Cairn

CREATING VALUE RESPONSIBLY

CAIRN ENERGY PLC
ANNUAL REPORT and ACCOUNTS 2019

Cairn Energy PLC is an independent, UK-based oil and gas exploration, development and production company.

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 in all stages of the oil and gas life cycle.

Creating value responsibly
Cairn is committed to working responsibly as part of our strategy to deliver value for all stakeholders.

This means working in a safe, secure, environmentally and socially responsible manner.

Strategic Report

Leadership and Governance

Financial Statements

Additional Information

This annual report sets out the performance of Cairn Energy in the 2019 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 **cairnenergy.com/working-responsibly**

Discover more at **www.cairnenergy.com/ar2019**

2019 Highlights

Net oil production averaged (bopd)

~23,000

2019	~23,000
2018	17,533

Oil and gas sales revenue

US$504m

2019	US$504m
2018	US$396m

Net cash inflow

US$390m

2019	US$390m
2018	US$229m

Read more: **Financial Review on P66** and **Operational Review on P18**

Capital expenditure

US$242m*

2019	US$242m
2018	US$284m

Year end Group cash

US$147m

2019	US$147m
2018	US$66m

* Net of US$27m tax refund and US$21m Nova working capital reimbursement.

STRATEGIC REPORT


Cairn

At a Glance

Our portfolio

Cairn's exploration activities have a geographical focus in North West Europe, West Africa and Latin America, underpinned by interests in production assets in the UK North Sea. Our headquarters are in Edinburgh, Scotland supported by operational offices in London, Senegal and Mexico.

Exploration

We hold emerging acreage in Senegal, Mexico, Israel and Mauritania; frontier acreage in Suriname and Côte d'Ivoire and mature acreage in the UK.

Development

We hold an interest in the Sangomar Field (Senegal) development project. This was an exploration asset which we have progressed into development.

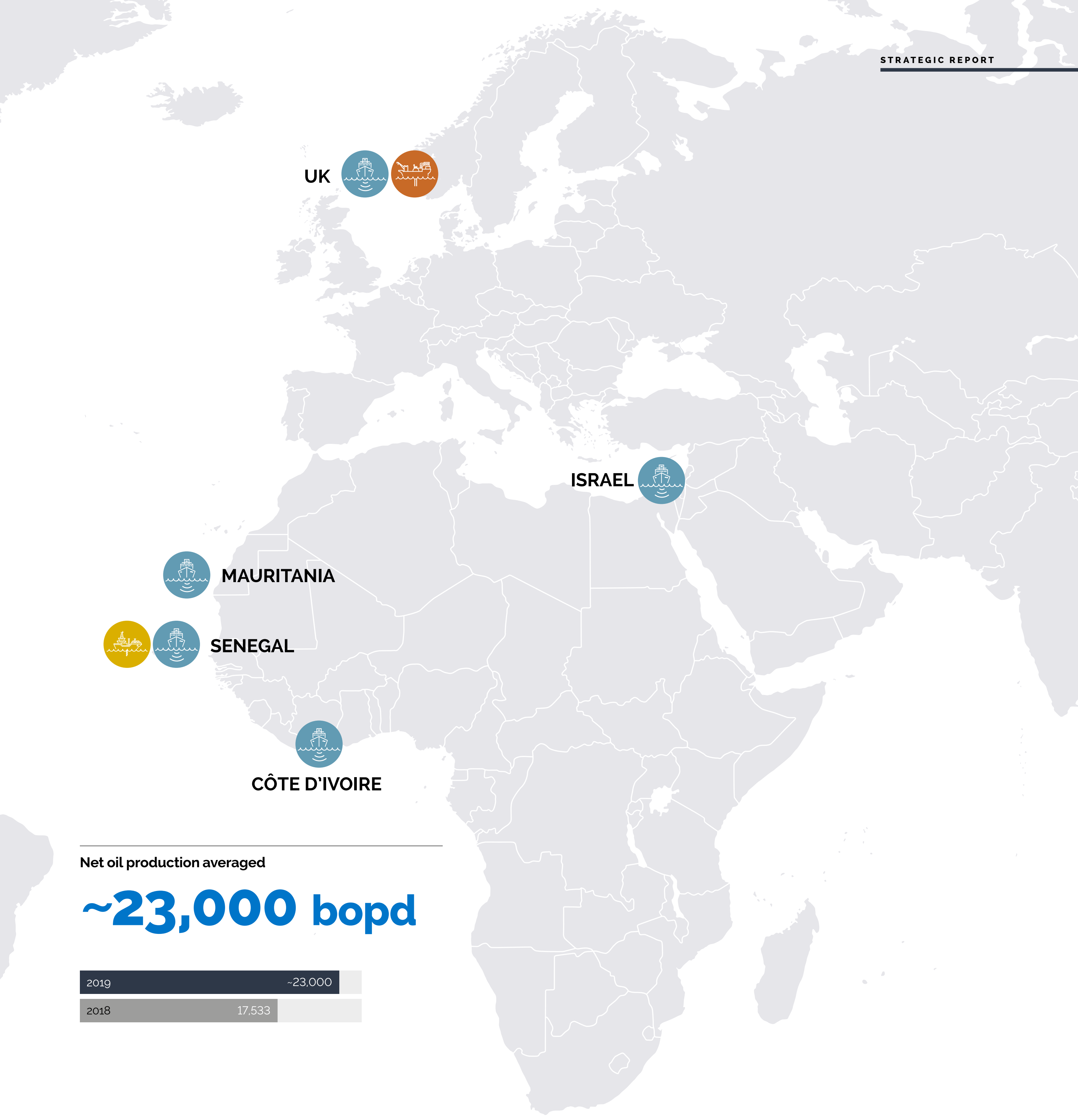
Production

We hold non-operated interests in two production assets in the UK North Sea, Catcher and Kraken, which delivered first oil in 2017.

Where we operate

Suriname	Mexico	Israel
Exploration	**Exploration**	**Exploration**
1 licence	**3** licences	**8** licences
13,080 km² acreage	**1,648 km²** acreage	**2,698 km²** acreage

Note: Post 2019 year end, Cairn no longer holds interests in Norway, Republic of Ireland and Nicaragua.



Net oil production averaged

~23,000 bopd

2019	~23,000
2018	17,533

Côte d'Ivoire

Exploration
7 licences
8,621 km² acreage

Mauritania

Exploration
1 licence option
7,253 km² acreage

Senegal

Exploration
3 licences
7,137 km² acreage

Development
1 development field (Sangomar Field)

UK

Exploration
12 licences
3,100 km² acreage

Production
2 producing fields (Catcher & Kraken)

CEO's Review
Simon Thomson,
Chief Executive Officer

COMMITTED TO CREATING **VALUE RESPONSIBLY**

Cairn's strong operational performance in 2019 was delivered through production and cash flow generation at the top end of guidance and the Group ended the year with an increased net cash position and undrawn debt facilities.

A significant milestone was achieved in Senegal with a Final Investment Decision taken for the Sangomar development. Reserve additions were made in both Senegal and the North Sea and the Company encountered exploration success alongside Eni in Mexico.

The sale of Cairn's Norwegian business, combined with exits from exploration positions in Ireland and Nicaragua, demonstrate continued focus on capital allocation as the company seeks to generate further value for shareholders on a sustainable basis.

In the year ahead, Cairn looks forward to continuing its near-term exploration drilling programme offshore Mexico whilst progressing the first phase of development execution offshore Senegal. These activities are supported by strong cash flow from our producing assets and a continued fiscal discipline on balancing expenditure. In addition, we anticipate resolution of the proceedings against the Government of India under the UK-India Investment Treaty. Cairn will continue to focus on executing and delivering its strategy efficiently and responsibly as it seeks to add further value for shareholders.

Energy Transition[1]
Cairn recognises that the world is facing significant challenges associated with climate change and we acknowledge that global commitments to minimise temperature rises will require significant growth in lower carbon energy sources. Throughout the year the Board continued to focus on the associated risks and appropriately positioning the company's strategy.

Cairn's strategy is to play a responsible and competitive role in the production of oil and gas within this transition, providing affordable, sustainable energy alongside renewable sources. We are committed to ensuring our investment decisions are targeting resources that can play a part in the global energy mix and will continue to attract capital in a world where demand for hydrocarbons may be below today's levels. We are actively engaged in reducing our carbon emissions wherever possible.

Working Responsibly[2]
Our culture is deeply rooted in our commitment to working responsibly. This means working to deliver value for our stakeholders in a safe, secure, environmentally and socially responsible manner. This is how we retain the trust and support of our stakeholders, which enables us to operate.

Our longstanding core values are at the heart of our culture. They are known as the 3R's: Respect, Relationships and Responsibility.

Our Code of Ethics sets out these core values as well as the behaviours and principles which we expect not only our employees, but all those who we work with, to apply on the Company's behalf.

Externally, adherence to key global agreements and standards promoting responsible working practices within business is also critical to us. This includes the United Nations Global Compact, the Extractive Industries Transparency Initiative and the United Nations Sustainable Development Goals.

Board Changes
Cairn appointed two new independent non-executive directors, with Catherine Krajicek and Alison Wood joining the Board in H2 2019. Cairn today announced the appointment of Erik B Daugbjerg as an independent non-executive director with effect from 14 May 2020. Following this appointment, Todd Hunt will retire as a non-executive director immediately following the Company's Annual General Meeting on 14 May 2020.

Simon Thomson
Chief Executive Officer

1 Read more on **P46**
2 Read more on **P10**

Business Model

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, making the business model largely self-funding.

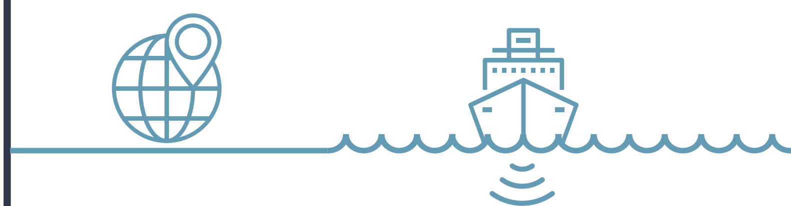
Assets can be monetised at different points of the life cycle in order to optimise the portfolio.

EXPLORATION AND APPRAISAL

4-8 years

Identify

Explore



CREATING VALUE

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

OUR STRENGTHS AND CAPABILITIES

#1 Self-funding business model

Our production assets provide the cash flow to sustain exploration, appraisal and development activity. In 2012 we acquired non-operated interests in two UK North Sea development assets, Kraken and Catcher, to provide future cash flow for the business. Both assets started producing in 2017. As this production continues to deliver over time, we will seek to bring on 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 and a largely undrawn debt facility. This allows us to actively assess new venture opportunities and deliver immediate activity. We also apply strict capital discipline to our investment decisions and actively manage our portfolio to optimise capital allocation.

#3 Frontier exploration positions

Our exploration activity is principally in frontier and emerging basins where the greatest potential value exists. Our frontier exploration position in Senegal, acquired in 2013, has yielded material exploration success and we continue to feed our pipeline of exploration assets, acquiring exploration acreage in a number of new countries during 2018 and 2019.

#4 Skills, experience and collective expertise of our workforce

Our employees, contractors and suppliers provide the necessary expertise and resources to deliver our work programmes. We ensure they have the right training, tools and knowledge in order to help us to deliver our strategy safely. Contractors and suppliers are required to work to the same high standards as our employees.

#5 Responsibility focused culture

Cairn has an established, highly experienced and respected leadership team which 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.

WHAT CAIRN OFFERS

Our responsible approach

Our approach is governed by our commitment to working responsibly across all our activities. This means working in a safe, secure, environmentally and socially responsible manner.

Our experience

Cairn has over 30 years' experience as an operator and partner at all stages of the oil and gas life cycle and has successfully discovered and developed oil and gas reserves in a number of international locations in partnership with host governments.

Our expertise and agility

We pride ourselves on seeing value where others might not and on being the right size of organisation to move quickly and responsibly to pursue this value.

