging indicators set in line with IOGP targets and guidelines.	– 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 level. – Energy efficiency methodology for the Group's operated E&A activities has been developed.	15%	13.5%	Substantially achieved
Portfolio management						
Portfolio optimisation and replenishment.	– Secure new venture opportunities that meet the corporate hurdles and have risk levels consistent with our Risk Appetite Statement.	– Each new opportunity will be measured against tests of control, materiality and commercial robustness.	– 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 C1-301 and C1-302.	5%	3.5%	Partially achieved

KPI measures and performance achieved in 2020				Weighting	Bonus awarded	KPI remuneration committee decision
Purpose	2020 KPI	Measurement and payment scale	2020 performance	(as % of allocated proportion of maximum opportunity)		
Deliver exploration success						
Grow the reserves and resources base to provide a basis for future growth.	– 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.	– Measured by the number of prospects progressed to 'drill-ready' status on an operated and non-operated basis. – Measured by the execution of the drilling and evaluation of wells. – Scored according to the net 2C potentially commercial resources added from exploration drilling and reported in 2020 reserves and resources report.	– 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.	25%[1]	9%	Partially achieved
Progress developments						
Progress Senegal development projects.	– Achieve certain milestones on the Sangomar (formerly SNE) development in categories of subsurface, wells, subsea, FPSO and project controls.	– Measured against pre-set project milestones relating to specific aspects of the development of Sangomar.	Prior to the sale of Sangomar: – Three of the five project execution milestones relating to subsea, FPSO and project controls were fully met. – Two remaining milestones, subsurface and wells, were substantially met.	10%	9%	Substantially achieved
Production performance						
Maximise revenues through efficient operations.	– Deliver Group production in line with guidance for 2020.	– Production delivery assessed against production guidance communicated to the market in January 2020 of between 19,000 and 23,000 bopd net to Cairn.	– Out-turn production from Kraken and Catcher during 2020 was within guidance at approximately 21,350 bopd net to Cairn.	10%	6%	Partially achieved
Deliver a sustainable business						
Manage balance sheet strength.	– 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.	– Ensure adequate sources of funding through debt financing, cash flow generation, portfolio optimisation and/or hedging strategies to support our committed expenditure. – Receipt of award in Cairn's favour in the Indian arbitration.	– 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$525 million 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.	35%[1]	34%	Substantially achieved
			Totals	**100%**	**75%**	

Notes:

[1] As explained in the Chair's Annual Statement on page 95, the committee exercised its discretion during 2020 and adjusted the weightings ascribed to the "Deliver exploration success" and "Deliver a sustainable business" KPIs. The weighting for the former was decreased from 35% to 25% and, in the case of the latter, it was increased from 25% to 35%. These adjustments reflected a significant re-calibration of the business's overall strategy that occurred during the year and were intended to ensure that there was an increased focus on financial stability.

2020 Annual Bonus Scheme – Overview of Awards and Actual Payments Made

The application of the outturn from the above performance condition assessments resulted in the following bonuses becoming payable to Simon Thomson and James Smith:

		Simon Thomson	**James Smith**
		Group KPI measures	Group KPI measures
Award elements	Weighting (as % of max. bonus opportunity)	100%	100%
	x		
	Achievement level	75%	75%
	=		
	Award percentage (as % of max. bonus opportunity)	75%	75%
Award calculation	Max. bonus opportunity (as % of salary)	125%	125%
	x		
	Award percentage (as calculated above)	75%	75%
	=		
	Total award (as % of salary)	93.75%	93.75%
	Total award (as an amount)	£549,984	£357,713
Form of payment	Cash payment[1]	£549,984	£357,713
	Deferred share award[2]	£0	£0

Notes:

[1] Cash payments due under the annual bonus scheme were paid to the relevant individuals shortly after completion of the assessment of the relevant performance measures and conditions.

[2] Under the Company's annual bonus scheme for 2020, any amounts awarded in excess of 100% of salary would have been delivered in the form of share awards granted under the Company's Deferred Bonus Plan.

Before the above bonuses were finalised, the award levels produced by the application of the various targets were reviewed by the committee in the context of the Company's overall financial and operational performance during 2020. The conclusion reached was that the amounts to be paid to participants were appropriate and fairly reflected the resilient nature of the business and its achievements over the year. As a result, there was no requirement for the committee to make any adjustments pursuant to its overarching discretion under the annual bonus scheme, details of which are set out in the Directors' Remuneration Policy.

Long Term Incentives During 2020

Introduction

During the year to 31 December 2020, the Executive Directors participated in the Company's 2017 LTIP (which was approved by shareholders at the AGM held on 19 May 2017).

The 2017 LTIP enables selected senior individuals to be granted conditional awards or nil-cost options over ordinary shares, the vesting of which is normally dependent on both continued employment with the Group and the extent to which pre-determined performance conditions are met over a specified period of three years.

Overview of Performance Conditions

For the awards granted to Executive Directors under the 2017 LTIP during 2017, 2018, 2019 and 2020, the performance conditions are comprised of two distinct elements, namely:

– Conditions applicable to the "core award"

The first condition applies to that element of each award which is over ordinary shares worth 200% (160% in the case of the 2020 grants) of the individual's salary (the "core award") and involves an assessment of the Company's TSR performance over a three-year performance period (commencing on the date of grant) relative to the performance achieved by a pre-determined comparator group of companies in the same sector (details of which are set out on page 108). Vesting will then take place as follows:

Ranking of Company against the comparator group	Percentage of ordinary shares comprised in core award that vest
Below median	0%
Median	25%
Upper quartile or above	100%
Between median and upper quartile	25%–100% on a straight line basis

– Conditions applicable to the "kicker award"

The second condition applies to the remaining part of each grant (the "kicker award"), being an element that is granted over ordinary shares worth 50% (40% in the case of the 2020 awards) of salary. This part of the award will vest in full if, over the same three-year measurement period (i) the Company achieves an upper quartile ranking (or above) in the comparator group; and (ii) the TSR actually achieved by the Company is at least 100%. For the avoidance of doubt, if either of these requirements is not satisfied, no part of the kicker award will vest.

No part of an award granted under the 2017 LTIP during 2019 and earlier years will vest unless the remuneration committee is satisfied that there has been an overall satisfactory and sustained improvement in the performance of the Company as a whole over the performance period. In the case of awards granted in 2020 and later years, the committee retains the discretion to reduce the vesting level produced by the formulaic operation of the performance conditions described above in circumstances where, based on its independent judgement, it considers it appropriate to do so (e.g. where the outturn from the assessment of the prescribed targets is not, in the committee's view, a genuine reflection of the underlying performance of the Company).

Summary of Vesting Terms, Holding Periods and Clawback Arrangements

In the case of the grants made under the 2017 LTIP to Executive Directors, all awards will normally be subject to a holding period of two years following vesting, at the end of which the ordinary shares to which the holder has become entitled will be released or become exercisable. For the avoidance of doubt, this additional holding period applies to both the core and kicker awards (see above).

As noted in the Directors' Remuneration Policy, awards granted under the 2017 LTIP are subject to clawback provisions which may be operated by the committee where, in the period of three years from the end of the applicable performance period, it becomes aware of either a material misstatement of the Company's financial results or an error in the calculation of performance metrics which, had it been known at the relevant time, would have reasonably been expected to have resulted in a lower vesting percentage being determined. The circumstances in which clawback can be applied in respect of awards vesting on or after 1 January 2020 were expanded also to include cases of gross misconduct and corporate failure, due to the conduct of management, which results in the appointment of a liquidator or administrator.

Where clawback is to be operated in respect of an award, the committee has a range of different mechanisms by which value can be recovered from the relevant individual including the reduction of future bonuses, the application of a reduction in the number of shares over which other incentive awards vest or are exercisable and requiring the individual to make a cash payment to the Company.

All outstanding awards under the 2017 LTIP have been granted on terms that participants will receive a payment (in cash and/or shares) on or shortly following the settlement of their awards, of an amount equivalent to the dividends that would have been payable on the shares acquired between the date of grant and the expiry of any applicable holding period. Where required, the committee will decide the basis on which the value of such dividends shall be calculated, which may assume the reinvestment of dividends. The rules of the 2017 LTIP also give the committee the discretion to disapply these provisions in relation to all or part of any special dividend. As highlighted in the Chair's Annual Statement on page 96, this discretion was exercised by the committee in relation to the special dividend paid by the Company on 25 January 2021 on the basis that the economic position of participants in the 2017 LTIP was effectively preserved through the operation of the share consolidation that formed part of the return of cash mechanism.

LTIP Awards Granted During 2020 (Audited)

On 28 July 2020, the following awards under the 2017 LTIP were granted to Executive Directors:

	Description of award	Form of award	Basis of award granted[3]	Share price at date of grant[4]	No. of shares over which award originally granted	Face value (£'000) of shares over which award originally granted[5]	% of shares over which award originally granted that vest at threshold	Vesting determined by performance over
Directors								
Simon Thomson	Core award	Nil-cost option	1.6 x base salary of £586,650	£1.323	709,478	£939	25%	3 years until 27 July 2023
	Kicker award	Nil-cost option	0.4 x base salary of £586,650	£1.323	177,369	£235	100%	
James Smith	Core award	Nil-cost option	1.6 x base salary of £381,561	£1.323	461,449	£611	25%	3 years until 27 July 2023
	Kicker award	Nil-cost option	0.4 x base salary of £381,561	£1.323	115,362	£153	100%	

Notes:

1 Details of the performance conditions applicable to the awards granted in 2020 are provided on page 105.

2 No price is payable by participants for their shares on the exercise of a nil-cost option granted under the LTIP.

3 Cairn's normal practice is to grant awards on the basis of 2 x salary (in the case of the "core" award) and 0.5 x salary (for the "kicker" award). These reduced grant levels in 2020 reflect the decision of the committee that is outlined in the Chair's Annual Statement on page 95.

4 This figure represents the closing mid-market price of a share in the Company for the dealing day immediately preceding the date of grant. (The actual closing price on 28 July 2020 was £1.354.)

5 The values shown in these columns have been calculated by multiplying the "number of shares over which the award was originally granted" by the "share price at date of grant".

6 In the period following the grant of the above awards, no change was made to their exercise price or the date on which they will become exercisable.

LTIP – Awards Vesting During the Year (Audited)

On 22 May 2020, the three-year performance period applicable to the awards granted under the 2017 LTIP on 23 May 2017 to various participants (including the Executive Directors) came to an end. Thereafter, the remuneration committee assessed the relevant performance conditions. The results of this assessment, which was completed on 28 May 2020, can be summarised as follows:

Award	Performance measure	% of award subject to measure	Performance achieved 2017-2020	% of award vested
Core award	Relative TSR performance against a comparator group of 17 companies.	100%	Cairn's TSR over the period placed it between the eighth and ninth highest ranked companies in the comparator group. After a careful consideration of a variety of factors, the committee also concluded that there had been a sustained improvement in the overall performance of the Company over the three years in question.	34.29%
Kicker award	For any part of the kicker award to vest, (i) the Company must achieve at least an upper quartile ranking in the above comparator group; and (ii) the TSR actually achieved by the Company must be at least 100%.	100%	As Cairn's ranking in the comparator group was below upper quartile, no part of the kicker award vested and it lapsed immediately on completion of the committee's above noted assessment.	0%

Notes:

1 Further details of the performance conditions that applied to the above awards are set out on page 105.

2 At various points in the period 23 May 2017 to 22 May 2020, the committee was required to determine (in accordance with the approved remuneration policy in place at that time) the treatment of those comparator group companies that delisted. No other discretions relating to the vesting of the awards were exercised by the remuneration committee during or after the relevant performance period.

3 The TSR calculations used to inform the committee's determinations in relation to the above awards were independently verified by Ernst & Young LLP.