DEVELOPMENT

2-5 years

Appraise

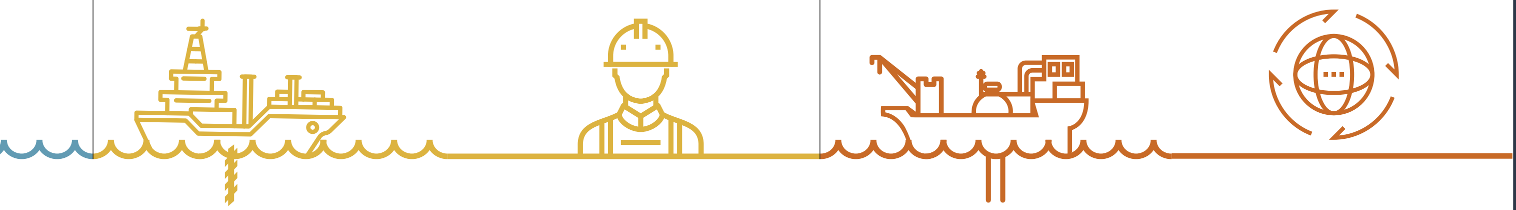
Develop

PRODUCTION

10-25 years

Produce

Return & reinvest



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**.

CREATING VALUE RESPONSIBLY

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

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 and creating value through exploration success and commercialising resources across South Asia and most recently in West Africa.

Cairn created transformational growth and significant value through the discovery in 2004, and subsequent development and production, of hydrocarbons in Rajasthan, India. More recently Cairn drilled the first ever deepwater wells offshore Senegal which resulted in two basin opening discoveries, one of which was the largest global oil discovery of 2014.

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.

Oil and gas sales revenue

US$504m

Payments to governments

US$37.8m

Capital expenditure

US$242m*

Social investment

US$483,995

Employee salaries and benefits

US$39.1m

* Net of US$27m tax refund and US$21m Nova working capital reimbursement

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

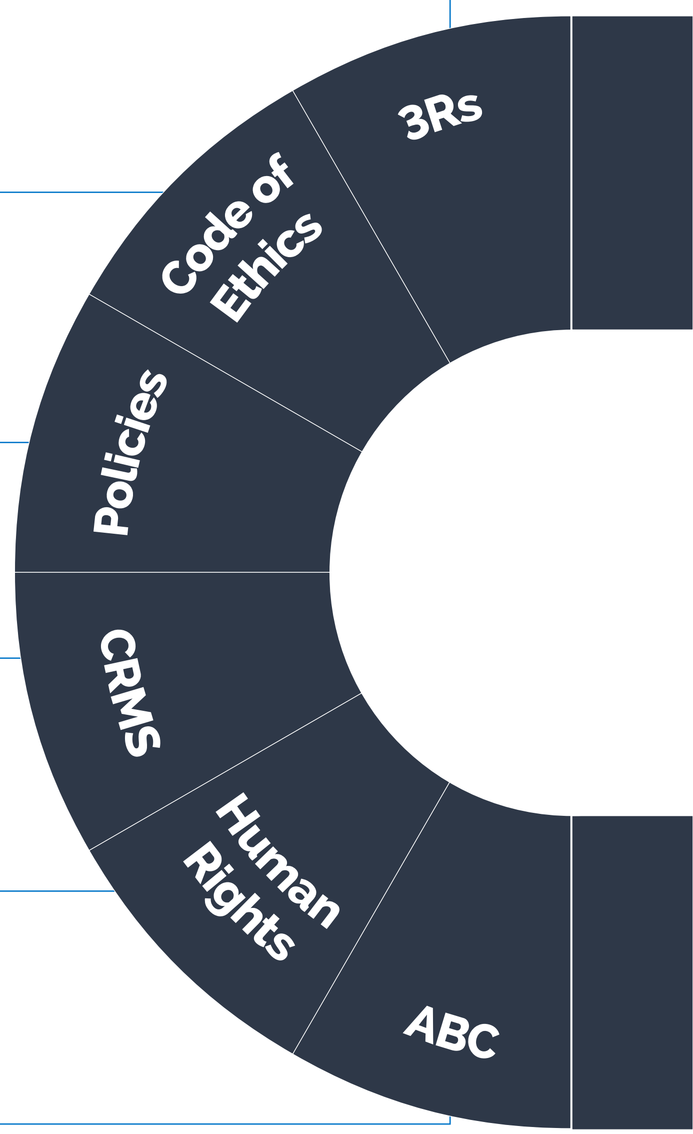
A Responsible Approach

We strive to deliver value in a safe, secure, environmentally and socially responsible manner for all our stakeholders. Internally, we have in place comprehensive systems and standards which reinforce our culture of working responsibly. Externally, we adhere to key global standards promoting responsible working practices.

Leadership and strong corporate governance are key to ensuring we operate in accordance with these standards and systems.

Read more: **CEO's Review** on **P7** and **Leadership and Governance** on **P72**

Internal



Values
Our core values are known as the **3Rs: Respect, Relationships and Responsibility.**

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**.

Revised and reissued in 2019.

Read more: **Business Principles** on **P53**

Key Policies
- Health, Safety and Security
- Environment
- Social Responsibility
- Major Accident Prevention
- People
- Tax

Corporate Responsibility Management System
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.

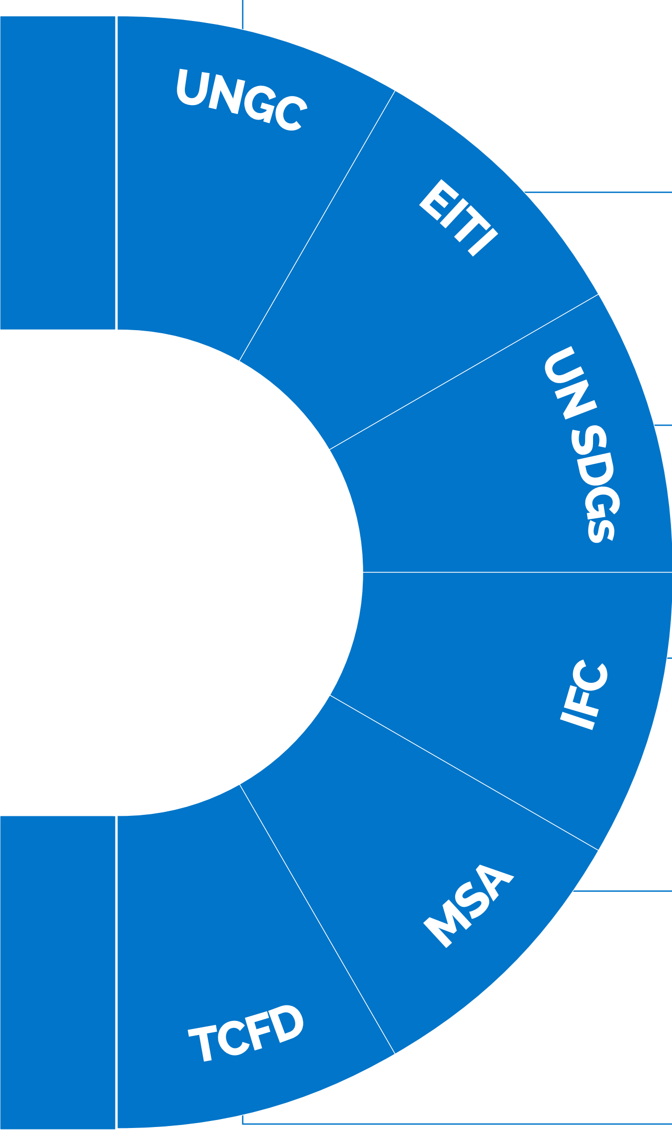
CRMS revised against leading global performance standards in 2019.

Human Rights
Our Human Rights Guidance defines how we identify, assess and manage potential human rights issues at key project stages.

Guidance updated in 2019.

Anti-Bribery and Corruption
We have a zero-tolerance position on ABC matters; everyone we work with must sign up to our ABC policy.

External



United Nations Global Compact
We support this initiative for businesses committed to aligning their strategies with universally accepted principles in human rights, labour, environment and anti-corruption.

Participation renewed in 2019.

Extractive Industries Transparency Initiative
We participate in the EITI, the coalition of governments, companies and society promoting transparency of payments in oil, gas and mining sectors.

Membership renewed in 2019.

United Nations Sustainable Development Goals
We support the 17 goals which help to guide us in minimising impacts and maximising benefits of our activities in countries where we work.

International Finance Corporation
We align our CRMS with the IFC Performance Standards on Social and Environmental Sustainability.

Modern Slavery Act
We operate in accordance with the UK MSA. Our selection procedure for service providers includes modern slavery assessments. Our MSA statement is available online.

Task Force on Climate-Related Financial Disclosures
We continue to assess our reporting against TCFD, complying with a number of recommended disclosures.

Read more: **Climate Change Policy and Energy Transition** on **P46**

United Nations Sustainable Development Goals

We support the United Nations Sustainable Development Goals (UN SDGs). The SDGs are a series of 17 goals to promote prosperity for all while protecting the environment.

They provide the business community with a framework for assessing the impact and value of their activities. We assess our contributions through civil society commentary, stakeholder enquiries and community engagement. Not all 17 goals can be applicable to every business. Our contributions to goals applicable to our business in 2019 are summarised below.

SUSTAINABLE DEVELOPMENT GOALS

Minimise negative impacts	SDG	Maximise positive impacts
	1 NO POVERTY	Requisite payments to host governments throughout our operations Read more on P55
Implemented measures to minimise disruption to fishing activities offshore Mexico, Suriname and the UK and Norway Read more on P63	2 ZERO HUNGER	
Enhanced employee travel health and security risk management Read more on P59 Continued to apply CRMS to protect health and safety of workers Read more on P58	3 GOOD HEALTH AND WELL-BEING	Continued to offer employee health benefits across organisation Read more **CR Report** Developed and delivered health and well-being initiatives Read more **CR Report**
Trained employees in travel health and security risk management Read more on P59	4 QUALITY EDUCATION	Continued to support English language training for students at the Earth Sciences Institute (IST) in Senegal Read more on P65 Joined a cross-industry initiative to support a vocational training institute (NATIM) in Suriname Read more on P28
	5 GENDER EQUALITY	Maintained a robust equality and diversity policy; increased female board representation during year Read more on P57
Implemented EIA and Environmental Management Plan measures for operations in Mexico, Norway, Suriname and the UK to protect water quality around our operations Read more on P62	6 CLEAN WATER AND SANITATION	

Minimise negative impacts	SDG	Maximise positive impacts
	7 AFFORDABLE AND CLEAN ENERGY	Production of oil and gas to meet energy demands through the transition to a low carbon economy. Contribute to energy security for host nations; Senegal development expected to contribute to domestic gas supply substantially replacing higher carbon sources of electricity generation in Senegal Read more on P65
	8 DECENT WORK AND ECONOMIC GROWTH	Continued to implement policies for local procurement and supplier development Read more on P65 Continued to support the development of a National Institute of Oil and Gas (INPG) through our joint venture in Senegal Read more on P65
	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Continued to support Invest in Africa in Senegal, training local businesses and setting up a portal for SMEs to access oil and gas contracts Read more on P65
	10 REDUCED INEQUALITIES	Continued to support EITI in promoting transparent payments to governments by the extractive industry and promoting fair distribution of benefits in host nations Attended the global EITI conference Read more on P55
Continued to apply robust waste and chemical management plans throughout our operations Read more on P60	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Promoted human rights, environmental and safety standards through contracts and monitoring Read more on P64

Minimise negative impacts	SDG	Maximise positive impacts
Mitigated emissions by minimising energy consumption and flaring Endorsement of Global Gas Flare Reduction Partnership Read more on P46	13 CLIMATE ACTION	Contribution to climate change adaption through social investment Read more on P28 Promoted deferred production of gas in preference to flaring with our non-operated partners Read more on P48 Funding provided to Heriot Watt university to support clean energy research themes
Subjected all 2019 operations to EIA and environmental management measures in line with our CRMS and Environmental Policy Read more on P62 Implemented robust programmes for accident prevention and preparedness and response Read more on P58	14 LIFE BELOW WATER	Shared findings of all ESIAs with government authorities Read more on P62 Conducted biodiversity studies in Mexico and monitored sea turtles Read more on P62
Continued to adhere to our robust human rights policies to ensure human rights violations do not occur in supply chain Read more on P64 Improved awareness of human rights with a workshop and training Read more on P64 Engaged with marine authorities in Mexico and set up a local grievance mechanism Read more on P63	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Maintained robust ABC management policies and procedures Read more on P55 Support to institutional training in Senegal Read more on P65 EITI reporting in participating countries Read more on P55
	17 PARTNERSHIPS FOR THE GOALS	Continued to support the UNGC Read more on P7 Supported the new 2019 EITI standard Read more on P55

UN SDGs in Action

Our contribution to the UN SDGs through our activities in Senegal is described in detail on page 65.

Our contribution to the UN SDGs through our historic activities in India is described in detail on page 14.

UN SDGs in Action

SUSTAINABLE DEVELOPMENT GOALS

CASE STUDY

LAUNCH OF SOCIO-ECONOMIC IMPACT STUDY

In November 2019 the UK India Business Council launched a campaign to highlight the importance of the socio-economic contribution that UK businesses make in India.

The campaign is being delivered in partnership with the UN Development Programme to harness the resources in finance, innovation and strategy of the business sector in India for the successful implementation of the UN Sustainable Development Goals (SDGs).

The SDGs are an ambitious declaration of global aspirations, ranging from eliminating poverty, hunger, and violence against women to providing legal identity and equal access to justice to every person in the world. Adopted unanimously by the 193 UN Member States in September 2015, the SDGs are meant to guide global development efforts for 15 years, from 2015 to 2030.

Cairn's investment in India was presented at the launch event of the Socio-Economic Impact Study in Delhi as an example of British business working in support of the SDGs.

"We started Kiri Logistics in 2003 when Cairn came to Rajasthan for the first time. They were the ones who gave us this chance and employed local youth. We were able to use this opportunity and prove ourselves to reach this position."

Lalit Kiri, entrepreneur and Director of Kiri Logistics, service providers to the Indian and international oil and gas industry.

CASE STUDY

INVESTMENT LEGACY IN RAJASTHAN

August 2019 marked the 10th anniversary of first oil from Mangala Oil Field in Rajasthan, the largest onshore discovery in India for more than 25 years.

From a barren desert landscape, Cairn discovered more than one billion barrels of oil which continues to generate significant revenues for the country with more than US$20 billion to the Indian Government to date.

Together with its joint venture partners Cairn invested ~US$6bn in projects that have benefitted the nation and local communities:

- Rainwater harvesting, capacity to store more than 10 million litres of drinking water
- Mobile health van, serving over 8,500 people in remote local communities
- Enterprise Centre, training more than 3,000 people, supporting development of local businesses
- Rural dairy development, over 900 dairy farmers registered in different co-operatives

External Industry Overview

This industry overview, provided by Heriot-Watt University, gives an independent view of the industry in which Cairn operates.

About the authors:
Dr Julian Fennema – Honorary Associate Professor at Heriot-Watt University

Dr Erkal Ersoy – Assistant Professor at Heriot-Watt University, Centre for Energy Economics Research and Policy

Heriot-Watt University is one of the UK's leading universities for business and industry. The university's Centre for Energy Economics Research and Policy (CEERP) research group forms a key point of support and collaboration with the energy industry.

Cairn has a well-established and long standing relationship with Heriot-Watt University, promoting the exchange of learning across academia and industry. Most recently Cairn has collaborated to support a new energy scholarship programme at Heriot-Watt. This programme will focus on developing future talent and research in subsurface and geosciences to help create a lower carbon future.

1 CLIMATE CHANGE POLICY AND ENERGY TRANSITION

2019 has seen continuing momentum in the public discourse, from government and regulators to protests by individuals and focus groups, on the need for an energy transition to address the question of climate change.

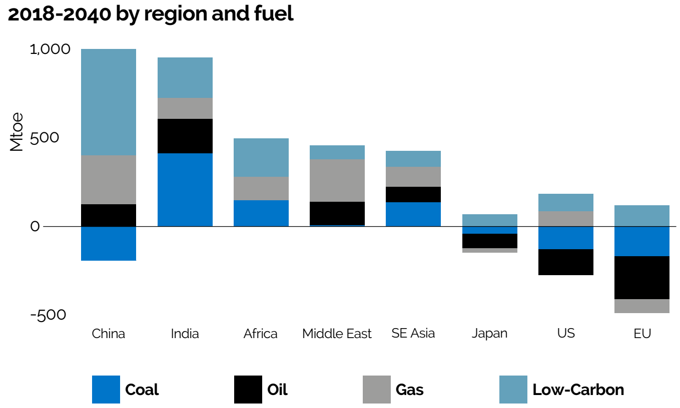
There remains, however, a gap between the high-level rhetoric and the detail, and between policies committed to date and those required for sustainable, accessible energy. According to the International Energy Agency (IEA), under currently planned policies the levels of carbon emissions in 2040 will be double those targeted by the 2016 Paris Agreement.[1] Even the levels projected in the Sustainable Development Scenario do not yet meet the levels proposed in the 2018 Special Report on Global Warming of 1.5°C by the International Panel on Climate Change (IPCC).

In a growing world economy, two strong and counteracting forces act on the total demand for energy. The production of more goods and services requires increased energy consumption but, as technology progresses, less energy is consumed per unit of economic output.

In advanced economies, the efficiency effect dominates[2]. Whilst ever more efficient technologies are being implemented, in developing countries the economic growth effect outweighs the efficiency gains. These developing countries are expected to account for more of global economic growth than the advanced economies, such that overall global energy demand is forecast to rise by around a quarter by 2040, albeit with a doubling of overall output.

The extent and composition of this energy consumption growth is highly uncertain, with unknown technical progress and government policies on climate change influencing the market supply and demand for different fuels.

World Energy Outlook (WEO): IEA 2019 change in energy demand 2018-2040 by region and fuel



Technology in a sector tends to dictate the fuel – transport accounts for 65% of total oil consumption. Whilst the efficiency effect characterises the transport sector in advanced economies[3] with falling oil demand as a result, this is counteracted by the growth effect for the developing economies. Under current policies, therefore, demand for oil is expected to plateau by 2040[4], with quantity reductions only occurring if new policy measures are introduced.

1 Based on a comparison of Stated Policies and Sustainable Development scenarios from IEA World Energy Outlook 2019.
2 Primary energy demand in the OECD countries has been grown by just 0.6% over 2008-2018 but the economies have grown by 16.6%.
3 The current car fleet is highly inefficient, converting approximately 30% of potential energy into kinetic energy (the remainder is lost as heat or sound). Improvements to the non-electric car fleet are expected to stem over nine million barrels per day of growth in oil demand, three times more than that expected from the introduction of 300 million electric vehicles to the fleet. For developing economies, with a relatively small passenger vehicle fleet compared to overall oil consumption there are fewer efficiency gains to be made, such that the growth effect again dominates the efficiency effect.
4 Under the IEA's Stated Policies scenario as discussed in the World Energy Outlook 2019.
5 According to OGA: https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/well-data/
6 https://www.rystadenergy.com/newsevents/news/press-releases/upstream-renaissance-for-the-uk-offshore-sector/
7 https://oilandgasuk.co.uk/product/economic-report/
8 These include Neptune Energy's Seagull, Apache North Sea's Storr, and Wintershall Dea's Sillimanite, which straddles the UK-Netherlands border.
9 https://www.gazprom.com/press/news/2019/may/article480304/. These figures are C1 + C2, which is equivalent to proved + probable + possible reserves.
10 https://www.rystadenergy.com/newsevents/news/press-releases/operational-production-costs-have-fallen-globally/

Increasing interconnections in world markets, from new pipelines and developments in liquefied natural gas trade, will continue to drive the adoption of gas as a lower carbon form of energy, in particular for electricity generation as a greener substitute for coal. Coal currently represents 27% of primary energy supply and emits the most carbon per unit of electricity – making it the easiest win in reducing carbon emissions consistent with the Paris Accord. Amongst the developing countries China's substitution away from coal, however, is outweighed by the growth from India, although continued moves away from coal in advanced economies drive the expectation for a small reduction overall.

2 NORTH SEA

North Sea exploration was on the rise in 2019, with a doubling of UK offshore exploratory drilling after a low level of activity in 2018.[5] This level of activity is comparable to those we saw in early to mid-2010s and is the highest since 2012. This pattern signals the capital commitments and portfolio adjustments in 2018 taking effect in 2019.

Further, offshore development drilling increased by approximately 50% year-on-year between 2018 and 2019. This level of activity could be maintained in the medium term with Rystad predicting up to 38 new project commitments in the next three years.[6] Such a development would pave the way for a surge of activity for contractors and service companies operating within the shelf. This, in conjunction with the evolving operator landscape in the UKCS, could breathe new life into the sector.

According to Oil and Gas UK (OGUK)[7], several projects in the UK Continental Shelf have been given the green light for investment in 2019.[8] Hurricane's Lincoln field in the West of Shetland remains the largest development at an estimated $5.4 billion.[7] These come in addition to the buzz created by CNOOC and Total's Glengorm discovery in early 2019, which is the largest gas discovery in the UK since Culzean in 2008.

However, these greenfield developments do not represent the whole picture. Value creation through merger and acquisition activities has continued in 2019, amounting to over $5 billion.[7] Chrysaor's acquisition of the majority of ConocoPhillips' UK portfolio topped the list at a value approximately half this total figure. This signals the continuation of the 'acquire and exploit' approach, where under-capitalised assets' operational processes are streamlined to optimise production and lower costs. Across both greenfield and brownfield investments, the North Sea has had a dynamic year in 2019.

3 GLOBAL EXPLORATION

2019 saw a surge of exploration activity and the highest discovered volumes since 2015, indicating that the decreased appetite for exploration that we observed in 2018 seems to have become a thing of the past. Guyana continued to bring exploration success, and Europe and South America offered up the most oil and gas discoveries in the second and third quarters of the year.

Elsewhere, Russian arctic waters hosted exploration success with Dinkov and Nyarmeyskoye discoveries amounting together to nearly 1.5 billion barrels of oil equivalent.[9] Exxon's success in the disputed waters of Cyprus placed the country on the map once again with an estimated 5-8 trillion cubic feet of natural gas that, if developed, could reduce European dependence on Russian gas.

In 2019, discoveries in Africa were not far behind other geographic hotspots. According to Rystad, top ten largest conventional discoveries featured Mauritania, South Africa, and Ghana. With nearly 2.3 billion barrels of oil equivalent, these countries jointly accounted for over a quarter of the global total.

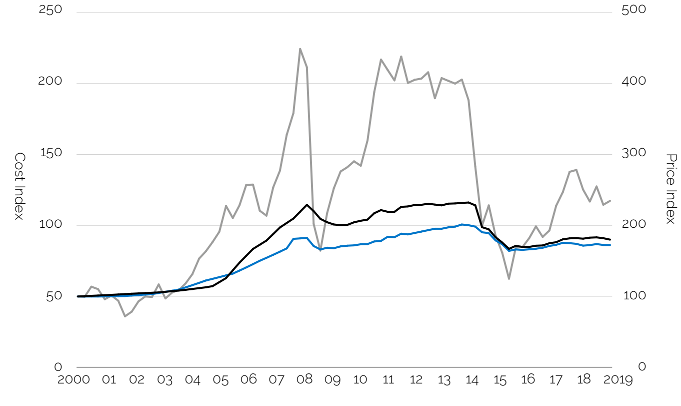
4 COST ENVIRONMENT AND INVESTMENT TRENDS

IHS capital and operating cost indices through the third quarter of 2019 show subtle signs of cost inflation in line with the trend we observed in 2018. Although the operating cost index appears to have stabilised in 2019, these indices are aggregated and, therefore, conceal regional divergences. For example, the unit operation costs for UKCS operators have declined by approximately 30% from their global high since 2014, while other markets have seen slight cost inflation over the same period.[10]

The upward pressure on the barrel price tends to have a tightening effect on the market for inputs to the production process, but with a lag, so the downward price trend we experienced in 2019 did not translate into declining cost indices globally. The graph below shows the linkages between the oil price and the capital cost (the cost of constructing a producing facility) and the operating cost (the ongoing cost of producing from this facility).