The following table shows, for each of the Executive Directors, details of the 2017 LTIP awards that vested during the year:

	Description of award	Form of award	Date of grant	No. of shares over which award originally granted	Date of vesting	% of award to vest as per performance condition assessment	No. of shares that vested[1]	Value of shares vesting[2]	Amount of vesting value attributable to share price appreciation[3]
Current Director									
Simon Thomson	Core award	Nil-cost option	23/05/17	513,700	28/05/20	34.29%	176,128	£219,808	£0
	Kicker award	Nil-cost option	23/05/17	128,425	28/05/20	0%	0	£0	£0
James Smith	Core award	Nil-cost option	23/05/17	334,114	28/05/20	34.29%	114,555	£142,965	£0
	Kicker award	Nil-cost option	23/05/17	83,528	28/05/20	0%	0	£0	£0

Notes:
1 Following their vesting, the above awards became subject to a two-year holding period during which they cannot normally be exercised.
2 The values shown in this column (which are included in the single total figure table for 2020) have been calculated by multiplying the number of shares that vested by £1.248, being the closing mid-market price of a share in the Company on the day such vesting occurred.
3 On the basis that the price of an ordinary share was lower at the date of vesting of these awards (£1.248) than at their date of grant (£2.18), no part of the vesting value is attributable to share price appreciation.
4 No discretions were exercised in relation to the awards set out in the above table as a result of share price appreciation or depreciation.

LTIP – Awards Exercised During 2020 (Audited)

No LTIP awards were exercised by the Executive Directors during the year to 31 December 2020.

LTIP – Other Awards Held by Executive Directors During the Year

For the sake of completeness, and in order to allow comparisons to be made with the awards granted during 2020, set out below are details of the other unvested awards under the 2017 LTIP that were held by the Executive Directors during the year:

	Date of grant	Plan	Description of award	Form of award	Basis of award granted	Share price at date of grant[2]	No. of shares over which award originally granted	Face value (£'000) of shares over which award originally granted[3]	% of shares over which award originally granted that vest at threshold	Vesting determined by performance over three years until…
Directors										
Simon Thomson	28/03/18	2017 LTIP	Core award	Nil-cost option	2 x base salary of £565,533	£2.11	536,050	£1,131	25%	27/03/21
		2017 LTIP	Kicker award	Nil-cost option	0.5 x base salary of £565,533	£2.11	134,012	£283	100%	
	13/03/19	2017 LTIP	Core award	Nil-cost option	2 x base salary of £576,844	£1.677	687,947	£1,154	25%	12/03/22
		2017 LTIP	Kicker award	Nil-cost option	0.5 x base salary of £576,844	£1.677	171,986	£288	100%	
James Smith	28/03/18	2017 LTIP	Core award	Nil-cost option	2 x base salary of £367,826	£2.11	348,650	£736	25%	27/03/21
		2017 LTIP	Kicker award	Nil-cost option	0.5 x base salary of £367,826	£2.11	87,162	£184	100%	
	13/03/19	2017 LTIP	Core award	Nil-cost option	2 x base salary of £375,183	£1.677	447,444	£750	25%	12/03/22
		2017 LTIP	Kicker award	Nil-cost option	0.5 x base salary of £375,183	$1.677	111,861	£188	100%	

Notes:
1 Further details of the performance conditions that apply to these awards are set out on page 105.
2 This figure represents the closing mid-market price of a share in the Company for the dealing day immediately preceding the relevant date of grant.
3 The values shown in this column have been calculated by multiplying the relevant "number of shares over which the award was originally granted" by the appropriate "share price at date of grant".
4 During 2020, no changes were made to the exercise prices of the above awards or the date on which they will become exercisable.

Comparator Group Companies Applicable to LTIP Awards

The table below provides details of the comparator groups applicable to each tranche of awards granted under the 2017 LTIP to Executive Directors that were outstanding during 2020.

	Comparator group applicable to LTIP awards granted on...			
Company	23/05/17	28/03/18	13/03/19	28/07/20
Africa Oil Corp.	✓	✓	✓	✓
Aker BP ASA (formerly named Det Norske Oljeselskap ASA)	✓	✓	✓	✓
DNO ASA	✓	✓	✓	✓
Energean PLC (formerly named Energean Oil & Gas PLC)			✓	✓
EnQuest PLC	✓	✓	✓	✓
Faroe Petroleum PLC*	✓			
Genel Energy PLC	✓	✓	✓	✓
Hurricane Energy PLC			✓	✓
Kosmos Energy Limited	✓	✓	✓	✓
Lundin Energy AB (formerly named Lundin Petroleum AB)	✓	✓	✓	✓
Nostrum Oil & Gas PLC	✓	✓	✓	✓
Ophir Energy PLC*	✓			
Pharos Energy PLC (formerly named SOCO International PLC)	✓	✓	✓	✓
Premier Oil PLC	✓	✓	✓	✓
Rockhopper Exploration PLC	✓	✓	✓	✓
Santos Limited	✓	✓	✓	✓
Seplat Petroleum Development Company PLC	✓	✓	✓	✓
Sound Energy PLC	✓	✓	✓	✓
Tullow Oil PLC	✓	✓	✓	✓

* Denotes companies that have delisted during the applicable performance period. For awards granted under the 2017 LTIP, the committee's normal policy is to remove from the relevant comparator group any company that has delisted less than half way through the applicable performance period. For delistings that occur after that time, the relevant company is retained and moved in line with the remaining members of the group.

Participation of Executive Directors in All-Employee Share Schemes During 2020

Introduction

In order to encourage increased levels of long-term share ownership amongst its general employee population, the Company launched an HM Revenue and Customs approved SIP in April 2010. The SIP provides eligible employees, including the Executive Directors, with the following benefits:

- "Partnership shares" – employees can authorise deductions of up to £1,800 per tax year from pre-tax salary, which are then used to acquire ordinary shares on their behalf.
- "Matching shares" – the Company can award further free shares to all participants who acquire partnership shares on the basis of up to two matching shares for every one partnership share purchased. For the tax year 2020/2021, the Company awarded two matching shares for every one partnership share purchased and intends to continue using this award ratio for the tax year 2021/2022.
- "Free shares" – employees can be given up to £3,600 worth of ordinary shares free in each tax year. On 15 April 2020, an award of free shares was made to employees.

In certain circumstances, the rules of the SIP also allow participants to reinvest dividends paid on their plan shares in further "dividend shares".

As highlighted in the Chair's Annual Statement, the Company's Executive Directors elected not to receive any benefit from the SIP during 2020. In particular, they opted-out of the free share award made on 15 April 2020 and chose not to make any partnership share acquisitions (with the result they did not receive any award of corresponding matching shares).

As the SIP is an "all-employee" arrangement, no performance conditions are imposed in relation to any matching or free shares awarded pursuant to its terms.

Details of Executive Directors' SIP Participation in 2020

Details of the shares purchased by and awarded to the Executive Directors under the SIP during the course of the year are as follows:

	Total SIP shares held at 01/01/20	Free shares awarded during 2020	Partnership shares awarded during 2020	Matching shares awarded during 2020	Total SIP shares held at 31/12/20
Directors					
Simon Thomson	34,536	0	0	0	34,536
James Smith	26,241	0	0	0	26,241

The total number of shares held by each of the current Executive Directors under the SIP is included in their beneficial shareholdings disclosed in the Directors' Report on page 122.

Shareholding Guidelines for Directors (Audited)

A formal share ownership policy for Executive Directors has been in place for a number of years under which they are required, during employment, to build up and maintain a target holding, currently equal to 200% of salary. In addition, and with effect from 14 May 2020, being the date the Directors' Remuneration Policy set out on pages 113 to 117 was approved by shareholders, Executive Directors (and certain other senior managers) are normally obliged to maintain a specified holding of shares for a period of two years following cessation of employment. Further details of the terms of this policy are set out on page 118.

The following table discloses the beneficial interest of each Director in the ordinary shares of the Company as at 31 December 2020 (or date of cessation of directorship, if earlier). It also highlights the fact that, on 1 January 2021, the "in service" element of the above shareholding requirements were satisfied by both Simon Thomson, Chief Executive, and James Smith, CFO.

	Shares held			Awards over shares under the LTIP			Compliance with shareholding requirements	
							In service requirement	Post-cessation requirement
	Ordinary shares[2]	Ordinary shares held in the SIP[3]	Total holding of ordinary shares	Ordinary shares subject to vested but unexercised awards[4]	Ordinary shares subject to unvested awards[5]	Total interest in ordinary shares	Value of holding as a % of salary on 1 January 2021[6,7]	Value of holding as a % of salary on 1 January 2021[6,8]
Executive Directors								
Simon Thomson	1,311,386	34,536	1,345,922	176,128	2,416,842	3,938,892	387%	25%
James Smith	524,403	26,241	550,644	114,555	1,571,928	2,237,127	253%	25%
Non-Executive Directors								
Nicoletta Giadrossi	–	–	–	–	–	–	–	–
Keith Lough	–	–	–	–	–	–	–	–
Peter Kallos	10,982	–	10,982	–	–	10,982	–	–
Alison Wood	–	–	–	–	–	–	–	–
Catherine Krajicek	–	–	–	–	–	–	–	–
Erik B. Daugbjerg	–	–	–	–	–	–	–	–
Former director								
Todd Hunt[9]	72,012	–	72,012	–	–	72,012	–	–
Ian Tyler	–	–	–	–	–	–	–	–
	1,918,783	**60,777**	**1,979,560**	**290,683**	**3,988,770**	**6,259,013**		

Notes:

1 Details of the Company's share ownership policies for Executive Directors are set out on page 118.

2 Includes shares held by connected persons.

3 Under the rules of the SIP, certain shares awarded to participants must be retained in the plan for a specified "holding period" of up to five years. The receipt of these shares is not subject to the satisfaction of performance conditions.

4 This column shows all vested but unexercised awards under the LTIP that were held by the director concerned as at 31 December 2020.

5 This column shows all unvested and outstanding awards under the LTIP that were held by the director concerned as at 31 December 2020 (i.e. including those granted during the year). Details of these entitlements, the vesting of which is subject to the satisfaction of performance conditions, are set out on pages 106 and 107.

6 Share price used is the average share price for the period of 90 days up to and including 31 December 2020.

7 This holding includes (i) all shares currently held by the individual; and (ii) the net-of-tax number of all shares subject to vested but unexercised LTIP awards.

8 This holding includes the net-of-tax number of all shares subject to vested but unexercised LTIP awards.

9 Todd Hunt retired as a director on 14 May 2020 and the disclosure in the above table represents his beneficial interest in the ordinary shares of the Company as at that date.

Dilution of Share Capital Pursuant to Share Plans During 2020

In any 10-year rolling period, the number of ordinary shares which may be issued in connection with the Company's "discretionary share plans" (which includes the LTIP and the share option/award schemes used to incentivise less senior employees) cannot exceed 5% of the Company's issued ordinary share capital.

In addition, in any 10-year rolling period, the number of ordinary shares which may be issued in connection with all of the Company's employee share schemes (whether discretionary or otherwise) cannot exceed 10% of the Company's issued ordinary share capital.

It should also be noted that all shares acquired by or awarded to participants under the SIP and the Deferred Bonus Plan are existing ordinary shares purchased in the market. As a result, neither the SIP nor the Deferred Bonus Plan involves the issue of new shares or the transfer of treasury shares.

Board Appointments with Other Companies During 2020

The Board believes, in principle, in the benefits of Executive Directors accepting positions as Non-Executive Directors of other companies in order to widen their skills and knowledge for the benefit of the Company, provided that the time commitments involved are not unduly onerous. The Executive Directors are permitted to retain any fees paid for such appointments.

The appointment of any Executive Director to a non-executive position with another company must be approved by the nomination committee. In the case of a proposed appointment to a company within the oil and gas industry, permission will only normally be given if the two companies do not compete in the same geographical area.

Details of the non-executive positions with other companies that were held by Cairn's Executive Directors during 2020, and the fees that were payable, are as follows:

	Position held	**Fees received for the year to 31/12/20**
Current directors		
Simon Thomson	Non-Executive Director, Graham's The Family Dairy Limited	**£35,000**
	Non-Executive Director, Edinburgh Art Festival	**£0**

Relative Importance of Spend on Pay

Set out below are details of the amounts of, and percentage change in, remuneration paid to or receivable by all Group employees and distributions to shareholders in the years ended 31 December 2019 and 2020.

	Financial Year 2019	**Financial Year 2020**	% change
Employee costs (US$m)	39.1	**33.6**	(14.1)%[1]
Distributions (US$m)[2]	0	**0**	0%

Note:

1 This fall in employee costs during 2020 is largely attributable to the headcount reduction that resulted from the disposal of Capricorn Norge AS.

2 For the purposes of the above table, "Distributions" include amounts distributed to shareholders by way of dividend and share buyback.

Implementation of Remuneration Policy in 2021

The following table provides details of how the Company intends to implement the key elements of the current Directors' Remuneration Policy described in pages 113 to 117 during the year to 31 December 2021.

Remuneration element	Implementation during 2021
Base salary	Both of the Executive Directors received a 1% increase in base salary on 1 January 2021 – this was in line with the standard annual increase awarded to other employees on that date. After applying this increase, details of the base salaries payable to both the current Executive Directors for the year to 31 December 2021 are as follows: – Simon Thomson, Chief Executive – £592,517; and – James Smith, CFO – £385,377.
Benefits	Executive Directors will continue to receive the same benefits as in 2020.
Annual bonus	In accordance with the requirements of the policy, Executive Directors will be eligible to receive a bonus of up to 125% of base salary depending on the extent to which specified measures are satisfied over 2021. However, any bonus awarded to an Executive Director in excess of 100% of salary will be deferred into Cairn shares for a period of three years. The whole of the Chief Executive's and CFO's 2021 bonus opportunity will be based on the Group KPIs described below (with details of the weightings specified in brackets): – **ESG and HSSE (17.5%);** • Achieve a number of specified leading indicators that support Company policies and standards in relation to HSSE and corporate responsibility; focusing on matters identified in our materiality matrix, governance and people. • 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 & TCFD frameworks. – **New Ventures (20%);** • 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. – **Production (20%);** • Convert resources to reserves. • Deliver net production and operating costs within guidance targets. – **Financial Performance (25%);** • Demonstrate balance sheet strength reflected in three categories: meeting financial tests in line with funding strategy; portfolio management; and recovery of Indian arbitration proceeds. – **Corporate Projects (17.5%)** • Develop and execute corporate projects to enhance the portfolio, consistent with the Group Risk Appetite Statement. The overall categories and weightings for these KPIs were agreed by the Board, with the specific targets to be used for the purposes of the 2021 bonus scheme being set by the remuneration committee (which will also be responsible for their assessment at the end of the year). The committee has also determined a payment scale (including threshold, target and maximum levels) for each measure that will ultimately be used to calculate the amount of an individual's award. The choice of metrics for 2021 and their weightings reflects Cairn's focus on the upstream stages of the oil and gas lifecycle. In line with this focus, Cairn does not utilise strict financial performance KPIs. Instead, relevant elements of financial performance are incorporated more broadly into the KPI structure, including our focus on retaining balance sheet strength, delivering efficient operations and maturing our developments. Precise details of the targets and payment scale to be used for the 2021 plan are commercially sensitive and have not, therefore, been set out above. However, appropriate disclosures will be included in next year's Annual Report on Remuneration.

Remuneration element	Implementation during 2021
LTIP	It is intended that, during the early part of 2021, the Executive Directors will be granted awards pursuant to the rules of the 2017 LTIP. These awards will, in aggregate, be over shares worth 250% of salary and will take the following forms: – a "core award" over shares worth 200% of salary – the vesting of which will be dependent on relative TSR performance over a three year period versus a comparator group of peer companies (with 25% vesting for a median ranking rising on a straight-line basis to 100% vesting for upper quartile performance); and – a "kicker award" over shares worth 50% of salary – vesting will be conditional on achieving both an upper quartile ranking in the comparator group and absolute TSR growth over the performance period of at least 100%. All shares that vest in relation to an award (whether "core" or "kicker") will be subject to an additional two-year holding period. The comparator group against which the relative performance conditions are assessed will be the same as the one used for the purposes of the LTIP grants made in 2020.
SIP	Executive directors will be given the opportunity to participate in the SIP on the same terms as apply to all other eligible employees in the arrangement.
Pension	During 2021, the Company will continue to contribute 15% of basic salary on behalf of the current Executive Directors or pay them an equivalent amount of additional salary. In accordance with the policy, the rate of pension contributions for any new appointees to the Board will be capped at a level that is equal to the amount paid to the wider UK employee population.
Non-Executive Directors' fees	For 2021, both the annual Non-Executive Director fee and the additional annual fee for chairing the audit and/or remuneration committees remain unchanged at £75,500 and £10,000 respectively.
Chair's fees	The annual Chair's fee for 2021 has been maintained at £180,000, being the same level that was paid in 2020.

Part 3 – Directors' Remuneration Policy

Introduction

At the AGM held on 14 May 2020, shareholders overwhelmingly approved a new Directors' Remuneration Policy for the Company. This policy, which specifies the various pay structures operated by the Company and summarises the approach that the committee will adopt in certain circumstances such as the recruitment of new directors and/or the making of any payments for loss of office, became effective immediately on receipt of that approval and was applied by the committee during 2020. This policy will also be operative throughout 2021.

Although not required by the Regulations, the substantive terms of the above Directors' Remuneration Policy are repeated in this Part 3 for ease of reference. However, any details that were specific to 2020 or earlier years (including, for example, any disclosures relating to the decision-making process that was followed for determining the new policy and the illustrative remuneration scenarios set out on page 119) have, where applicable, either been omitted or updated to reflect the current position. The policy as originally approved by shareholders can be found on pages 97 to 106 of the 2019 Annual Report and Accounts, a copy of which is available on the Company website.

Purpose and Role of the Remuneration Committee

The remuneration committee determines and agrees with the Board the overall remuneration policy for the Executive Directors and the Group's PDMRs (Persons Discharging Managerial Responsibilities). Within the terms of this agreed policy, the committee is also responsible for:

- determining the total individual remuneration package for each Executive Director and the PDMRs;
- determining the level of awards made under the Company's LTIPs and employee share award schemes and the performance conditions which are to apply;
- determining the KPIs used to measure performance for the annual bonus scheme;
- determining the bonuses payable under the Company's annual bonus scheme;
- determining the vesting levels of awards under the Company's LTIPs and employee share award schemes; and
- determining the policy for pension arrangements, service agreements and termination payments for Executive Directors and PDMRs.

The committee also reviews the overall remuneration levels and incentive arrangements (including the Group-wide bonus scheme) for employees below senior management level but does not set individual remuneration amounts for such individuals. This oversight role allows the committee to take into account pay policies and employment conditions within the Group as a whole when designing the reward structures of the Executive Directors and PDMRs. For example, the committee considers the standard increase applied to basic pay across the Group when setting Executive Directors' base salaries for the same period.

The committee operates within written terms of reference agreed by the Board. These are reviewed periodically to ensure that the committee remains up-to-date with best practices appropriate to Cairn, its strategy and the business and regulatory environment in which it operates. The current version of the terms of reference are available on the Company's website.

Consultation with Relevant Stakeholders

The committee is always keen to ensure that, in carrying out its mandate, it takes into account the views and opinions of all the relevant stakeholders in the business.

During the early part of 2020, the committee continued to engage with a selection of the Company's larger institutional investors (i.e. primarily those holding 3% or more of our issued share capital), and a selection of proxy agencies, in relation to the new Directors' Remuneration Policy that was approved at the AGM held on 14 May 2020. A number of the features highlighted by shareholders during this exercise (including, for example, a desire for the pension benefits for new Executive Directors to be aligned to those offered to the wider workforce and a preference for the introduction of a post-employment shareholding requirement) were incorporated into the final policy.

Historically, the committee has not undertaken a formal consultation exercise with employees in relation to the Group's policy on senior management remuneration. Members of staff are, however, regularly given the opportunity to raise issues on a variety of matters, including executive pay, via a number of mechanisms such as the Company's Employee Voice Forum (which, during 2020, was hosted by Nicoletta Giadrossi), the attendance of Directors at team meetings and employee engagement surveys.

Overview of Current Remuneration Policy

Cairn's current policy on Executive Directors' remuneration, which became effective on 14 May 2020 and which is set out below, is to ensure that it appropriately incentivises individuals to achieve the Group's strategy to deliver value for stakeholders by building and maintaining a balanced portfolio of exploration, development and production assets, whilst offering a competitive package against the market.

A description of each of the elements comprised in the pay packages for Cairn's directors under its remuneration policy is as follows:

Policy Table – Elements of Directors' Remuneration Package

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Base salary	Helps recruit and retain employees. Reflects individual experience and role.	Normally reviewed annually (with changes taking effect on 1 January) and/or when otherwise appropriate, including when an individual changes position or responsibility. Aim is to provide a competitive base salary relative to the market (although the committee does not place undue emphasis on benchmarking data and exercises its own judgement in determining pay levels). Decision influenced by: – role and experience; – average change in broader workforce salaries; – individual performance; and – remuneration practices in companies of a broadly similar size and value and relevant oil and gas exploration and production companies.	Whilst the committee has not set a monetary maximum, annual increases will not exceed the level of standard increase awarded to other employees except that more significant increases may be awarded at the discretion of the committee in connection with: – an increase in the scope and responsibility of the individual's role; or – the individual's development and performance in the role following appointment; or – a re-alignment with market rates.	None
Benefits	Helps recruit and retain employees.	Directors are entitled to a competitive package of benefits. For UK executives, the major elements include a company car, permanent health insurance, private health insurance, death-in-service benefit and a gym and fitness allowance. The committee reserves the right to provide further benefits where this is appropriate in the individual's particular circumstances (for example costs associated with relocation as a result of the director's role with the Company). Executive directors are also eligible for other benefits which are introduced for the wider workforce on broadly similar terms.	Company cars up to a value of £70,000 (or, as an alternative, an annual car allowance of up to £8,771) may be provided. Other benefits are intended to be market competitive. The committee has not set a monetary maximum for other benefits as the cost of these may vary from time to time.	None

Directors' Remuneration Report continued

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Annual bonus	Rewards the achievement of annual KPIs and/or other objectives linked to the Company's strategic goals.	Bonuses are awarded by reference to performance against specific targets measured over a single financial year. Any amounts awarded to an individual under this arrangement up to 100% of salary are paid out in full shortly after the assessment of the performance targets has been completed. The remainder of the bonus will be deferred into an award of shares for a three-year period, or such other period as determined by the committee. Annual bonuses may be subject to clawback, and the extent to which deferred share awards vest may be reduced, if certain events occur in the period of three years from the end of the relevant financial year. These include the committee becoming aware of: – a material misstatement of the Company's financial results; – an error in the calculation of performance targets which, had it been known at the relevant time, would have reasonably been expected to have resulted in a lower award being made; – an act committed by the relevant participant that has (or could have) resulted in summary dismissal by reason of gross misconduct; or – a corporate failure which arose due to the conduct of management and which has resulted in the appointment of a liquidator or administrator. The detailed terms of the clawback mechanism applicable to the cash element of any annual bonus award are set out in an individual agreement entered into between the Company and the relevant executive director. This provides the committee with a variety of alternative means by which value can be recovered including: – the reduction of future bonus awards; – the application of a reduction in the number of shares in respect of which share awards would otherwise vest or be exercisable; and – requiring the individual to make a cash payment to the Company.	Maximum % of salary: 125%	The measures and targets applicable to the annual bonus scheme (and the different weightings ascribed to each of them) are set annually by the committee in order to ensure they are relevant to participants and take account of the most up-to-date business plan and strategy. All, or a significant majority, of the bonus opportunity will normally be determined by reference to performance against demanding Group KPIs such as: – exploration and new venture objectives; – development and production targets; and – HSE. The remaining part of a director's bonus (if any) will normally be based on the achievement of personal objectives relevant to that individual's role within the business. Where possible, a payment scale (ranging from 0% at 'threshold', not more than 50% at 'target' and 100% at 'maximum') for different levels of achievement against each KPI and/or other objective is specified by the committee at the outset of each year. The committee has discretion to vary the measures and weightings during the year if events arise which mean that it would be inappropriate to continue with the originally prescribed structure. The committee expects that this discretion will only be exercised in exceptional circumstances and not to make the bonus scheme for that year less demanding than when it was originally set. In addition, the committee has discretion to ensure that the ultimate bonus payment for a financial year is fair and reasonable and properly reflects performance over that period.