Within the deepwater market, sustained Floating Production Storage Offloading (FPSO) utilisation rates and increases in offshore exploration, and subsequent development, are likely to drive strong demand in factor inputs in the short to medium term. A key determinant of this will be Field Investment Decisions (FIDs) being considered in boardrooms, especially given the uptick in exploration success in 2019. In the big picture, decisions in 2020 are likely to be critical in setting the scene for the next few years.

IHS cost and Brent crude price indices



Capital and operating cost indices from IHS Markit and oil price index (2000 = 100) based on Brent FOB price ($) from EIA.

OPERATIONAL REVIEW

2019 Summary

- Net oil production averaged ~23,000 bopd, at upper end of guidance (2018: 17,500 bopd)
- Oil and gas sales revenue US$504m (2018: US$396m), average realised oil price US$65.70/bbl; average production cost US$17.4/boe
- Net cash inflow from oil and gas production US$390m
- Capital expenditure was US$242m*
- Year end Group cash US$147m, excludes proceeds from sale of Capricorn Norge of ~US$108m, completed in February 2020
- Operating profit US$155m (2018: Operating loss US$129m)
- Net impairment reversal of US$68m (2018: charge of US$166m): Reversal of US$147m Kraken impairment, offset by US$79m goodwill impairment
- Increase 2P reserves by 150% to 142 mmboe

2020 Outlook

- Estimated net production of 19,000 to 23,000 bopd; targeting average production cost <US$20/boe
- Forecast capital expenditure ~US$615m
- Senegal – Sangomar field development targeting first oil 2023, gross production 100,000 bopd
- Mexico – two further non-operated exploration wells planned
- India Arbitration – Tribunal indicated it expects to be in a position to issue the Award in summer 2020; Cairn continues to have a high level of confidence in merits of its claims

Reserves

After accounting for production in the period, Group 2P reserves increased during the year by 86 mmboe from 56 mmboe to 142 mmboe, following promotion of the Sangomar phase 1 contingent resources to reserves (+91.4 mmboe), increases on the main Catcher (+1.9 mmboe) and Kraken (+6.4 mmboe) fields and movement of Worcester (+1.5 mmboe) and Catcher satellites (+0.8 mmboe) from Contingent Resources to Reserves following JV commitment to these incremental projects.

Production

Both Catcher and Kraken delivered good production performance in 2019, with annual production of ~23,000 bopd at the top end of our guidance. Catcher and Kraken are at peak rates and the focus is on optimising existing wells and maturing new opportunities to help sustain production in forthcoming years.

* Net of US$27m tax refund and US$21m Nova working capital reimbursement

Operational Review

UK & NORWAY

UK Production

Catcher

Gross production from the Catcher Area (Cairn 20% WI) averaged 63,600 bopd in 2019. The Area, comprising the Catcher, Varadero and Burgman fields, continued to outperform during 2019 achieving excellent operating efficiency from the FPSO.

2020 drilling will deliver three new production wells. Development of two Catcher Area satellite oil fields, Catcher North and Laverda, is progressing to plan. The two development wells are scheduled to be drilled in mid-2020, along with an additional Varadero production well. First oil from Catcher North and Laverda is targeted for H1 2021 and together with the Varadero infill well, will help to offset natural decline of the Catcher Area as the existing wells come off plateau.

The JV continues to work up additional well targets within the Catcher area and nearby discoveries to maximise economic recovery. Two Burgman infill wells are under-evaluation for 2021.

In addition, a 4D seismic survey across the Catcher Area is scheduled to take place mid-year to identify further infill opportunities as well as to improve the imaging of already identified near field prospects and discoveries. Planned shut-downs for maintenance and tie-ins of new satellite wells will occur during 2020.

Kraken

Gross production from Kraken (Cairn 29.5% WI) averaged 35,600 bopd in 2019. FPSO performance was significantly improved during H2 2019 and this has continued into 2020. Water cut levels have stabilised and more regular well testing has provided additional insight and improved confidence in long-term production forecasts.

Drilling of two wells, a producer and an injector pair on the western flank of the Kraken field (Worcester accumulation) is expected to commence in H1 and tied in and onstream in H2 2020. This development will utilise spare capacity in the existing DC2 sub-sea infrastructure.

The western flank area provides further opportunities and the Pembroke, Antrim and Barra areas are being evaluated.

UK & Norway Exploration

Cairn participated in four exploration wells in the UK & Norway region in 2019: PL885 (Cairn 30% WI) in the Norwegian North Sea, containing the Presto prospect; PL758 (Cairn Operated 50% WI) in the Norwegian Sea, containing the Lynghaug prospect; PL842 (Cairn Operated, 40% WI) in the Norwegian Sea containing the Godalen prospect; and P2312 (Cairn Operated, 60% WI) in the UK North Sea containing the Chimera prospect. All four wells were reported as dry and plugged and abandoned.

In early 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 contains a firm commitment to drill an exploration well (with both wells planned to be drilled in the period from H2 2020 to H1 2021).

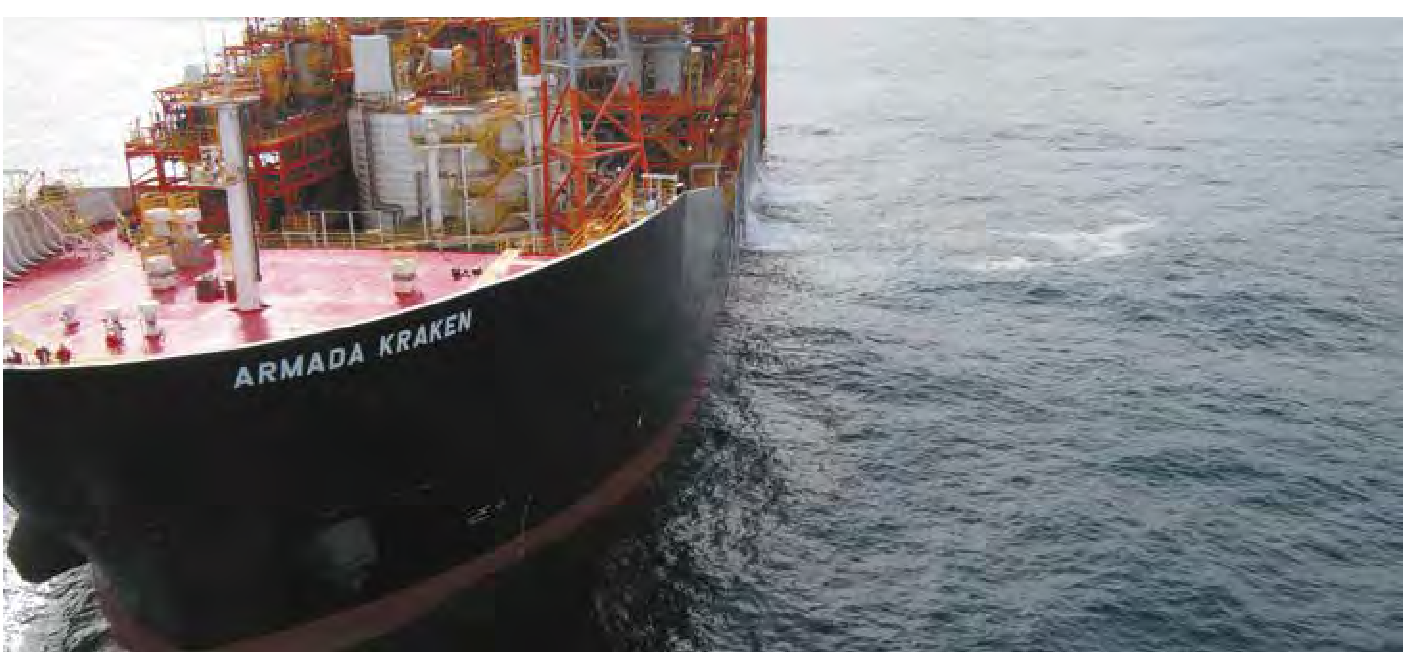
Norway asset disposals

In line with Cairn's consistent strategy to realise value and redeploy capital within our portfolio, two attractive transactions were announced in the year.

In August 2019, Cairn entered into a farm-out agreement with ONE-Dyas Norge AS for the sale of 10% interest in the Nova development offshore Norway for a consideration of US$59.5m plus working capital adjustments from the effective date of 1 January 2019. Following the transaction Cairn retained a participating interest of 10%. The transaction was completed in Q4 2019.

In November 2019, Cairn entered into an agreement with Sval Energi AS (formerly Solveig Gas Norway AS) to dispose of the entire share capital of its Norwegian subsidiary, Capricorn Norge, for a consideration of US$100m plus working capital adjustments, from the effective date of 1 January 2020. The transaction completed in late February 2020.

Following these transactions, Cairn has disposed of all its assets in Norway and reduced its committed exploration and development expenditure by US$210m. We would like to express our gratitude and best wishes to our employees in Stavanger who are joining Sval Energi AS.



STRATEGY IN ACTION

PREPARING TO EXPLORE

In June 2019 the semi-submersible Transocean Arctic drilling facility was engaged for two exploration wells offshore Northern Norway, the Lynghaug and the Godalen wells.

These were the first Norwegian exploration wells operated by Cairn and during the summer campaign both operations were executed as planned, without incidents and below budget.

Brønnøysund and Sandnessjøen, towns of 6,000 and 5,000 people respectively, provided the offshore operations with logistical and emergency response support. For Cairn and the other operators active in these waters, Brønnøysund provides the helicopter base for offshore transit and Sandnessjøen is the designated supply base. The Rescue Co-ordination Centre for Northern Norway is located further north in Bodø, a town with a population of 49,000 residents.

In preparation for the campaign, as well as during operations, senior staff from Cairn's Stavanger offices visited the towns on several occasions, establishing good working relationships with local stakeholders and communities.

Throughout the campaign, around 1,000 workers supporting Cairn's activities passed through the region, increasing demand for flights, accommodation and supply support. Cairn was in direct contact with the airline, hotel and logistics providers to ensure that services were available as required for operational needs without adversely impacting the local population.

Additionally, meetings were arranged with local mayors, the police and rescue service representatives to introduce Cairn as a company and share the plans for drilling activity that required potential support and preparedness.

What was achieved at Lynghaug and Godalen aligns well with Cairn's core values, demonstrating the respectful and responsible way that relationships are created and maintained to deliver safe and efficient operations.

Operational Review continued

MEXICO

Exploration

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).* Mexico provides an exciting opportunity to discover commercial quantities of hydrocarbons in a highly prolific, yet under-explored region and has been a focus for Cairn's exploration drilling activities in late 2019 and early 2020.

In its Operated Block 9 (50% WI), Cairn completed the first well of a two well programme in Q4 2019. The exploration objectives of the Alom-1 well was to prove hydrocarbons in stacked Pleistocene targets, these were found to be dry and the well was permanently plugged and abandoned. Preliminary analysis indicated that the well encountered over 500m of high-quality water bearing sands across multiple targets. This information is helping to calibrate Cairn's seismic data and geological models and is being integrated to improve our understanding of the petroleum system offshore Mexico.

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 the Operator, Eni, indicate the discovery may contain 200 to 300 million barrels of oil in place. Eni estimate that Saasken-1 discovered 80m of net pay of good quality oil in the Lower Pliocene and Upper Miocene sequences with excellent petrophysical properties. An intensive data collection has been carried out on the well and Eni has indicated that a production capacity for the well of more than 10,000bopd may be possible.

This first discovery across Cairn's Sureste acreage interest opens the potential for a development hub, allowing tie-back of future discoveries across Blocks 9 and 10. Cairn has identified a number of prospects and leads across Blocks 9 and 10 that could be possible future exploration targets and tie-back candidates.

Cairn completed its second operated well in Q1 2020. The exploration objective of the Bitol-1 well on Block 9 was to prove hydrocarbons in stacked Pliocene and Miocene targets. The objectives were found to be dry and the well is being permanently plugged and abandoned. Some oil shows were encountered in good quality, water-bearing sandstones.