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
2017 Long Term Incentive Plan (or 2017 LTIP)	Incentivises executive directors to deliver long-term performance for the benefit of shareholders, thereby aligning the interests of the directors with those of the Company's investors.	The 2017 LTIP was established by the Company following receipt of the necessary shareholder approvals at the 2017 AGM. Awards will normally be made annually with vesting dependent on achievement of performance conditions chosen by the committee that are measured over a period of at least three years. Vesting of awards will generally take place on the third anniversary of grant or, if later, the date on which the performance conditions are assessed by the committee. All awards that vest will normally be subject to a holding period in terms of which the relevant shares will only be released/become exercisable after a further period of at least two years has expired from the vesting date. The committee reviews the quantum of awards annually, taking into account factors such as market rates and overall remuneration. The committee also retains the discretion to adjust award levels in circumstances where there has been a significant movement in the Company's share price. Under the rules of the 2017 LTIP, awards may be subject to malus and/or clawback provisions if certain events occur after their grant but before the expiry of the period of three years from the end of the relevant performance period. For awards vesting on or after 1 January 2020, these events include: – the committee becoming aware of a material misstatement of the Company's financial results; – the committee becoming aware of an error in the calculation of performance targets which, had it been known at the relevant time, would have reasonably been expected to have resulted in a lower award being made; – the relevant participant committing an act that has (or could have) resulted in summary dismissal by reason of gross misconduct; or – a corporate failure arising, due to the conduct of management, which has resulted in the appointment of a liquidator or administrator.	Normal total maximum % of salary: 250%.	Vesting of awards granted under the 2017 LTIP will be determined by the growth in Total Shareholder Return (TSR) of Cairn over a performance period of at least three years. Awards up to 200% of salary (the "core award") will be subject to TSR performance measured relative to a comparator group selected by the committee, with no more than 25% vesting at median and 100% for at least upper quartile performance. In order to focus on exploration success which leads to a material increase in the share price, once performance for the "core award" has been fully achieved, an additional element of up to 50% of salary can be earned if absolute TSR growth over the same performance period equals or exceeds 100% (the "kicker award"). The committee retains the discretion to reduce the vesting level produced by the formulaic operation of the TSR conditions in circumstances where, based on its independent judgement, it considers it appropriate to do so (e.g. where the outturn from the assessment of the prescribed targets is not, in the committee's view, a genuine reflection of the underlying performance of the Company). Although the committee's intention is that the above conditions will be applied to LTIP awards granted in 2021, it may decide to impose different (but equally challenging) conditions in future years. The committee will consult with major shareholders prior to making any such decision and will ensure that the vesting of at least 50% of all awards granted under the LTIP continues to be determined by reference to the Company's TSR performance.

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Share Incentive Plan (or SIP)	Encourages a broad range of employees to become long-term shareholders.	The Company established an HM Revenue and Customs approved share incentive plan in April 2010. It allows the Company to provide eligible employees, including the executive directors, with some or all of the following benefits: – partnership shares acquired using deductions from salary; – matching shares awarded to those employees who purchase partnership shares on the basis of a ratio specified by the Company; and – free shares. Matching and free shares awarded under the SIP must normally be held in the plan for a specified period.	Participation limits are those set by the UK tax authorities from time to time. These limits are currently as follows: – Partnership shares: up to £1,800 per tax year can be deducted from salary. – Matching shares: up to two matching shares for every one partnership share purchased. – Free shares: up to £3,600 worth in each tax year.	None
Pension	Rewards sustained contribution.	The Company operates a defined contribution group personal pension plan in the UK. The scheme is non-contributory and all UK permanent employees, including the executive directors, are eligible to participate. The Company contributes a specified percentage of basic annual salary for senior employees, including executive directors. Where an executive director has an individual personal pension plan (or overseas equivalent), the Company pays its contribution to that arrangement. If an executive director's pension arrangements are fully funded or applicable statutory limits are reached, an amount equal to the Company's contribution (or the balance thereof) is paid in the form of additional salary.	For current Executive Directors, the Company contributes 15% of basic salary on their behalf or pays them a cash equivalent. For any future appointees to the Board, the Company's pension contributions will be capped at a level that is equal to the amount paid to the wider UK employee population (currently 10% of basic salary).	None
Share ownership policy	Aligns executive director and shareholder interests and reinforces long-term decision-making.	During their employment, executive directors are obliged to build up and maintain a target holding of shares worth 200% of salary. Executive directors are also normally required to maintain a shareholding equal to 200% of final salary for a period of two years following cessation of employment. Further details relating to both the above requirements (including the particular shares to which they relate and the enforcement mechanisms that have been put in place) are set out on page 118.	Not applicable.	None

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Non-Executive Directors' fees	Helps recruit and retain high-quality, experienced individuals. Reflects time commitment and role.	Non-executive directors' fees are considered annually and are set by the executive members of the Board and the Chair taking into account a range of relevant factors including: – market practice; – time commitment; and – responsibilities associated with the roles. Additional fees are payable to the Chairs of the audit and remuneration committees and may be paid for other additional responsibilities. Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company, including any tax due on the expenses.	The Company's Articles of Association place a limit on the aggregate annual level of non-executive directors' and Chair's fees (currently £900,000).	None
Chair's fees	Helps recruit and retain the relevant individual. Reflects time commitment.	The Chair's fee is considered annually and is determined in light of market practice, the time commitment and responsibilities associated with the role and other relevant factors. Expenses incurred in the performance of the Chair's duties for the Company may be reimbursed or paid for directly by the Company, including any tax due on the expenses.	The Company's Articles of Association place a limit on the aggregate annual level of non-executive directors' and Chair's fees (currently £900,000).	None

Notes:

1 A description of how the Company intends to implement the policy set out in this table during the financial year to 31 December 2021 is provided on pages 110 and 111.

2 The following differences exist between the Company's above policy for the remuneration of directors and its approach to the payment of employees generally:
   - Participation in the LTIP is typically aimed at the Executive Directors and certain selected senior managers. Other employees are eligible to participate in the Employee Share Award Scheme (details of which are provided in section 4.4 of the notes to the financial statements, on pages 165 and 166.
   - Under the Company's defined contribution pension scheme, the Company contribution for all other employees (and any new executive directors appointed to the Board) is 10% of basic annual salary.
   - A lower level of maximum annual bonus opportunity applies to employees other than the executive directors and certain PDMRs.
   - Benefits offered to other employees generally comprise permanent health insurance, private health insurance, death-in-service benefit and gym and fitness allowance.

   In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the Executive Directors and PDMRs, a greater emphasis is placed on variable pay.

3 The TSR performance conditions applicable to the 2017 LTIP (further details of which are provided on page 105) were selected by the committee on the basis that they improve shareholder alignment and are consistent with the Company's objective of delivering superior levels of long-term value to shareholders. Under the terms of these performance conditions, the committee can specify the basis on which TSR for any company is calculated and has the discretion to make adjustments to this methodology to take account of exceptional circumstances, including share capital variations. Where any company becomes unsuitable as a member of the comparator group as a result of, for example, a change of control or delisting, the committee has the discretion to treat that company in such manner as it deems appropriate (including replacing it with another organisation).

4 Where a nil-cost option award under the 2017 LTIP becomes exercisable, it will generally remain so until the 10th anniversary of the date on which it was granted.

5 The choice of the performance metrics applicable to the annual bonus scheme reflect the committee's belief that any incentive compensation should be tied to appropriately challenging measures of both the overall performance of the Company against its strategic KPIs and (where appropriate) those areas that the relevant individual can directly influence.

6 The legislation applicable to the SIP does not allow performance conditions to be applied in relation to partnership or matching shares and, given that the SIP is an 'all-employee' arrangement, the Company has decided that it is currently not appropriate to apply performance conditions to free shares awarded under it, although the committee retains the discretion to apply performance conditions to future awards.

Shareholding Policy for Executive Directors

The committee believes that a significant level of shareholding by the Executive Directors strengthens the alignment of their interests with those of shareholders. Accordingly, the Company has a formal share ownership policy (which has been in place for a number of years) under which the Executive Directors are required to build up and maintain a target holding of 200% of salary. In order to facilitate the achievement of the above requirement, the share ownership policy provides that, until the necessary holding is achieved, an Executive Director is obliged to retain shares with a value equal to 50% of the net-of-tax gain arising from any vesting or exercise under the Company's share incentive plans.

In addition, and with effect from 14 May 2020, being the date this Directors' Remuneration Policy was approved by shareholders, Executive Directors (and certain other senior managers) are normally obliged to maintain a specified holding of shares for a period of two years following cessation of employment. In particular:

- the requirement is to maintain a post-employment holding of relevant shares equal to 200% of final salary;
- if this targeted holding has not been achieved at the point employment ceases, the requirement will apply to all relevant shares held at that time;
- "relevant shares" will include all shares acquired by the individual on the exercise of awards that vest under any of the Company's discretionary share plans, including the LTIP and the Deferred Bonus Plan, on or after 1 January 2020 (other than those that are sold in order to satisfy tax liabilities arising on exercise);
- shares subject to awards that vest on or after 1 January 2020 but which remain unexercised (e.g. because a holding or deferral period applies), or which have been granted under the Deferred Bonus Plan, will also count as "relevant shares", but on a net-of-tax basis;
- until such time as the 200% of salary target is achieved, any relevant shares acquired by an individual will be placed in a nominee structure;
- relevant shares held by or on behalf of an individual will also count towards the satisfaction of the existing share ownership policy that is described above;
- for the avoidance of doubt, any shares acquired by an individual other than pursuant to a discretionary share plan (e.g. purchases using his/her own resources) will not be subject to the post-employment holding requirement; and
- the committee will retain the discretion to reduce or waive the post-employment holding requirement in limited circumstances (such as on the death of the individual or where his/her personal circumstances change).

Common Terms of Share Awards

Awards under any of the Company's discretionary share plans referred to in this report may:

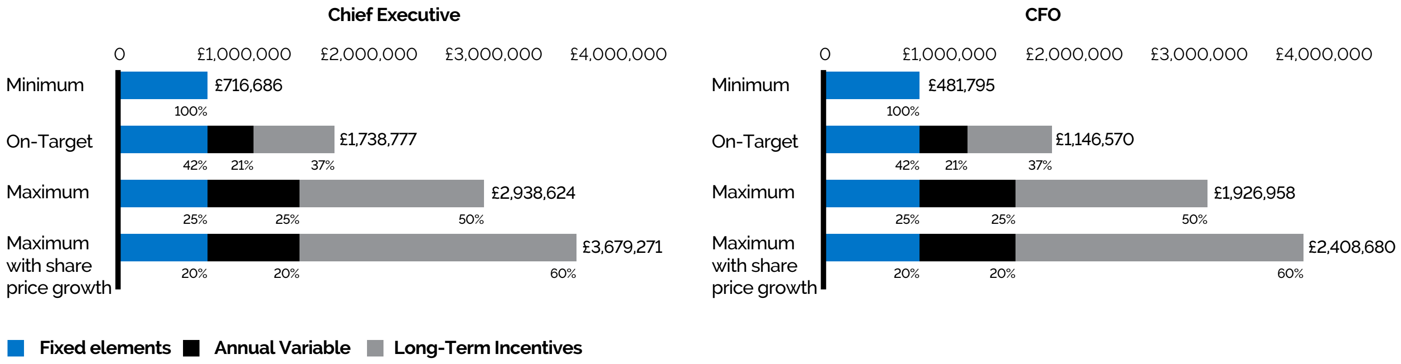
- be granted as conditional share awards or nil-cost options or in other such form that the committee determines has the same economic effect;
- have any performance conditions applicable to them amended or substituted by the committee if an event occurs which causes the committee to determine that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy;
- incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under the award that vest up to the time of vesting (or, where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- be settled in cash at the committee's discretion; and
- be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

Legacy Awards

The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 15 May 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Remuneration Scenarios Relating to the Above Policy

Cairn's pay policy seeks to ensure that the overall package of the Executive Directors is generally weighted more towards variable pay and, within such variable pay element, that greater emphasis is placed on the delivery of long-term performance through the award of long-term incentives. In the chart below, we show the make-up of remuneration of the current Executive Directors in 2021 under minimum, on-target and maximum scenarios. A further row has also been included which illustrates the impact on the figures contained in the maximum scenario of an assumed share price appreciation for the LTIP award of 50% over the relevant performance period.