The information gathered will help calibrate the seismic data and geological models and is being integrated to evaluate further prospectivity. Bitol-1 was drilled by the Maersk Developer semi-submersible to a vertical depth of 5,210m below the sea surface and was terminated in the Miocene section. The well was drilled ~120 kilometres northwest of Villahermosa. Cairn holds a 50% WI with JV partners Citla Energy (35% WI) and ENI (15%WI)*.

On Block 7 (30% WI) the Ehecatl-1 well commenced in February 2020, targeting stacked objectives in the Lower Miocene. This well, operated by Eni, is being drilled with the Ensco Valaris 8505 semi-submersible rig in a water depth of 426m.

In Block 15 in the Tampico-Misantla Basin, an environmental baseline survey was completed in Q1 2019 and technical evaluation of the block is progressing.

* 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.

STRATEGY IN ACTION

PREPARING FOR SAFE DRILLING OFFSHORE MEXICO

Following extensive preparatory evaluation work, Cairn successfully bid for two blocks in the 2017 Mexican bid round 2.1: Blocks 7 & 9.

For Cairn, this marked the first entry into both Mexico and Latin America. With drilling commencing within 26 months of award, Cairn moved quickly to drill two non-operated wells and participate in two non-operated wells, focused at all times on executing safe and responsible operations.

As a new country entry, Mexico presented a number of legislative, administrative and regulatory differences to previous operations. Complex employment legislation, environmental regulations, and an intricate legal and regulatory framework necessitated a well-integrated approach across numerous departments. Establishing a multi-disciplinary team spanning the whole business was therefore critical to plan and deliver the project in line with Cairn's operating standards.

Establishing a presence in Mexico was our first priority. This began with the set-up of our Mexico City office, staffed with a high percentage (~75%) of Mexican nationals, and a logistics base near the offshore blocks in the Tabasco state on the eastern coast, which combined to form the backbone of our activities in Mexico.

Our experienced operations team, many of whom have worked on previous Cairn operations in Greenland, Morocco and Senegal, were able to identify suitable local partners and locations to operate with and from.

The oil and gas industry is well established in Mexico, and the country's existing infrastructure to support oil and gas exploration is impressive. Major service companies and manufacturers are long established and well positioned. As such, Cairn worked to identify key local partners and, where expertise was lacking, to work with more experienced international companies.

Tendering for each service, from the drilling unit to the provider of Personal Protective Equipment, was done through our formal competitive tendering process; following extensive multi-disciplined evaluations covering HSE, local content, technical capability and commercial value, partners were selected. Once we had selected our partners and operational hubs it was a case of establishing expectations.

Cairn's HSE and operational standards are non-negotiable. They are communicated within contracts, start-up meetings, operational audits and management visits; the company's success relies on our team's commitment to operational excellence.

As preparation for drilling activities progressed, an operational execution team deployed to the Mexico office to support the team we had established as well as our key contractors. This approach ensured that the technical expertise of oil and gas operations were blended with the knowledge of local Mexican providers, helping to deliver the safe drilling of our operated wells.

Each project is different, and each location that Cairn operates in is unique. However, the most important element of our operations has been and always will be the focus on preparedness and execution of safe and responsible operations.

Operational Review continued

SENEGAL

Development

Cairn's discoveries offshore Senegal from the country's first deep water wells opened up a new basin on the Atlantic Margin. Cairn operated three successful drilling programmes from 2014 to 2017 and laid the foundations for Senegal's first multi-phase oil and gas development with first oil targeted in H1 2023.

The JV will be working with all stakeholders to ensure that the Sangomar development delivers enduring benefits to the people of Senegal as a project of national significance and an anchor for economic and social development.

In January 2020, the JV made the Final Investment Decision following receipt of the 25-year Exploitation Authorisation from the Government of Senegal.

The Sangomar field (formerly SNE), located 100km offshore to the south of Dakar, is within the Sangomar Deep Offshore permit area. Phase 1 of the development will target oil reserves from the lower reservoirs and an initial pilot phase in the upper reservoirs. Over the life of the field, total recoverable oil reserves of are estimated to be ~500mmbbls with the development also including plans to export gas to shore for the domestic market.

The funding plan to allow the Group to meet its share of development costs is well progressed. Cairn remains confident that it will be able to meet its share of expenditure and maintain current equity levels in the project.

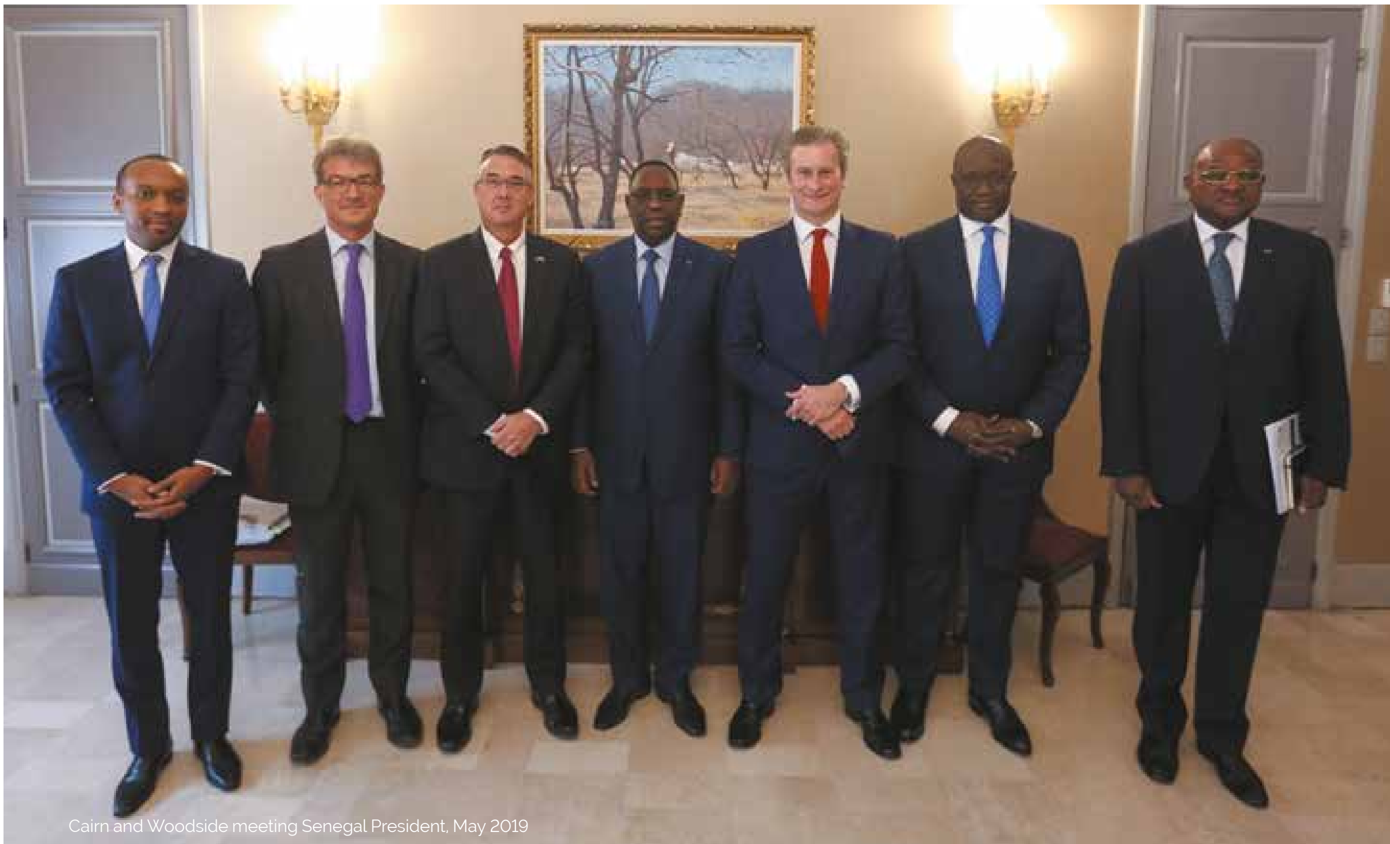
The project has now entered the development execution phase of activities and Operator Woodside has completed the purchase contract for the FPSO facility and issued full notices to proceed for the drilling and subsea construction and installation contracts.

The key contractors for the development are:

MODEC Inc	FPSO purchase	Oil processing capacity of 100,000 bbl/day
Subsea Integration Alliance (non-incorporated alliance Subsea 7 and OneSubsea)	Construction and installation	Integrated subsea production systems and subsea umbilicals, risers and flowlines
Diamond Offshore	Two well-based contracts for drill rigs	Ocean BlackRhino and Ocean BlackHawk with phased drilling targeted to commence in Q1 2021
Halliburton and BHGE	Main Drilling Services contracts	
Shearwater	High-density multi-azimuth 3D seismic acquisition contract over the field and neighbouring FAN discovery	Data acquisition for this survey was completed in Q4 2019 and is intended to improve reservoir definition to support development well placement

In addition to Phase 1, the JV continues to work with the Ministry of Petroleum and Energy and Petrosen to progress subsequent oil opportunities, including the other discoveries located in the Rufisque Offshore and Sangomar Offshore blocks. This work also includes planning for the provision of Sangomar gas to supply Senegal's domestic needs and Gas to Power initiative.

Senegal FPSO tanker


Cairn and Woodside meeting Senegal President, May 2019

STRATEGY IN ACTION

ACHIEVING FINAL INVESTMENT DECISION IN SENEGAL

2019 was a year of significant progress on the Sangomar development offshore Senegal for Cairn and its Joint Venture (JV) partners.

In early January 2020 the 'Sangomar Field Development Phase 1' was approved by the JV partners (Woodside, FAR and Petrosen, the Senegal national oil company) and the Government of Senegal. This milestone marked the move into the execution phase of development activities on the first of this multi-phase development.

This has been the culmination of a multi-year collaborative effort between ourselves and our JV partners which began when Cairn drilled the first ever deepwater wells offshore Senegal in 2014.

In 2013 Senegal was underexplored. Hydrocarbon systems had previously been demonstrated on the Senegal shelf and we believed there to be extensive source rocks and cretaceous reservoir systems. In 2014 Cairn drilled two successful wells offshore Senegal, one of which (Sangomar, then known as SNE) was the largest global oil discovery of 2014. This discovery opened a new hydrocarbon basin, marking the start of significant interest from the global oil industry. Over the next four years Cairn carried out multiple drilling programmes drilling a total of 11 wells.