In developing the above scenarios, the following assumptions have been made:

- The "minimum" rows are intended to show the fixed level of remuneration to which the Executive Directors are entitled in 2021 irrespective of performance levels, namely base salary (at current rates), benefits (using the details set out in the 2020 single total figure table provided on page 98) and pension (calculated by applying the percentage entitlement for those individuals set out in the policy table against latest confirmed salary).
- The "on-target" scenario seeks to illustrate the remuneration the Executive Directors would receive if performance was in line with expectation. In addition to the fixed elements summarised above, it assumes a specified level of payout/vesting under the annual bonus scheme and 2017 LTIP. In the case of the bonus scheme a 50% payout has been used. For on-target performance under the LTIP, the "kicker" element of the award would not vest. Therefore the illustration is based on 55% vesting of the "core award" of 200% of salary. This vesting level is broadly equal to the percentage applied in determining the grant date "fair value" of an LTIP award for the purposes of the Company's share-based payment charge.
- The "maximum" rows demonstrate total remuneration levels in circumstances where the variable elements pay out in full, namely an annual bonus payment of 125% of salary (with 100% of salary paid in cash and the balance delivered in the form of a deferred share award) and 100% vesting of LTIP awards to be granted in 2021 over shares worth 250% of salary.
- For the "maximum with share price growth" row, share price appreciation of 50% over the relevant performance period has been assumed for the LTIP awards. For all other rows, any post-grant share price movements have not been taken into account for the purposes of valuing LTIP and deferred bonus awards.
- The Executive Directors are entitled to participate in the SIP on the same basis as other employees. The value that may be received under this arrangement is subject to legislative limits and, for simplicity, has been excluded from the above chart.

Recruitment Policy

Base Salaries

Salaries for any new director hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. Where it is appropriate to offer a below-market salary initially, the committee will have the discretion to allow phased salary increases over time for newly appointed directors, even though this may involve increases in excess of the rate for the wider workforce and inflation.

Benefits

Benefits for new appointees to the Board will normally be provided in line with those offered to other Executive Directors and employees taking account of local market practice, with relocation expenses/arrangements provided for if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with Cairn. Legal fees and other reasonable costs and expenses incurred by the individual may also be paid by the Company. Pension provision for any new executive directors will be in accordance with the terms of the policy.

Variable Pay

For external appointments, the committee will ensure that their variable remuneration arrangements are framed in accordance with the terms of, and are subject to the limits contained in, the Company's existing policy.

The committee may however, in connection with an external recruitment, offer additional cash and/or share-based elements intended to compensate the individual for the forfeiture of any awards under variable remuneration schemes with a former employer. The design of these payments would appropriately reflect the value, nature, time horizons and performance requirements attaching to the remuneration foregone. Shareholders will be informed of any such arrangements at the time of appointment.

Where an individual is appointed to the Board, different performance measures may be set for the year of joining the Board for the annual bonus, taking into account the individual's role and responsibilities and the point in the year the executive joined.

For an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment.

Chair and Non-Executive Directors

On the appointment of a new Chair or Non-Executive Director, the fees will be set taking into account a range of relevant factors including market practice, time commitment and the responsibilities associated with the role. Where specific cash or share arrangements are delivered to Non-Executive Directors, these will not include share options or other performance-related elements.

Executive Directors' Service Contracts

Each of the current Executive Directors has a rolling service contract with an indefinite term that contains the key elements shown in the table below:

Provision	Detailed terms
Remuneration	– Salary, pension and benefits. – Company car or cash allowance. – Permanent health insurance. – Private health insurance for Director and dependants. – Death-in-service benefits. – 30 days' paid annual leave. – Participation in annual bonus plan, subject to plan rules. – Participation in Deferred Bonus Plan, LTIP and SIP, subject to plan rules.
Notice period[1]	– 12 months' notice by the Director or by the Company.
Termination payment	– See separate disclosure below.
Restrictive covenants	– During employment and for 6 months after leaving.
Contract date	– Simon Thomson – 29 June 2011. – James Smith – 4 February 2014.

Note:

[1] The committee believes that this policy on notice periods provides an appropriate balance between the need to retain the services of key individuals who will benefit the business and the need to limit the potential liabilities of the Company in the event of termination.

The Executive Directors' service contracts are available for inspection, on request, at the Company's registered office.

Exit Payment Policy for Executive Directors

Executive directors' contracts allow for termination with contractual notice from the Company or termination with a payment in lieu of notice, at the Company's discretion. The contracts also allow for phased payments to be made on termination with an obligation on the individual to mitigate loss. Neither notice nor a payment in lieu of notice will be given in the event of gross misconduct. The committee's approach when considering payments in the event of termination is to take account of the individual circumstances including the reason for termination and the contractual obligations of both parties as well as the relevant share plan and pension scheme rules.

In the event of termination by the Company, an Executive Director would be entitled to receive an amount representing base salary and the value of benefits and pension contributions due under the individual's service contract for the notice period. Directors are not entitled to participate in any additional redundancy scheme. The committee will have the authority to settle legal claims against the Group (e.g. for unfair dismissal, discrimination or whistleblowing) that arise on termination. The committee may also authorise the provision of outplacement services and pay reasonable legal expenses associated with the termination.

On termination of employment, the committee has discretion as to the amount of bonus payable in respect of the current year. The bonus paid would reflect the Company's and the individual's performance during that period. However, any bonus payable (in cash and/or share awards as determined by the committee) on termination would not exceed a pro-rated amount to reflect the period for which the individual had worked in the relevant year.

As a general rule, if an Executive Director ceases employment, all unvested share awards granted pursuant to the Company's deferred bonus arrangements will lapse immediately. However, if such cessation occurs by reason of death, injury, permanent disability, or because the individual's employing company or part of the business in which he/she is employed is transferred out of the Group, retirement with the agreement of the Company, or in any other circumstances determined by the committee other than where an individual has been summarily dismissed (in each case, a 'good leaver'), those awards will not lapse and will normally continue to vest at the end of the original vesting period. The committee may determine that a deferred bonus award should vest before the normal time in certain circumstances, for example where an individual has died. The committee also has the discretion to time pro-rate any awards held by such a good leaver.

As a general rule, if an Executive Director ceases employment, all unvested awards granted pursuant to the Company's 2017 LTIP will lapse immediately. However, if such cessation occurs by reason of death, injury, permanent disability, or because the individual's employing company or part of the business in which he/she is employed is transferred out of the Group, or in any other exceptional circumstances determined by the committee (in each case, a 'good leaver'), those awards will not lapse and will normally continue to vest at the end of the original performance period but only if, and to the extent that, the applicable performance conditions are satisfied. The committee may determine that an award should vest before the normal time in certain circumstances, for example where an individual has died. It is the remuneration committee's normal policy to time pro-rate any awards held by such a good leaver, although it retains the discretion to refrain from doing so in exceptional circumstances. Any holding period attached to the share awards would normally continue to apply.

If an Executive Director ceases employment, 2017 LTIP awards subject to a holding period will normally be released (or if structured as nil-cost options, become exercisable) on the original timescales. These awards will, however, lapse where cessation occurs due to the individual's gross misconduct, or if the committee considers it appropriate, the individual's bankruptcy. The committee has the discretion to accelerate the release of shares in certain circumstances, for example death.

On a change of control of the Company resulting in the termination of his employment, the current Chief Executive is entitled to compensation of a sum equal to his annual basic salary as at the date of termination of employment. As noted and explained in previous reports, the committee recognises that this provision is no longer in accordance with best practice. It was not included in the contract of the CFO that was entered into on his appointment in 2014, and will not be included in the contracts of other future appointees to the Board; however, it continues to apply to the current Chief Executive.

In the event of a change of control or winding up of the Company, treatment of share awards will be in accordance with the relevant plan rules. The committee has the discretion to disapply time pro-rating in the event of a change of control.

If there is a demerger or special dividend, the committee may allow awards to vest on the same basis as for a change of control.

Non-Executive Directors' Letters of Appointment

None of the Non-Executive Directors nor the Chairman has a service contract but all have letters of appointment that set out their duties and responsibilities, the time commitment expected by the Company, and the basis on which their fees will be paid. These letters of appointment have no fixed term but can be terminated with immediate effect by either the director concerned or the Company and are subject to the Company's Articles of Association, which provide for the annual election or re-election by shareholders of all the Company's directors. There are no provisions for compensation payable on termination of appointment.

The following table sets out the dates of the letters of appointment for the Chair and each of the current Non-Executive Directors and specifies the dates on which those individuals are next subject to election or re-election:

Director	Date of original appointment	Date when next subject to election or re-election
Nicoletta Giadrossi	10 January 2017	11 May 2021
Keith Lough	14 May 2015	11 May 2021
Peter Kallos	01 September 2015	11 May 2021
Alison Wood	01 July 2019	11 May 2021
Catherine Krajicek	01 July 2019	11 May 2021
Erik B. Daugbjerg	14 May 2020	11 May 2021

None of the Non-Executive Directors nor the Chair participates in any of the Company's share schemes and they are not entitled to a bonus or pension contributions.

The Non-Executive Directors' and Chair's letters of appointment are available for inspection, on request, at the Company's registered office.

The Directors' Remuneration Report was approved by the Board on 8 March 2021 and signed on its behalf by:

Alison Wood

Alison Wood
Chair of the Remuneration Committee

8 March 2021

Directors' Report

The Directors of Cairn Energy PLC (registered in Scotland with Company Number SC226712) present their Annual Report and Accounts for the year ended 31 December 2020 together with the audited consolidated Financial Statements of the Group and Company for the year. These will be laid before shareholders at the AGM to be held on 11 May 2021. The Directors' Report and the Strategic Report (which includes trends and factors likely to affect future development, performance and position of the business, our Section 172 Statement and a description of the principal risks and uncertainties of the Company's Group and can be found on pages 2 to 69 and is hereby incorporated by reference), collectively comprise the management report as required under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Results and Dividend

The Group made a loss after tax of US$393.8 million (2019: profit after tax of US$93.6 million).

On 17 December 2020, the Company announced that, following completion of the sale of all of its interests in Senegal to Woodside, it would be paying a special dividend of approximately £188 million to shareholders in January 2021. Save for this special dividend, the Directors do not recommend the payment of a dividend for the year ended 31 December 2020.

Strategic Report

Details of the Group's strategy and business model during the year and the information that fulfils the requirements of the Strategic Report can be found in the Strategic Report section on pages 2 to 69 of this document, which are deemed to form part of this report by reference.

Details of Cairn's offices and Cairn's advisers are given at the end of this report.

Change of Control

All of the Company's share incentive plans contain provisions relating to a change of control and further details of these plans are provided in the Directors' Remuneration Report on pages 94 to 121. Generally, outstanding options and awards will vest and become exercisable on a change of control, subject to the satisfaction of performance conditions, if applicable, at that time.

On a change of control of the Company resulting in the termination of his employment, the current Chief Executive is entitled to compensation pursuant to his service contract. Further details of the relevant provisions are set out in the Directors' Remuneration Report on pages 120 and 121. There are no agreements providing for compensation to the Chief Financial Officer or to employees on a change of control and no such provision will be included in the contracts of other future appointees to the Board.

Other than the restated and amended Senior Secured Borrowing Base Facility Agreement entered into by the Company and other subsidiaries with DnB Bank ASA and other syndicated banks dated 7 September 2018 (the 'Facility Agreement'), there are no significant agreements to which the Company is a party that take effect, alter or terminate in the event of a change of control of the Company. In terms of clause 9.2 of the Facility Agreement, if there is a change of control of the Company, any lender may cancel its commitment and declare its participation in all outstanding utilisations, together with accrued interest and all other amounts accrued immediately due and payable.

Corporate Governance

The Company's Corporate Governance Statement is set out on pages 76 to 85 and is deemed to form part of this report by reference.