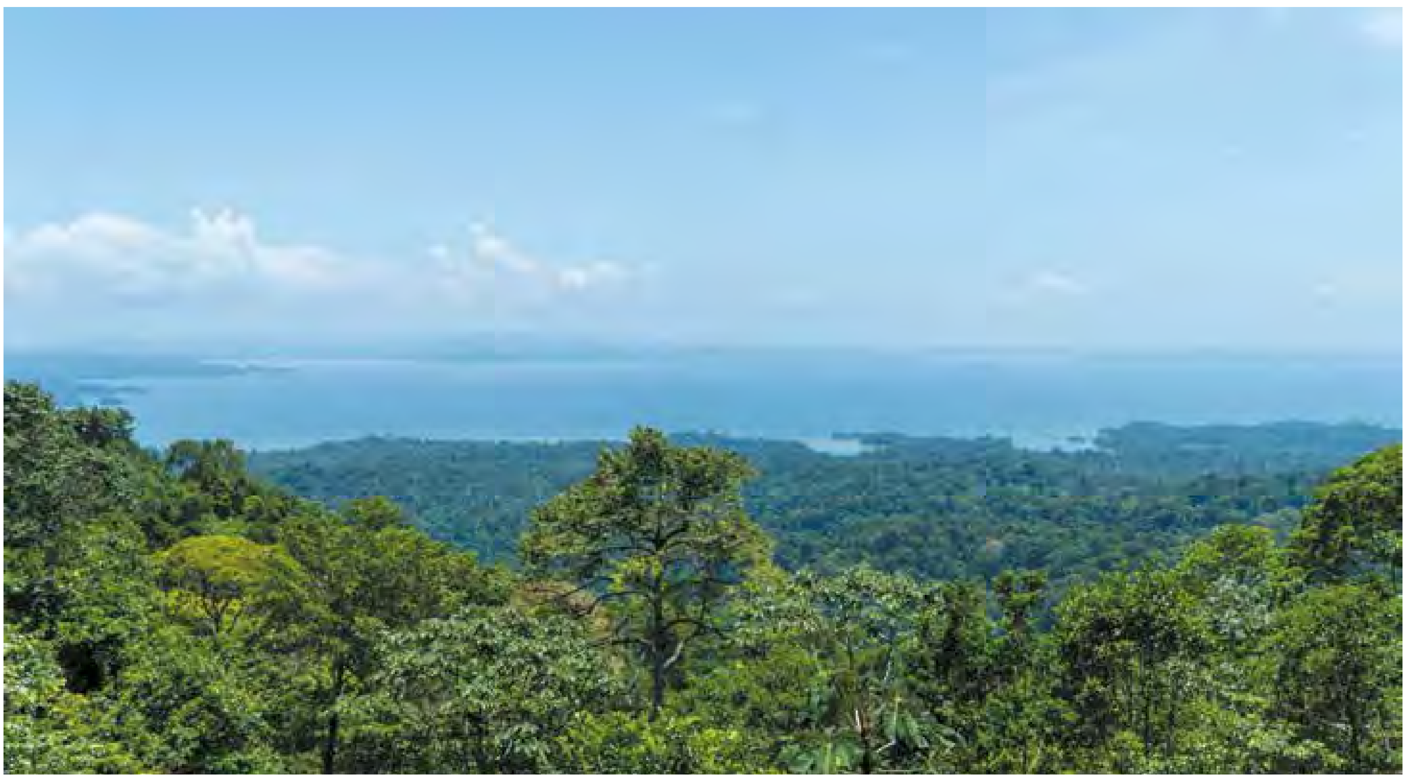
In 2018 Cairn submitted the Evaluation Report to the Government of Senegal, so declaring the commerciality of the Sangomar field. As planned, Cairn transferred operatorship to JV partner Woodside and worked with them during 2019 to support: the conditional award of major contracts including FPSO, drilling rig and subsea; and the submission of the Exploitation and Development plan which sets out the detail of the Sangomar development.

We will continue to work closely with our JV partners to successfully deliver phase 1 of this development with first oil targeted in 2023, marking the addition of significant value both for Cairn and for Senegal and its people.

Operational Review continued

SURINAME

Cairn has an exploration agreement (Cairn operator 100% WI) on the largest block offshore Suriname. The licence covers an area of ~13,000 km^2 on the Demerara plateau in the Guyana-Suriname basin, conjugate to the West Africa Margin which includes the Sangomar field in Senegal. In H1, 4,500 km of 2D seismic data was acquired and has been fully processed. Block-wide interpretations and an update of the prospect inventory are ongoing, with a decision on future 3D seismic acquisition to be made later this year with a view to potential drilling activity thereafter. Several projects supporting local initiatives are in early stage development, including industry capacity-building through training and education and a project focused on the coastal environment.



Staatsolie management meeting with Cairn management in Edinburgh

STRATEGY IN ACTION

CONDUCTING SAFE SEISMIC STUDIES IN SURINAME

Early and regular engagement with contractors, industry peers, relevant authorities and local community representatives has helped us to complete a seismic survey off the coast of Suriname safely and responsibly.

Cairn ensures that 2D seismic projects are undertaken in a way that minimises the impact of underwater noise on marine life, through a combination of international best practice and local guidance. For this, our first activity in Suriname, we identified around 30 species of mammals and turtles in the area, including three classed by the International Union for Conservation of Nature (IUCN) Red List as endangered and two as vulnerable, through an Environmental and Social Impact Assessment (ESIA).

Our seismic contractor, SeaBird Exploration – a Norwegian company with experience of working in Suriname – was screened to ensure compliance with relevant Cairn policies and our CRMS. We also monitored safety performance, for which SeaBird was responsible.

In consultation with the WWF and the Green Heritage Fund Suriname, the mitigation plan for our 2D seismic studies involved using marine mammal observers on our survey vessel; instigating delays and shutdowns if certain species entered a 500-metre exclusion zone; and using 'soft-start' procedures to give wildlife time to move away from our activities. Fisheries liaison officers were also on hand to monitor interactions with local fishing vessels. We are now well positioned to begin the 3D seismic phase of our activities in 2020.

Operational Review continued

STRATEGY IN ACTION

SOCIAL INVESTMENT STARTING POINT IN SURINAME

As part of our seismic exploration contract in Suriname, Cairn supports a number of social investment projects, in conjunction with the state oil company Staatsolie. With our 2018 and 2019 commitments to assign, we are focusing on two initiatives.

With Staatsolie and several international oil companies, we are part of a sector-wide initiative to improve technical skills and prospects in the oil industry. Together, we are investing in equipment and infrastructure at three educational establishments in Paramaribo: the Institute for Natural Resources and Engineering Studies (NATIN), a vocational technical training institution (AMTO) and the Suriname Lower Technical School.

Pending approvals, we are also looking to support an ongoing mangrove rehabilitation project, an environmental and climate change adaption initiative designed to protect low-lying coastal regions against erosion. The project uses sediment traps to protect a kilometre-long stretch of coastline to the north of Paramaribo, benefitting Weg naar Zee and other agricultural communities particularly at risk from rising sea levels. Mangrove ecosystems protect against erosion, protect and re-establish many new ecosystems, and support a diversity of flora and fauna.

With the participation of local communities, this project represents an important attempt to protect livelihoods and the environment, and to support adaption to the effects of climate change.

CÔTE D'IVOIRE

Cairn has a 30%, non-operated, interest in all seven of the Tullow-operated onshore licences (CI -301, CI-302, CI-518, CI-519, CI-520, CI-521 and CI-522). A 2D seismic acquisition programme including passive seismic acquisition is being conducted in four phases and the approvals are being phased accordingly. The programme commenced on the eastern blocks (C1-520-C1-522) in early 2020 with approval for the next phase expected in Q1 and a possible well drilling in 2021.

STRATEGY IN ACTION

PROGRESSING EXPLORATION ACREAGE

The onshore licences of Côte d'Ivoire are substantially underexplored compared with the established offshore sector.

Across the acreage's footprint of 8,600km^2 there is a limited seismic database, and only 13 wells have so far been drilled, all of which pre-date 1980. An encouraging subsurface arrangement, strong surface indications of oil, and a proven petroleum system in the nearby offshore area hint at untapped potential.

Cairn is delighted to be partnering with operator Tullow Oil PLC in Côte d'Ivoire, where the JV is focused on bringing an ambitious 2D seismic acquisition project to fruition. The combined JV experience and success in exploration across Africa provides a wealth of expertise both technically and operationally.

Planning an onshore seismic acquisition campaign over such a large area with diverse land use and environmental considerations is complex. A rigorous series of evaluations were undertaken as part of the Environmental Social Impact Assessment process, complemented by the development of a Biodiversity Action Plan to mitigate any effects on endangered species and habitats. Extensive engagement is being maintained with local communities and government throughout.

One of the biggest challenges was planning the survey in such a way that it could capture the greatest possible geological information while protecting areas of environmental or social sensitivity. To ensure that our operations had minimal impact, the seismic acquisition campaign was supplemented with non-invasive surveying technologies such as airborne full-tensor gravity gradiometry, passive seismic, and deployment of unmanned aerial vehicles for baseline mapping.

Leveraging these technologies as part of our modern exploration project allows the JV to uncover the hidden value of the acreage with a minimal environmental and social footprint.

Operational Review continued

MAURITANIA

Cairn has exercised its option agreement with Total to enter block C7, targeting a turbidite fan play in a large offshore exploration block in a proven oil province. Cairn has acquired a 40% WI (Total Operator 50% WI and Societé Mauritanienne des Hydrocarbures 10% WI), subject to government approval. Final interpretation of ~7,000km^2 seismic data was completed in H1 2019 with a possible well planned in H2 2021.

ISRAEL

In H2 2019, Cairn was awarded eight licences offshore Israel in the country's second offshore bid round. Cairn is Operator of the licences with a 33.34% WI alongside two JV partners: Ratio Oil Exploration (33.33% WI) and Pharos Energy plc (33.33% WI). The JV is planning to re-process existing 3D seismic in order to better assess the prospectivity within the awarded licences.

NICARAGUA

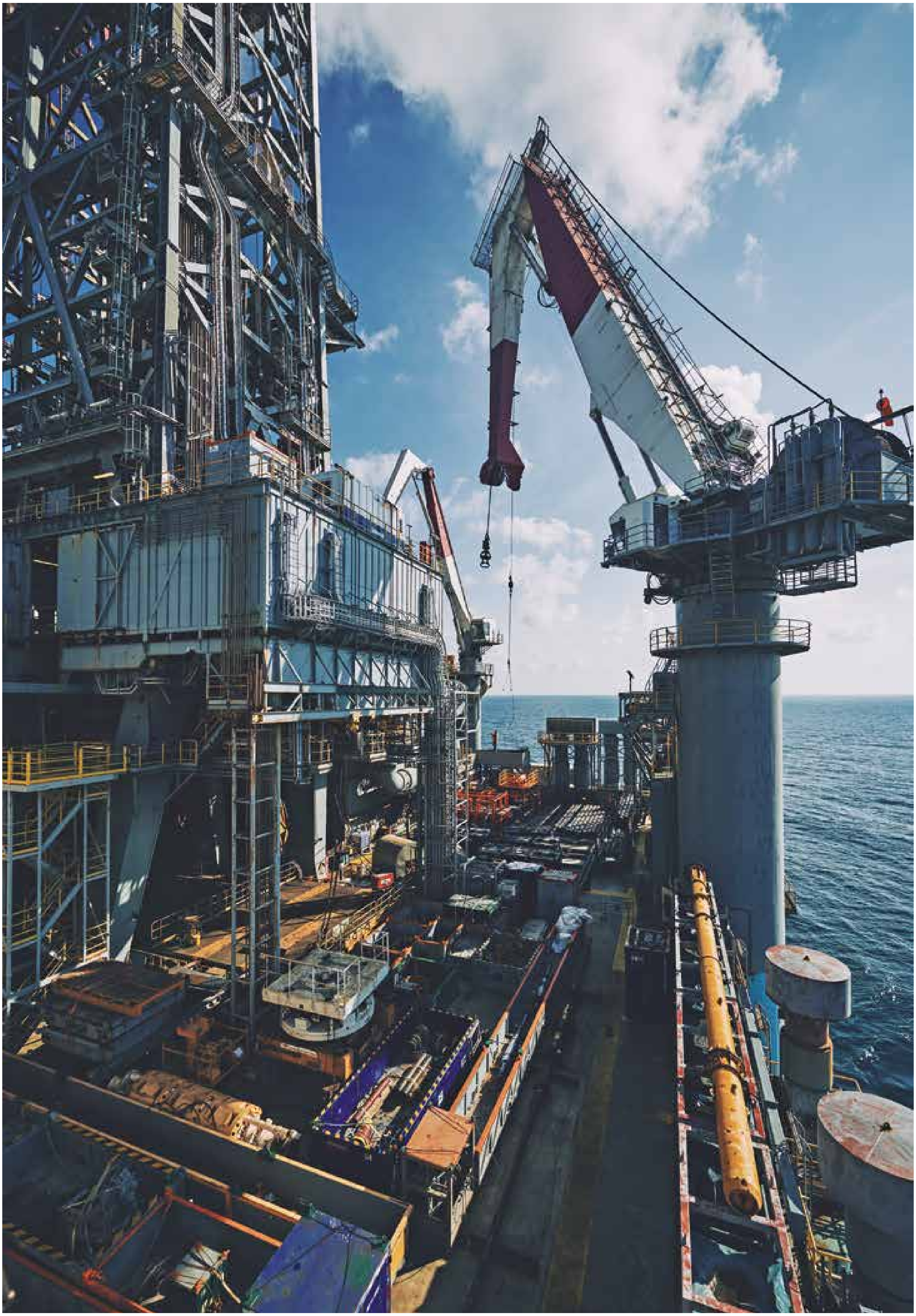
Cairn is in the process of withdrawing from the 35.1% working interest in four exploration blocks in the Sandine Basin. Cairn participated in the seismic acquisition and evaluation phase but concluded not to proceed to the planned drilling phase.

REPUBLIC OF IRELAND

In the year, Cairn, along with partners, withdrew from FEL 2/14 and the licence was terminated at the year end. We also withdrew from two applications to convert Licence Options 16/18 and 16/19 to Frontier Exploration Licences.

INDIA

The Arbitral Tribunal has indicated that it expects to be in a position to issue an Award in the summer of this year relating to the Bilateral Investment Treaty arbitration claim brought against the Government of India. Cairn continues to have a high level of confidence in the merits of its claims in the arbitration and is seeking full restitution for losses of more than US$1.4 billion resulting from: the expropriation of its investments in India in 2014; continued attempts to enforce retrospective tax measures; and the failure to treat the Company and its investments fairly and equitably. The Treaty affords strong provisions to enforce a successful award and the decision of the Tribunal binding on both parties.



Our Strategy

Our strategy is to work responsibly to create value by building a balanced business for the long term.

Today Cairn has a balanced portfolio of assets that delivers material cashflow from production to support an attractive opportunity set of investments across development and exploration. In recent years the asset base has provided multiple opportunities to realise value from portfolio management actions, and the business continues to provide further material value catalysts for the future.

Strategic Objective

DELIVER EXPLORATION SUCCESS

Grow the reserves and resources base to provide a basis for future growth.

Key risks to the delivery of this objective

– Lack of exploration success.

2019 KPIs

Successfully drill and evaluate a programme of six exploration wells across our portfolio.

Discover potentially commercial hydrocarbons in line with pre-drill expectations.

Mature six new independent exploration prospects with JV support for drilling in the period 2020-2021.

Remuneration Committee Decision

Weighting

(as % of allocated proportion of maximum opportunity)

25%

Bonus awarded

11.33%

Partially achieved

Progress

In 2019, three wells in Norway (Presto, Lynghaug and Godalen), one in the UK (Chimera) and two in Mexico (Alom and Saasken[1]) were successfully drilled. The Saasken well made a new oil discovery on Block 10, Mexico, and according to preliminary estimates, may contain between 200 and 300 million barrels of oil in place. All other wells were reported as dry and plugged and abandoned.

Prospects successfully matured and recommended during 2019 for drilling in 2020 or 2021 included the Duncan prospect in Norway; and the Diadem prospect in the UK with other prospects also successfully matured, assured and recommended for drilling, the details of which remain commercially sensitive at the date of this report.

Read more: **Operational Review** on **P18**

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

1 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.

Strategic Objective

PROGRESS DEVELOPMENTS

Progress Senegal development projects.

Key risks to the delivery of this objective

- Delay in Senegal production start-up schedule
- Misalignments with JV operators

2019 KPIs

Mature the SNE field development project in Senegal to Final Investment Decision.

Progress the Nova development project against key predefined project milestones.

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)

18%

Bonus awarded

17%

Substantially achieved

Progress

An updated SNE Exploitation and Development Plan was submitted in August 2019 and approved by the Ministry of Petroleum and Energy in December 2019.

Final Investment Decision was taken by the JV and granting of the 25-year exploitation licence by the Government of Senegal took place in January 2020.

The Nova development is on schedule with first oil targeted in 2021. In H1, with two subsea templates installed on the ocean floor. This unlocked the next phase of the field development with 65km of pipelines laid in preparation for tie-back to the nearby Gjøa platform. All pre-defined project milestones for the year were achieved.

2020 KPIs

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

Our Strategy continued

Strategic Objective

PORTFOLIO MANAGEMENT

Portfolio optimisation and replenishment.

Key risks to the delivery of this objective

- Failure to secure new venture opportunities.

2019 KPIs

Secure two new venture opportunities that meet corporate hurdles and have risk levels consistent with our Risk Appetite Statement. Measured against tests of control, materiality and commercial robustness.

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)

8%

Bonus awarded

7%

Substantially achieved

Progress

In 2019, the Senegal JV successfully received the presidential decree for the two-year exploration and appraisal extension of FAN, SNE North and Spica.

Following applications in the 2019 Norwegian APA in September, Cairn was awarded three licences as operator: Mabbutt; Gough; and Fearless.

- During 2019, Cairn also completed the farm-in to onshore Cote d'Ivoire, made a strategic swap of equity in B9 and B10, offshore Mexico, and completed a bid round licence application and was awarded operatorship in two zones in Israel in a joint venture with Pharos Energy plc and Ratio Oil Exploration.

Read more: **Operational Review** on **P18**

2020 KPIs

Secure new venture opportunities that meet the corporate hurdles and have risk levels consistent with our Risk Appetite Statement. Measured against tests of control, materiality and commercial robustness, with threshold, target and stretch levels identified for measurement where appropriate.

Strategic Objective

MAINTAIN LICENCE TO OPERATE

Deliver value in a safe, secure and environmentally and socially responsible manner.

Read more: **Materiality** on **P52**

Key risks to the delivery of this objective

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

2019 KPIs

Demonstrate clear progress and achieve defined milestones in relation to health safety, security and environment (HSSE)/corporate responsibility (CR) objectives, split into four key categories (Governance, Society, People and the Environment).

Achieve lagging HSSE indicators set in line with IOGP targets.

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)

15%

Bonus awarded

12.9%

Substantially achieved

Progress

The Group's lost time injury frequency (LTIF) for operated activity in 2019 was 0 per million hours worked. Our total recordable injury rate (TRIR) for 2019 was 0.98 per million hours worked. There were no spills to the environment.

Good progress made against leading indicators, including:

- Code of Ethics revised and issued to all staff (including Spanish version)
- The Group's Corporate Major Accident Prevention Policy (CMAPP) was independently reviewed in 2019
- A suite of training programmes was rolled out across the Group including topics such as bribery and corruption, CMAPP, human rights and modern slavery.

Read more: **Prioritising issues important to stakeholders and Cairn** on **P52**

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.

Strategic Objective

PRODUCTION PERFORMANCE

Maximise revenues through efficient operations.

Key risks to the delivery of this objective

- Underperformance on Kraken and Catcher assets.
- Misalignments with JV operators.
- Volatile oil and gas prices.

2019 KPIs	Progress	2020 KPIs
Ensure production and operating cash flow from Kraken and Catcher are at or within guidance on net production volume and lifting cost per barrel.	Catcher- 'stretch' target net oil production volumes were exceeded, at better than target lifting costs. Kraken- 'stretch' target net oil production volumes were exceeded, at better than target lifting costs.	Deliver Group production in line with guidance for 2020, with threshold, target and stretch volumes of production identified for measurement

Read more: **Operational Review** on **P18**

Remuneration Committee Decision

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

Bonus awarded
10%
Fully achieved

Strategic Objective

DELIVER A SUSTAINABLE BUSINESS

Manage balance sheet strength.

Key risks to the delivery of this objective

- Volatile oil and gas prices.
- Political and fiscal uncertainties.
- Diminished access to debt markets.
- Inability to secure or repatriate value from Indian assets.

2019 KPIs	Progress	2020 KPIs
Implement funding strategy to support exploration, appraisal and development activity and to mitigate any downside revenue scenarios.	Funding headroom was maintained throughout the year covering the Group's committed forward capital expenditure. The sale of 10% stake in Nova to Dyas in November 2019 and the disposal of Capricorn Norge AS, the Company's wholly owned subsidiary in Norway, to Sval (previously known as Solveig Gas) in December 2019 enhanced Group liquidity at attractive metrics.	Ensure balance sheet strength with achievement measured across three categories: attainment of certain financial tests in line with funding strategy; portfolio management; and India resolution and recovery of proceeds in event of success.
Progress the UK-India bilateral treaty arbitration to conclusion and receipt of awarded sums in event of success.	Arbitration proceedings under the UK-India Bilateral Investment Treaty were largely concluded in 2018. In 2019, however, the tribunal indicated that the issuance of the arbitration award would not be made until summer 2020.	

Remuneration Committee Decision

Weighting
(as % of allocated proportion of maximum opportunity)
24%

Bonus awarded
13%
Partially achieved

Risk Management

Strong corporate governance and effective risk management are vital to successfully and sustainably implementing our strategy. We have 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 in the structure below.

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 CFO in 2019
- Responsibility for setting the direction for risk management
- Facilitates continual improvement of the risk management system

Audit Committee
Chaired by Non-Executive Director in 2019
- 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 2019
- 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 page 8 of this report.

During 2019, the Group continued to generate significant operating cashflows from its interests in the Catcher and Kraken fields located in the UK North Sea. The divestment of the Norwegian business enhanced the Groups liquidity in the medium term, not only through the receipt of sales proceeds but also by reducing our future capital spending programme.

In Senegal, where the Group has been focussed on developing its significant resource base since the discoveries in 2014, an Exploitation Plan was approved by the Government of Senegal in the early part of 2020, securing that resource base under long term licence. The Joint Venture has now taken a final investment decision for the first phase to commercialise these resources.

Over the near to medium term, the Group will continue to be funded by its operating cash flows from the Kraken and Catcher fields. Here the Group has sanctioned the development of two small satellite fields, which when on production towards the end of this year, will help maintain plateau production levels and sustain operating cashflows. The Group also has access to its currently committed borrowing facilities, which remain undrawn at the year end.

The decision to sanction the development project in Senegal represents a significant increase to our planned capital programme over the period to first production, currently targeted for 2023. In order to fund this capital programme, the Group will seek to increase the size of its current borrowing facilities and may also seek to add further debt facilities or other forms of financing.

In assessing its capital programme over the period to first oil in Senegal 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, 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 its development on Senegal and 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 and recognising that the scale of capital allocation to the Senegal development in the near and medium term, the Board has determined it is appropriate to assess the Group's prospects over the period to planned first oil in Senegal, this being 2023.

Viability
The Principal risks and uncertainties that affect the Board's assessment of the Group's viability in this period are:
- operational performance of the UK North Sea producing assets;
- delays to and/or cost overruns of the development project in Senegal or other development projects;
- 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 outcome and timing of a final resolution to the Group's arbitration claim 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 current forward curve;
- material budget contingencies and allowances are included in cost estimates for drilling and development projects;
- whilst resolution of the arbitration claim against the Government of India remains a strategic priority, the funding plan does not assume receipt of any award in Cairn's favour;
- 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 period of their assessment.

Risk Management continued

Responding to the Changing Risk Environment in 2019

As part of our goal to seek continual improvement of the risk management process, the following tasks were completed in 2019:

- The Board completed a risk workshop which focused on identifying and analysing potential threats from developments in climate change policy and its impact on energy transition. The objective of the workshop was to give the Board some further insight into some of the potential threats to Cairn during the transition to a low carbon economy and to consider some initiatives to strengthen the governance of the risks and opportunities associated with the transition;
- The Group used an independent expert consultant Critical Resource, to assist in our portfolio resilience modelling based on the International Energy Agency Sustainable Development Scenario. This envisages a transition to a lower carbon economy and limiting long-term temperature rises to well below 2°C. They also reviewed and provided recommended improvements of our disclosures against the Task Force on Climate-related Financial Disclosure (TCFD) recommendations and developed a climate impact dashboard which informs our strategic position in relation to progress of global transition to a low-carbon economy;
- The Management Team 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;
- An anti-bribery and corruption risk assessment was completed on Mexico to identify high risk areas. A number of actions were agreed at the workshop to further mitigate the identified risks;
- Pinsent Masons completed a review of the Group's bribery and corruption management system. The objective of the review was to assess the design of the bribery and corruption compliance programme. The review concluded that the anti-bribery programme is well designed. The Group is making enhancements which will further strengthen the compliance programme. These will be actioned in 2020.
- A compliance dashboard was developed to assess compliance with a number of 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 RMC meeting and annually to the Audit Committee as part of the year end control assessment;
- Assurance maps for the Group were updated in Q1 2019 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 2019 included information systems strategy and governance, non-operated JV management, CRMS and key financial 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 business ethics, anti-bribery and corruption, CMAPP and cyber security; and
- As part of the embedded risk management process, the Group actively considers emerging risks and threats which could impact on the business. The Group identified the increasing threat from cyber security attacks, the continued uncertainty around Brexit and the direct/ indirect impacts from the Coronavirus as potential emerging risks which will be actively assessed and monitored.