Directors

The names and biographical details of the current Directors of the Company are given in the Board of Directors section on pages 72 and 73. In addition to those listed on those pages, during the year, Todd Hunt was a Non-Executive Director of the Board until his retirement on 14 May 2020 and Ian Tyler was a Non-Executive Director and Chair of the Board until his retirement on 31 December 2020. The beneficial interests of the Directors in the ordinary shares of the Company are shown below:

	As at 31 December 2019 Number of shares[1]	As at 31 December 2020 Number of shares[1]	As at 8 March 2021 Number of shares[2]
Simon Thomson	1,345,992	1,345,992	1,145,089
James Smith	550,644	550,644	465,928
Nicoletta Giadrossi	0	0	0
Keith Lough	0	0	0
Peter Kallos	10,982	10,982	9,292
Alison Wood	0	0	0
Catherine Krajicek	0	0	0
Erik B. Daugbjerg[3]	–	0	0
Todd Hunt[4]	72,012	–	–
Ian Tyler[5]	0	–	–

Notes:

1 This number of shares reflects the shareholding of the director prior to the 11 for 13 ordinary share capital consolidation that took place with effect from 11 January 2021 and represents ordinary shares of 231/169 pence each that were in issue at the date noted.

2 This number of shares reflects the 11 for 13 ordinary share capital consolidation that took place with effect from 11 January 2021 and represents ordinary shares of 21/13 pence each currently in issue.

3 Erik B. Daugbjerg was appointed as a Non-Executive Director on 14 May 2020.

4 Todd Hunt retired as a Non-Executive Director on 14 May 2020.

5 Ian Tyler retired as Chair and Non-Executive Director on 31 December 2020.

Details of outstanding awards over ordinary shares in the Company held by the Directors (or any members of their families) are set out in the Directors' Remuneration Report on pages 94 to 121.

None of the Directors has a material interest in any contract, other than a service contract, with the Company or any of its subsidiary undertakings. Details of the Directors' service contracts are set out in the Directors' Remuneration Report on pages 94 to 121.

Share Capital

The issued share capital of the Company is shown in section 7.1 of the notes to the Financial Statements. As at 8 March 2021, 499,267,656 ordinary shares of 21/13 pence each have been issued, are fully paid up and are quoted on the London Stock Exchange. The rights attaching to the ordinary shares are set out in the Company's Articles of Association. There are no special control rights in relation to the Company's shares and the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Voting Rights

The following paragraph details the position in relation to voting rights attaching to shares set out in the Company's Articles of Association. However, the Company recognises that best practice is now to hold a poll on all shareholder resolutions. It is the Company's current practice, therefore, to hold a poll and it is committed to doing so going forward.

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting or class meeting, on a show of hands, every member present in person and every duly appointed proxy entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every share held by him/her. In the case of joint holders of a share, the vote of the senior member who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Under the Companies Act 2006, members are entitled to appoint a proxy, who need not be a member of the Company, to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A corporation which is a member of the Company may authorise one or more individuals to act as its representative or representatives at any meeting of the Company, or at any separate meeting of the holders of any class of shares. A person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company.

Restrictions on Voting

No member shall, unless the Directors of the Company otherwise determine, be entitled in respect of any share held by him/her to attend or vote at a general meeting of the Company either in person or by proxy if any call or other sum presently payable by him/her to the Company in respect of shares in the Company remains unpaid. Further, if a member has been served with a notice by the Company under the Companies Act 2006 requesting information concerning interests in shares and has failed in relation to any shares to provide the Company, within 14 days of the notice, with such information, the Directors of the Company may determine that such member shall not be entitled in respect of such shares to attend or vote (either in person or by proxy) at any general meeting or at any separate general or class meeting of the holders of that class of shares. Proxy forms must be submitted not less than 48 hours (or such shorter time as the Board may determine) (excluding, at the Board's discretion, any part of any day that is not a working day) before the time appointed for the holding of the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it was demanded, not less than 24 hours (or such shorter time as the Board may determine) before the time appointed for the taking of the poll at which it is to be used.

Variation of Rights

Whenever the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class may, subject to statute and unless otherwise expressly provided by the rights attached to the shares of that class, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting, the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class. These provisions also apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if the shares concerned and the remaining shares of such class formed separate classes. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or the terms upon which such shares are for the time being held, be deemed not to be varied or abrogated by the creation or issue of further shares ranking pari passu with, or subsequent to, the first mentioned shares or by the purchase by the Company of its own shares.

Transfer of Shares

Subject to any procedures set out by the Directors in accordance with the Articles of Association, all transfers of shares shall be effected by instrument in writing in any usual or common form or in any other form acceptable to the directors of the Company. The instrument of transfer shall be executed by, or on behalf of, the transferor and (except in the case of fully paid shares) by, or on behalf of, the transferee. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register of members of the Company.

The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register a transfer of any share which is not a fully paid share unless such share is listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange's main market for listed securities. The Directors may also refuse to register a transfer of a share in uncertificated form where the Company is entitled to refuse (or is excepted from the requirement) under the Uncertificated Securities Regulations 2001 to register the transfer and they may refuse any such transfer in favour of more than four transferees.

The Directors may also refuse to register any transfer of a share on which the Company has a lien.

The Directors may, in their absolute discretion and without assigning any reason therefore, refuse to register a transfer of any share in certificated form unless the relevant instrument of transfer is in respect of only one class of share, is duly stamped or adjudged or certified as not chargeable to stamp duty, is lodged at the transfer office or at such other place as the Directors may determine, is accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and is in favour of not more than four transferees jointly. If the Directors refuse to register a transfer, they shall, as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Company (in the case of a share in certificated form) or the date on which the operator instruction (as defined in the Uncertificated Securities Regulations 2001) was received by the Company (in the case of a share in uncertificated form) (or in either case such longer or shorter period (if any) as the Listing Rules may from time to time permit or require), send to the transferee notice of the refusal.

Major Interests in Share Capital

As at 31 December 2020 and 19 February 2021 (being the latest practicable date prior to the date of this report), the Company had received notification that shareholdings of 3% and over were as set out in the table below.

	As at 31 December 2020*	% Share Capital	As at 19 February 2021+	% Share Capital
MFS Investment Management	82,658,216	14.02	69,638,921	13.95
BlackRock	71,884,411	12.19	57,138,877	11.45
Aberdeen Standard Investments	39,950,674	6.78	34,042,821	6.82
Vanguard Group	23,102,391	3.92	20,131,276	4.03
Fidelity International	23,039,693	3.91	17,243,465	3.45
Aegon Asset Management UK	19,302,258	3.27	15,679,260	3.14
Legal & General Investment Management	19,253,235	3.27	13,407,559	2.69
Franklin Templeton	17,693,212	3.00	14,915,377	2.99

Notes:

* This number of shares reflects the shareholding prior to the 11 for 13 ordinary share capital consolidation that took place with effect from 11 January 2021 and represents ordinary shares of 231/169 pence each that were in issue at the date noted.

+ This number of shares reflects the 11 for 13 ordinary share capital consolidation that took place with effect from 11 January 2021 and represents ordinary shares of 21/13 pence each currently in issue.

Political Donations

No political donations were made and no political expenditure was incurred during the year.

Greenhouse Gas Emissions

Details of the Group's greenhouse gas emissions can be found in the Strategic Report section on pages 56 and 57, which are deemed to form part of this report by reference. Our response to the Streamlined Energy and Carbon Reporting (SECR) framework has been provided on page 192 of this Annual Report and Accounts and in our CR Data Appendix (see www.cairnenergy.com/working-responsibly).

Financial Instruments

The financial risk management objectives and policies of the Company are detailed in section 3.9 of the Financial Statements.

Acquisition of Own Shares

No shares have been repurchased by the Company in the financial year to 31 December 2020.

Appointment and Replacement of Directors

The Company's Articles of Association provide that directors can be appointed by the Company by ordinary resolution, or by the Board. The Nomination Committee makes recommendations to the Board on the appointment and replacement of directors. Further details of the rules governing the appointment and replacement of directors are set out in the Corporate Governance Statement on page 79 and in the Company's Articles of Association.

Directors' indemnities

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined in Section 234 of the Companies Act 2006 (a 'Qualifying Third Party Indemnity Provision'). The indemnity was in force throughout the last financial year and is currently in force.

Powers of the Directors

Subject to the Company's Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The Directors currently have powers both in relation to the issuing and buying back of the Company's shares and are seeking renewal of these powers at the forthcoming AGM.

Articles of Association

Unless expressly specified to the contrary therein, the Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and Accounts, the Directors' Remuneration Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent Company Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group Financial Statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period.
In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether for the Group and Company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the Group, international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website (www.cairnenergy.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Following careful review and consideration of the Cairn Energy PLC Annual Report and Accounts 2020 (the 'Accounts'), the Directors consider that the Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Board of Directors section on pages 72 and 73, confirm that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, and loss of the Group and loss of the Company; and
- the Strategic Report section on pages 2 to 69 of this document includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of Information to Auditors

Each of the Directors of the Company as at 8 March 2021, being the date this report is approved, confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. In making this confirmation, the Directors have taken appropriate steps to make themselves aware of the relevant audit information and to establish that the Company's auditors are aware of this information.

AGM 2021

The AGM of the Company will be held at 50 Lothian Road, Edinburgh EH3 9BY at 12 noon on Tuesday, 11 May 2021. The resolutions to be proposed at the AGM are set out and fully explained in the Notice of AGM which has been posted to shareholders together with this Annual Report and Accounts. Restrictions put in place by the UK and Scottish Governments in response to the COVID-19 pandemic will impact how the AGM is held in 2021. Full details are included in the Notice of AGM.

Recommendation

The Board considers that all of the resolutions to be considered at the AGM are in the best interests of the Company and its shareholders as a whole and unanimously recommends that you vote in favour of all of the proposed resolutions, as they intend to do in respect of their own beneficial shareholdings.

This Annual Report was approved by the Board of Directors and authorised for issue on 8 March 2021.

By order of the Board

Anne McSherry
Company Secretary

8 March 2021

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Independent Auditors' Report to the Members of Cairn Energy PLC

Report on the audit of the financial statements

Opinion

In our opinion, Cairn Energy PLC's group financial statements and company financial statements (the "financial statements"):
- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

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

Basis for Opinion

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

Independence

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

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

Our Audit Approach

Context

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

Overview

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

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

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

The Scope of Our Audit

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

Capability of the Audit in Detecting Irregularities, Including Fraud

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

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

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

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

Key Audit Matters

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

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

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

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

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

How We Tailored the Audit Scope

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

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

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

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

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

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

Materiality

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

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

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

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

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

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

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

Conclusions Relating to Going Concern

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

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

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

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

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

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

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

Reporting on Other Information

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

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

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

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

Strategic Report and Directors' Report

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

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

Directors' Remuneration

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

Corporate Governance Statement

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

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

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

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

Use of This Report

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

Other required reporting

Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

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

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

Group Income Statement
For the year ended 31 December 2020

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

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

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

Group Balance Sheet
As at 31 December 2020

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

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

James Smith
Chief Financial Officer

Simon Thomson
Chief Executive

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

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

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

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

Section 1 – Basis of Preparation and Contingent Asset

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

1.1 Significant Accounting Policies

a) Basis of Preparation

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

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

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

b) Accounting Standards

Cairn prepares its Financial Statements in accordance with applicable IFRS, issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") in conformity with the requirements of the Companies Act 2006 and pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, and further requirements under the Companies Act 2006 applicable to companies reporting under IFRS. The Group's Financial Statements are also consistent with IFRS as issued by the IASB as they apply to accounting periods ended 31 December 2020.

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

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

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

c) Basis of Consolidation

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

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

d) Joint Arrangements

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

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

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

Section 1 – Basis of Preparation and Contingent Asset continued

1.1 **Significant Accounting Policies** continued

e) Foreign Currencies

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

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

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

Rates of exchange to US$1 were as follows:

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

f) Exceptional Items

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

1.2 Going Concern

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

In assessing whether the going concern assumption is appropriate, the Board and Audit Committee considered the Group cash flow forecasts under various scenarios, identifying risks and mitigants and ensuring the Group has sufficient funding to meet its current commitments as and when they fall due for a period of at least 12 months from the date of approval of the Financial Statements. These forecasts assume completion of the Shell Western Desert acquisition within the conditions of the associated financing facilities for which the Group has obtained commitment letters from external lenders. Additionally, these forecasts also include scenarios that take account of a prolonged economic downturn as a result of COVID-19 which has led to volatility in oil prices across 2020.

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

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

1.3 Restatement of Comparative Information

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

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

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

1.4 Contingent Asset

Arbitration Award Settlement Due from the Government of India

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

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

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

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

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

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

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Section 2 – Oil and Gas Assets and Operations

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

Significant Accounting Judgements in This Section:

Impairment Testing of Oil and Gas Assets

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

Key Estimates and Assumptions in This Section:

Estimation of Hydrocarbon Reserves and Long-Term Oil Price Assumption

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

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

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

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

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

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

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

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

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

Decommissioning Estimates

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

2.1 Gross Profit: Revenue and Cost of Sales

Accounting Policies

Revenue

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

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

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

Commodity price hedging

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

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

Cost of sales and inventory

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

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

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

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

Section 2 – Oil and Gas Assets and Operations continued

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

Revenue

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

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

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

Commodity Price Hedging

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

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

Cost of Sales and Inventory

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

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

2.2 Intangible Exploration/Appraisal Assets

Accounting Policy

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

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

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

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

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

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

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

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

Impairment

Intangible exploration/appraisal assets are reviewed regularly for indicators of impairment and tested for impairment where such indicators exist. An indicator that one of the Group's assets may be impaired is most likely to be one of the following:
- There are no further plans to conduct exploration activities in the area;
- Exploration drilling in the area has failed to discover commercial reserve volumes;
- Changes in the oil price or other market conditions indicate that discoveries may no longer be commercial; or
- Development proposals for appraisal assets in the pre-development stage indicate that it is unlikely that the carrying value of the exploration/appraisal asset will be recovered in full.

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

Section 2 – Oil and Gas Assets and Operations continued

2.2 Intangible Exploration/Appraisal Assets continued

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

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

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

UK

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

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

LATAM

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

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

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

East Atlantic

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

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

2.2 Intangible Exploration/Appraisal Assets continued

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

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

Impairment Review

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

2.3 Property, Plant & Equipment – Development/Producing Assets

Accounting Policy

Costs

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

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

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

Depletion and amortisation

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

Impairment

Development/producing assets are reviewed for indicators of impairment at the balance sheet date. Indicators of impairment for the Group's development assets include:

- Downward revisions of reserve estimates;
- Increases in cost estimates for development projects; or
- A decrease in the oil price or other negative changes in market conditions.

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

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

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

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

Decommissioning

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

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

Section 2 – Oil and Gas Assets and Operations continued

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

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

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

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

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

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

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

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

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

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

Leased Assets

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

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

Impairment Review

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

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

Proposed Sale of Catcher and Kraken Producing Assets

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

2.4 Provisions – Decommissioning

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

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

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

The decommissioning provisions represent management's best estimate of the obligation arising based on work undertaken at the balance sheet date. Actual decommissioning costs will depend upon the prevailing market conditions for the work required at the relevant time. The decommissioning of the Group's development/producing assets is forecast to occur between 2026 and 2036.

Section 2 – Oil and Gas Assets and Operations continued

2.5 Capital Commitments

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

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

The capital commitments for intangible exploration/appraisal assets include US$25.9m (2019: US$40.4m) for operations in the UK and US$13.1m (2019: US$37.9m) commitments in LATAM, predominantly Mexico.

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

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

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

2.6 Intangible Assets – Goodwill

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

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

2.7 Impairment Testing Sensitivity Analysis

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

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

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

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

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

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

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

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

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

3.1 Cash and Cash Equivalents

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

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

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

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

Cairn limits the placing of funds and other investments to banks or financial institutions that have ratings of A- or above from at least two of Moody's, Standard & Poor's or Fitch, unless a sovereign guarantee is available from a AAA- rated government. The counterparty limits vary between US$50.0m and US$200.0m depending on the ratings of the counterparty. No investments are placed with any counterparty with a five-year credit default swap exceeding 250 bps. Investments in money market liquidity funds are only made with AAA rated liquidity funds and the maximum holding in any single fund is 20% of total investments.

3.2 Loans and Borrowings

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

RBL

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

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

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

Senegal Bridge Facility

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

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

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

EFF

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

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

3.3 Lease Liabilities

Accounting Policy

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

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

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

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

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

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

3.4 Trade and Other Receivables

Accounting Policy

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

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

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

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

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

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

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

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

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

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

3.5 Derivative Financial Instruments

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

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

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

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

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

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

Sensitivity Analysis

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

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

3.6 Trade and Other Payables

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

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

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

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

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

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

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

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

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

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

3.7 Deferred Revenue

Accounting Policy

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

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

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

3.8 Financial Instruments

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

Financial Assets

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

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

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

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

3.8 Financial Instruments continued

Financial Liabilities

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

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

Maturity analysis of financial liabilities

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

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

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

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

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

3.8 Financial Instruments continued

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

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

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

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

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

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

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

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

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

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

3.9 Financial Risk Management: Objectives and Policies continued

Liquidity Risk

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

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

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

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

Credit Risk

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

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

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

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

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

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

Foreign Currency Risk

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

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

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

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

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

Section 4 – Income Statement Analysis

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

Significant Accounting Judgements in This Section:

Segmental Disclosures and Discontinued Operations

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

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

Key Estimates and Assumptions in This Section:

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

4.1 Segmental Analysis

Operating Segments

Cairn's strategy is to create, add and realise value from a balanced portfolio within a self-funding business model. Each business unit is headed by a Regional Director (a Regional Director may be responsible for more than one business unit) and the Board monitors the results of each segment separately for the purposes of making decisions about resource allocation and performance assessment.

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

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

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

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

4.1 **Segmental Analysis** continued

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

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

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

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

Section 4 – Income Statement Analysis continued

4.1 Segmental Analysis continued

The segment results for the year ended 31 December 2019 were as follows:

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

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

4.2 Pre-Award Costs

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

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

4.3 Administrative Expenses

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

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

a) Staff Costs

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

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

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

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

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

Section 4 – Income Statement Analysis continued

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

b) Share-Based Payments

Income Statement charge

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

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

Share-based payment schemes and awards details

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

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

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

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

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

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

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

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

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

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

b) Share-Based Payments continued

Assumptions and inputs

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

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

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

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

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

The following assumptions and inputs apply:

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

Employee exercise trigger point assumptions

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

c) Directors' Emoluments and Remuneration of Key Management Personnel

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

Remuneration of key management personnel

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

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

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

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

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

Section 4 – Income Statement Analysis continued

4.5 Finance Costs

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

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

4.6 Earnings per Ordinary Share

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

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

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

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

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

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

Section 5 – Taxation

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

Significant Accounting Judgements in This Section:

Deferred Taxation – Potential Deferred Tax Assets on UK Tax Losses

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

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

Key Estimates and Assumptions in This Section:

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

Accounting Policy

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

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

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

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

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

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

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

Section 5 – Taxation continued

5.1 Tax Strategy and Governance

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

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

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

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

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

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

Factors Affecting Tax Charge for the Year

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

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

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

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

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

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

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

Factors Affecting Tax Charge for the Year continued

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

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

5.3 Deferred Tax Assets and Liabilities

Reconciliation of Movement in Deferred Tax Assets/(Liabilities):

	Temporary difference in respect of non-current assets US$m	Losses US$m	Other temporary differences US$m	**Total US$m**
Deferred tax assets				
At 1 January 2019	(243.1)	243.1	–	–
Deferred tax (charge)/credit through the Income Statement	(60.5)	(11.1)	71.6	–
At 31 December 2019	(303.6)	232.0	71.6	–
Deferred tax credit/(charge) through the Income Statement	53.3	(40.5)	(12.8)	–
At 31 December 2020	**(250.3)**	**191.5**	**58.8**	**–**
Deferred tax liabilities				
At 1 January 2019	(89.8)	21.9	1.4	(66.5)
Foreign exchange	5.7	(1.4)	(0.1)	4.2
Deferred tax credit/(charge) from discontinued operations	84.1	(20.5)	(1.3)	62.3
At 31 December 2019 and 2020	**–**	**–**	**–**	**–**

Section 5 – Taxation continued

5.3 Deferred Tax Assets and Liabilities continued

Recognised Deferred Tax Assets

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

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

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

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

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

Unrecognised Deferred Tax Assets

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

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

Section 6 – Discontinued Operations

6.1 Loss from Discontinued Operations

Sale of Capricorn Norge AS ('Norway')

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

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

Sale of Working Interests in Senegal

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

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

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

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

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

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

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

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

Section 6 – Discontinued Operations continued

6.1 **Loss from Discontinued Operations** continued

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

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

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

6.2 Cash Flow Information for Discontinued Operations

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

[1] Period ended 28 February 2020

[2] Period ended 22 December 2020

[3] 2019 comparatives have been restated to include Senegal cash flows (note 1.3)

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

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

6.3 Assets and Liabilities Held-For-Sale

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

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

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

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

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

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

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

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

Section 7 – Capital Structure and Other Disclosures

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

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

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

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

7.1 Issued Capital and Reserves

Called-Up Share Capital

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

Share Premium

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

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

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

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

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

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

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

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

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

7.2 Capital Management

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

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

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

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

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

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

7.3 Guarantees

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

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

The Group also provided the following guarantees at 31 December 2020:
- Various guarantees under the RBL facility for the Group's operational commitments for the current year of US$45.1m (2019: US$52.3m);
- Parent Company Guarantees for the Group's obligations under joint operating agreements and other contracts.

Section 7 – Capital Structure and Other Disclosures continued

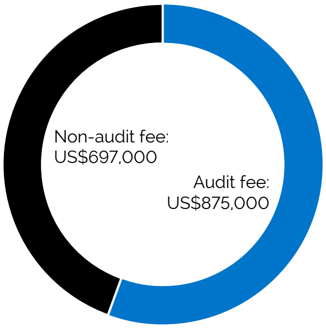
7.4 Auditors' Remuneration

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

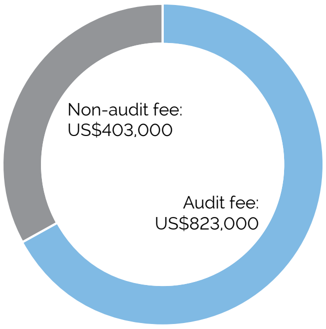
The Group has a policy in place for the award of non-audit work to the auditors which requires Audit Committee approval (see the Audit Committee Report on page 90).

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

2020 Fees to the Auditors



2019 Fees to the Auditors



Company Balance Sheet
As at 31 December 2020

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

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

James Smith
Chief Financial Officer

Simon Thomson
Chief Executive

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

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

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

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

Section 8 – Notes to the Company Financial Statements

This section contains the notes to the Company Financial Statements.

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

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

8.1 Basis of Preparation

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

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

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

8.2 Investments in Subsidiaries

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

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

8.2 Investments in Subsidiaries continued

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

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

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

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

Section 8 – Notes to the Company Financial Statements continued

8.2 Investments in Subsidiaries continued

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

Direct Holdings

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

Indirect Holdings

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

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

8.3 Cash and Cash Equivalents

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

8.4 Derivative Financial Instruments

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

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

8.5 Trade and Other Payables

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

8.6 Financial Instruments

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

Financial assets

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

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

Section 8 – Notes to the Company Financial Statements continued

8.6 Financial Instruments continued

Maturity analysis of financial assets

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

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

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

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

Financial liabilities

Carrying amount and fair value

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

Maturity analysis of financial liabilities

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

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

8.6 Financial Instruments continued

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

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

Financial Risk Management: Risk and Objectives

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

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

8.7 Capital Management

Capital and net debt were made up as follows:

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

Section 8 – Notes to the Company Financial Statements continued

8.8 Related Party Transactions

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

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

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

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

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

Directors' Remuneration

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

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

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

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

Other Transactions

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

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

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

Section 9 – Events After the Balance Sheet Date

9.1 Return of Cash to Shareholders

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

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

9.2 Proposed Acquisition of Exploration, Development and Production Interests in the Western Desert, the Arab Republic of Egypt

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

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

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

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

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

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

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

9.3 Sale of Cairn's Interests in the Catcher and Kraken Producing Assets

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

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

Licence List
as at 31 December 2020

Country	Asset name	Licence	Block(s)	Operator	Cairn Energy interest (%)
Côte d'Ivoire	CI-301	CI-301	CI-301	Cairn Côte d'Ivoire Limited	90
Côte d'Ivoire	CI-302	CI-302	CI-302	Cairn Côte d'Ivoire Limited	90
Côte d'Ivoire	CI-520	CI-520	CI-520	Tullow Côte d'Ivoire Onshore Limited (60%)	30
Israel	Block 39	Licence No. 39	39	Capricorn Offshore Exploration Limited (33.34%)	33.34
Israel	Block 40	Licence No. 40	40	Capricorn Offshore Exploration Limited (33.34%)	33.34
Israel	Block 45	Licence No. 45	45	Capricorn Offshore Exploration Limited (33.34%)	33.34
Israel	Block 46	Licence No. 46	46	Capricorn Offshore Exploration Limited (33.34%)	33.34
Israel	Block 47	Licence No. 47	47	Capricorn Offshore Exploration Limited (33.34%)	33.34
Israel	Block 48	Licence No. 48	48	Capricorn Offshore Exploration Limited (33.34%)	33.34
Israel	Block 52	Licence No. 52	52	Capricorn Offshore Exploration Limited (33.34%)	33.34
Israel	Block 53	Licence No. 53	53	Capricorn Offshore Exploration Limited (33.34%)	33.34
Mexico	Block 7	CNH-R02-L01-A7.CS-2017	7	ENI (45%)	30
Mexico	Block 9	CNH-R02-L01-A9.CS-2017	9	Capricorn Energy Mexico	65
Mexico	Block 15	CNH-R03-L01-G-TMV-01-2018	15	Capricorn Energy Mexico	50
Suriname	Block 61	BLOCK 61	61	Capricorn Suriname B.V.	100
UK	Kraken	P1077	9/2b	Enquest Heather Ltd (70.5%)	29.5
UK	Catcher	P1430	28/9a	Premier Oil UK Ltd (50%)	20
UK	Agar-Plantain	P1763	9/9d, 9/14a	Apache Beryl Ltd (50%)	25
UK	Laverda	P2070	28/4a	Premier Oil UK Ltd (54%)	20
UK	Chimera	P2312	3/16a, 3/17a	Nautical Petroleum	45
UK	Woodstock	P2379	22/11b, 22/12b, 22/16b, 22/17c	Nautical Petroleum	50
UK	Jaws	P2380	22/12d	Shell U.K. Limited (50%)	50
UK	Manhattan	P2381	22/13c, 22/18d	Nautical Petroleum	100
UK	Bonneville	P2453	28/9c	Premier Oil UK Ltd (50%)	20
UK	Laverda Template	P2454	28/9d	Premier Oil UK Ltd (54%)	20
UK	Mane	P2466	3/16b, 3/21a, 3/22a	No Operator	100
UK	East Orkney Basin	P2468	13/10, 13/3, 13/4, 13/5, 13/8, 13/9, 14/1, 14/6, 6/28, 6/29	No Operator	50
UK	Cougar Rapide	P2550	28/9f	Premier Oil UK Ltd	20

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

Group Reserves and Resources
As at 31 December 2020

Group Proven Plus Probable Oil and Gas Reserves 2P

	WI mmboe	EI mmboe
31 December 2019	149.7	142.2
Disposals	(106.5)	(99.0)
Technical revisions	1.5	1.5
Commodity price revisions	(4.0)	(4.0)
Production	(7.8)	(7.8)
31 December 2020	**32.9**	**32.9**

All current 2P Reserves are located within the Kraken and Greater Catcher areas in the UK North Sea

Sensitivity Analysis with Different Hydrocarbon and Carbon Emission Prices

Total Group 2P Reserves	WI mmboe	EI mmboe
WEO-2020 Stated Policies scenario	38.4	38.4
WEO-2020 Sustainable Development scenario	28.5	28.5

Group Contingent Oil and Gas Resources 2C (Development Pending)

	WI mmboe
31 December 2019	109.4
Improved recovery	1.2
Disposals	(109.4)
31 December 2020	**1.2**

EI	Entitlement Interest
WI	Working Interest

Glossary

The following are the main terms and abbreviations used in this report:

2C	Denotes best estimate scenario of contingent resources
2D	two dimensional
3D	three dimensional
2P	Proved plus probable reserves, denotes best estimate scenario
3Rs	Cairn core values: Respect, Relationships and Responsibility
ABC	anti bribery and corruption
AFE	authority for expenditure
AGM	annual general meeting
ALARP	as low as reasonably practicable
APP	African Partner Pool
AQI	Audit Quality Inspection
BAP	Biodiversity Action Plan
bbl	barrel
bbls	barrels
bn	billion
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
Brexit	Britain's exit from the European Union
BRINDEX	the Association of British Independent Oil Exploration Companies
BST	British Standard Time
CCUS	carbon capture, utilisation and storage
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CERT	Crisis and Emergency Response Team
CFO	Chief Financial Officer
CIM	Crisis Incident Management
CMAPP	Corporate Major Accident Prevention Policy
CNH	National Hydrocarbons Commission
CO_2	carbon dioxide
CO_{2e}	carbon dioxide equivalent
COO	Chief Operating Officer
COS	Cairn Operating Standards
COVID-19	2019 novel coronavirus disease
CR	corporate responsibility
CRMS	Corporate Responsibility Management System
CSR	corporate social responsibility
DAC	Direct Air Capture
E&A	exploration and appraisal
EITI	Extractive Industries Transparency Initiative
EMEA	Europe, Middle East and Africa
ESG	Environmental, Social and Governance
ESIA	Environmental and Social Impact Assessment
ETS	Emissions Trading Scheme
ESOP	employee share option plan
ETS	Emissions Trading Scheme
EU	European Union
EVF	Employee Voice Forum
ExecCo	Executive Committee
EY	Ernst & Young LLP
FlowStream	FlowStream Thruer Ltd
FPSO	floating production storage and offloading
FRC	Financial Reporting Council
G&G	geological and geophysical
GDPR	General Data Protection Regulation
GHG	greenhouse gas
GJ	gigajoule
GoI	Government of India
GRI	Global Reporting Initiative
H1/2	first/second half (of a year)
HR	human resources
HSE	health, safety and environment
HSSE	health, safety, security and environment

IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICSA	The Chartered Governance Institute
IEA	International Energy Agency
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIA	Invest in Africa (not-for-profit organisation)
INPG	National Institute for Oil and Gas (Senegal)
IOGP	International Association of Oil and Gas Producers
IP	investment proposal
IPIECA	International Petroleum Industry Environmental Conservation Association
JV	joint venture
KPI	key performance indicator
LATAM	Latin America
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
LTIF	lost time injury frequency
LTI	lost time injuries
LTIP	Long Term Incentive Plan
m	million
mmbbls	million barrels of oil
mmboe	million barrels of oil equivalent
MSA	Modern Slavery Act
MT	Management Team
NATIN	Institute for Natural Resources and Engineering Studies
NECCUS	North East Carbon Capture, Utilisation and Storage
NGO	non-governmental organisation
NPV	Net Present Value
OPEC	Organization of the Petroleum Exporting Countries
OSPAR	Oslo/Paris convention (for the Protection of the Marine Environment of the North-East Atlantic)
PDMR	person discharging managerial responsibility
PSC	Production Sharing Contract
PwC	PricewaterhouseCoopers LLP
RBL	reserves based lending
RFCT	Ring Fence Corporation Tax
RMC	Risk Management Committee
RTO	return to office
SASB	Sustainability Accounting Standards Board
SASISOPA	Industrial Safety, Operational Safety and Environmental Protection Administration System
SCT	Supplementary Charge Tax
SDGs	The United Nations Sustainable Development Goals
SIA	social impact assessment
SID	Senior Independent Director
SIP	share incentive plan
SLT	Senior Leadership Team
SMEs	small and medium-sized enterprises
SNE	SNE development, Senegal
STUs	sediment trapping units
Ts and Cs	terms and conditions
TCFD	Task Force on Climate-related Financial Disclosures
TRIR	total recordable injury rate
TSR	total shareholder return
UK	United Kingdom
UKCS	United Kingdom Continental Shelf
UN	United Nations
UNGC	United Nations Global Compact
US$	United States dollar
WI	working interest
Woodside	Woodside Energy Ltd.
YTD	year to date

Appendix: GHG Emissions Calculation

We calculate our GHG emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. We use the published 100-year Global Warming Potentials (GWPs) for CO_2 CH4 and N2O from the Intergovernmental Panel on Climate Change (IPCC) – with the Fourth Assessment Report (AR4) values applied when using Defra 2020 emission factors (they are already integrated), and the Fifth Assessment Report (AR5) values applied when using other emission factors.

1. Our Scope 1 (direct) GHG emissions arise from fuel combustion (primarily during offshore rig, marine vessel and aircraft operations), flaring during well testing and incineration of waste (a very small amount). For calculating these emissions, we use emission factors from the API Compendium 2009 (fuel combustion), EEMS 2008 (flaring) and the GHG Protocol 2017 (waste incineration).

2. We report Scope 2 (purchased electricity) GHG emissions in line with GHG Protocol Scope 2 Guidance, i.e. in two ways: according to a location-based method and a market-based method. (Transmission and distribution losses are excluded.) For the location-based method, we use emission factors from the IEA (International Energy Agency) (updated to IEA 2020 in 2020). These are grid average emission factors for each country. For district heating and cooling, we use location-based emission factors from Defra (updated to Defra 2020 in 2020). For the market-based method, we use emission factors, where available, in the following order of preference:
   - Supplier-specific emission factors – obtained from Cairn's offices' electricity suppliers;
   - Residual mix emission factors – obtained from the Association of Issuing Bodies (AIB) document 'European Residual Mixes 2017'; and
   - Location-based emission factors. These are the same IEA and Defra emission factors that we use for calculating location-based emissions.

   We have provided location-based Scope 2 figures in this report. Our market-based Scope 2 figures, and further details about our GHG emissions data and calculations, are available in our Data Appendix and on our website.

3. We report Scope 3 GHG emissions from two sources:
   - business travel (business travel well-to-tank emissions are excluded); and
   - electricity transmission and distribution losses.

   For calculating Scope 3 (business travel) GHG emissions, we use the Defra methodology, including its recommendation to include an uplift for the influence of radiative forcing in air travel emissions. We updated to Defra 2020 emission factors in 2020 (see www.ukconversionfactorscarbonsmart.co.uk/). For calculating Scope 3 (electricity transmission and distribution losses) GHG emissions, we use Defra 2020 emission factors.

4. ITPEnergised has provided Cairn Energy PLC with independent limited assurance engagement of our Scope 1, 2, 3 and normalised 2020 GHG data and has concluded that the data is reliable, accurate and has been reported and prepared in accordance with Cairn's methodology. A full assurance statement detailing the verification steps undertaken as well as its limitations is available on our website.

SECR Data Table

		UK	2020 Cairn total
SECR	Scope 1 GHG emissions tCO_2e	0.00	24,439.70
	Scope 2 emissions tCO_2e (location-based)	135.87	175.12
	Total gross Scope 1 & Scope 2 emissions	135.87	24,614.82
	GHG intensity ratio: tCO_2e (gross Scope 1 + 2) /1000 hours worked	0.44	35.48
	Energy consumption used to calculate above emissions: kWh	592,273.00	98,360,873.00

Company Information

Financial Advisers
Rothschild & Co
New Court
St Swithin's Lane
London
EC4N 8AL

Secretary
Anne McSherry

Solicitors
Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

Auditor
PricewaterhouseCoopers LLP
144 Morrison Street
Edinburgh
EH3 8EB

Stockbrokers
Morgan Stanley
20 Bank Street
Canary Wharf
London
E14 4AD

J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London
E14 5JP

Registrars
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

UK shareholder helpline number
T: 0371 384 2660

Overseas shareholder helpline number
T: +44 121 415 7047

Textel helpline number
T: 0371 384 2255

Shareview dealing helpline number
T: 0345 603 7037

www.shareview.co.uk

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Head Office
50 Lothian Road
Edinburgh
EH3 9BY
T: +44 131 475 3000
F: +44 131 475 3030
E: pr@cairnenergy.com
www.cairnenergy.com

London
4th Floor
Wellington House
125 Strand
London
WC2R 0AP

Mexico
Capricorn Americas México
Torre Mayor
Avienda de la Reforma 505
Piso 36
Colonia Cuauhtémoc
Delegación Cuauhtémoc
06500 Ciudad de México

www.cairnenergy.com/ar2020