Principal Risks to the Group in 2019-2020

The following pages provide a summary overview of the principal risks to the Group at the end of 2019, the potential impacts, the mitigation measures, the risk appetite and the KPIs or strategic objectives the risks may impact.

During 2019, through a number of internal forums such as the Board, the Group Risk Management Committee and Management Team, the Group reviewed the risks which could adversely affect the achievement of strategic objectives.

Cairn's principal risks are considered, in line with the Group Viability Statement, over a three year period. In addition to this three year assessment, Cairn actively considers emerging risks and threats as part of its risk assessment process.

#1 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	2019 movement	2020 KPI objectives
Limited or no value creation	Active programme for high-grading new areas through licence rounds, farm-ins and other transactions.	**This risk remained static in 2019.**	Mature new exploration or appraisal targets with JV support for drilling in the period 2020-2022.
Failure of the balanced portfolio business model	Portfolio of prospects and leads that offer opportunities with a balance of geological and technical risks.	In 2019, three wells in Norway (Presto, Lynghaug and Godalen), one in the UK (Chimera) and two in Mexico (Alom and Saasken) were successfully drilled. The Saasken well made a new oil discovery on Block 10, Mexico, and according to preliminary estimates, may contain between 200 and 300 million barrels of oil in place. All other wells were reported as dry and plugged and abandoned.	Successfully drill and evaluate the wells planned for the 2020 work programme.
Negative market reaction	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.		Discover or add potentially commercial hydrocarbons with threshold, target and stretch levels identified for measurement.
	Establishment of Exploration Leadership Team to undertake peer reviews and assurance.		

#2 PROGRESS DEVELOPMENTS

Principal risk: Delay in Senegal production start-up schedule
Owner: General Manager, Senegal

Risk appetite

Medium – Developments are commonly subject to cost impacts and schedule delays. The Group therefore has a medium appetite for risk taking in the development stage.

Impact	Mitigation	2019 movement	2020 KPI objectives
Delay or reduction in future cash flow	Actively engage with JV partners early to ensure highly effective working relationships.	**This risk remained static in 2019.**	Achieve certain milestones on the Sangomar (formerly SNE) development in categories of subsurface, wells, subsea, FPSO and project controls.
Project delays	Frequent site visits to key contractor sites to increase focus on quality assurance performance.	The SNE field development first phase remains on schedule, targeting first oil in 2023 with expected gross production of 100,000 bopd. The JV submitted an updated SNE Exploitation and Development Plan to the Ministry of Petroleum and Energies in August 2019 in order to meet changes and further details requested by the Ministry ahead of approval. Final Investment Decision by the JV and granting of the 25 year exploitation licence by the Government of Senegal was awarded in January 2020.	
Negative market reaction	Actively participate in technical meetings to challenge, apply influence and/or support our partners to establish a cohesive JV view and ensure operational activity is executed in a safe and secure manner.		
Increase in capital expenditure			

Principal Risks to the Group in 2019-2020 continued

#3 PORTFOLIO MANAGEMENT

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	2019 movement	2020 KPI objectives
Failure to replenish the portfolio	Geoscience, new ventures and commercial teams work closely to review and identify new portfolio opportunities.	**This risk remained static in 2019.**	Secure new venture opportunities that meet the corporate hurdles and have risk levels consistent with our Risk Appetite Statement. Measured against tests of control, materiality and commercial robustness, with threshold, target and stretch levels identified for measurement where appropriate.
Inability to replace reserves and sustain production levels	Experience and knowledge throughout the organisation in recognising prospective opportunities.	Cairn was awarded eight licences offshore Israel in the country's second offshore bid round. Cairn is operator of the licences with a 33.34% working interest alongside two JV partners: Ratio Oil Exploration and SOCO International.	
	Risk assessments and due diligence process undertaken on all potential new country entries.	Cairn was awarded the two licences it applied for in the UK Frontier 31st Offshore Licensing Round in H1: operatorship and 100% WI in the Mane licence which is located close to Chimera and 50% WI and operatorship in the East Orkney Basin licence.	
	Development of discretionary capital allocation and opportunity ranking system.		
	Portfolio is continually reviewed and high-graded to enhance quality.		

#4 MAINTAIN LICENCE TO OPERATE

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

Owner: Chief Executive Officer

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	2019 movement	2020 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 first priority for the Board, Senior Leadership Team 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 is able to 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 2019.** The Group's lost time injury frequency (LTIF) for operated activity in 2019 was 0 per million hours worked. Our total recordable injury rate (TRIR) for 2019 was 0.98 per million hours worked. There were no spills to the environment. With ongoing operations in a number of countries in 2020, 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 in relation to governance, people and society. Achieve lagging HSSE indicators derived from IOGP targets, with threshold, target and stretch levels identified for measurement.

Principal risk: Fraud, bribery and corruption

Owner: Chief Executive Officer

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

Impact	Mitigation	2019 movement	2020 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 2019.** 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 in relation to governance, people and society.

Principal Risks to the Group in 2019-2020 continued

#4 MAINTAIN LICENCE TO OPERATE continued

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

Owner: Chief Executive Officer

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 and hydrocarbons are expected to remain the principal source of energy for decades to come. In the longer term, Cairn will take investment decisions that ensure 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 it's activities make to 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	2019 movement	2020 KPI objectives
Providers of capital limit exposure to fossil fuel projects	Measuring and reporting our greenhouse gas (GHG) emissions in line with the Task Force on Climate-related Financial Disclosures (TCFD).	**New principal risk.**	Influence JV partners in UKCS including to target zero flaring during shutdowns.
Increasing costs	Promotion of efficient energy use in activities with business partners and service providers.	There was continued and increased attention to climate change from a range of stakeholders in 2019. This attention has led, and we expect it to continue to lead, to additional regulations designed to reduce greenhouse gas (GHG) emissions.	Determine energy efficiency benchmarks for use in equipment selection for application in new operated drilling and seismic projects.
Climate related policy changes	Consideration of climate change in investment decisions.	The Group recognises global commitments to achieve a transition to lower carbon sources of energy. Cairn's strategy is to play a responsible and competitive role in the production of oil and gas within this transition.	
Reduce demand for oil	Portfolio resilience modelling based on the International Energy Agency Sustainable Development Scenario.	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.	
Stranded assets	Developed climate impact dashboard which informs our strategic position in relation to progress of global transition to a low-carbon economy.		
Reputational damage	Endorsement of Global Gas Flare Reduction Partnership.		
Retaining and attracting talent	Alignment with UN Sustainability Goals.		
	Active participation in industry initiatives.		
	Participation in EU Emissions Trading System.		
	Evaluating nature based carbon offset projects in the regions where we operate, including mangrove rehabilitation in Suriname and Senegal.		

#5 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	2019 movement	2020 KPI objectives
Delay or reduction in cash flow Increased operational costs HSE incident Reputational damage	Work closely with the 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 decreased in 2019.** Catcher 'stretch' target net oil production volumes were exceeded, at better than target lifting costs. Kraken 'stretch' target net oil production volumes were exceeded, at better than target lifting costs. Combined net oil production averaged ~23,000 bopd.	Deliver Group production in line with guidance for 2020, with threshold, target and stretch volumes of production identified for measurement.

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	2019 movement	2020 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 remained static in 2019.** 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. Catcher, Kraken, Senegal 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 and Norway and Latin America regions.	Deliver Group production in line with guidance for 2020, with threshold, target and stretch volumes of production identified for measurement. Achieve certain milestones on the Sangomar (formerly SNE) development in categories of subsurface, wells, subsea, FPSO and project controls.

Principal Risks to the Group in 2019-2020 continued

#6 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	2019 movement	2020 KPI objectives
Work programme restricted by reduced capital availability Loss of value Inability to fund Senegal development Senegal impairment	Disciplined allocation of capital across portfolio. Continue to assess other forms of financing and pursue claim for restoration of value for Indian investment.	**This risk remained static in 2019.** The Group has a hedging programme for Catcher and Kraken crude. The funding plan to allow the Group to meet its share of development costs is well progressed and the Group remains confident that it will be able to meet its share of expenditure maintaining current equity levels in the project. A number of 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.	Ensure balance sheet strength with achievement measured across three categories: attainment of certain financial tests in line with funding strategy; portfolio management; and India resolution and recovery of proceeds in event of success.

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	2019 movement	2020 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 2019.** Cairn continues to source new opportunities globally and this can be in jurisdictions deemed at higher risk of political or fiscal uncertainty. In 2019, the Group acquired new 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 recognises that there are a number of uncertainties around Brexit, including the potential impact on EU nationals employed by Cairn. The Group continues to monitor the situation closely.	Ensure balance sheet strength with achievement measured across three categories: attainment of certain financial tests in line with funding strategy; portfolio management; and India resolution and recovery of proceeds in event of success.

#6 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	2019 movement	2020 KPI objectives
Reduction in future cash flow Value impairment of development projects JV partner capital constraints Debt availability	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 remained static in 2019.** Although oil prices have been more stable in 2019, unpredictable geopolitical events may continue to create short term volatility.	Ensure balance sheet strength with achievement measured across three categories: attainment of certain financial tests in line with funding strategy; portfolio management; and India resolution and recovery of proceeds in event of success.

Principal risk: Inability to secure or repatriate value from Indian assets

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	2019 movement	2020 KPI objectives
Loss of value	Arbitration proceedings under the UK-India Bilateral Investment Treaty (the Treaty) were largely concluded in 2018. A final ruling by the arbitration panel is expected in the summer of 2020. Continued engagement with the Indian Government.	**This risk remained static in 2019.** The Group continues to have a high level of confidence in the merits of its claims in the arbitration and is seeking full restitution for losses of more than US$1.4 billion. Steps are being taken to ensure a full and prompt recovery is achieved. All submissions and procedural steps for the international arbitration under the Treaty are now complete. Cairn's claim under the Treaty is for monetary compensation of ~US$1.4 billion, the sum required to reinstate the Company to the position it would have been in, but for the actions of the Indian Income Tax Department since January 2014. In October 2019, the arbitral tribunal indicated that, whilst it is not yet able to commit to a specific award release date, it expects to be in a position to issue the Award in the summer of 2020.	Ensure balance sheet strength with achievement measured across three categories: attainment of certain financial tests in line with funding strategy; portfolio management; and India resolution and recovery of proceeds in event of success.

Climate Change Policy and Energy Transition

Climate change policy and its impacts on the energy transition was identified as an emerging risk to our business in 2018. We have been tracking developments in this area for many years and, with increasing focus from investors and other stakeholders, we recognised it as a principal risk to the business for the first time in 2019. We are actively monitoring developments at both strategic and operational levels as we continue to examine the implications for our business, as well as for the sector in general.

Transparency
We remain committed to reporting against the UN Sustainable Development Goals – with SDG 13 (Climate Action) being of particular relevance – and voluntary requirements of the Task Force on Climate-Related Financial Disclosure (TCFD). In 2019, we conducted independent reviews of Cairn's reporting against TCFD requirements and the position of key investors and selected peer companies. We worked closely with the Association of British Independent Oil Exploration Companies (BRINDEX)[1], of which we are a member, to develop an agreed position on TCFD, in support of the UK Government's target of reducing greenhouse gas emissions to net zero by 2050.

We continued with our annual submission to the CDP[2], a not-for-profit charity that provides a global carbon disclosure system for investors, companies, cities, states and regions. Cairn received a B- rating which is in the 'Management band'. This is higher than the Europe regional average of C and higher than the oil and gas extraction and production sector average of C. CDP defines the management band (B/B-) as 'taking coordinated action on climate issues'.

Governance[3]
During the year senior management and the Board have focused on Energy Transition at Board and Senior Leadership Team (SLT) meetings with a key outcome being the development of CR objectives and KPIs for energy transition and climate action in 2020[4].

The strategic role of our Senior Leadership Team includes reviewing climate action issues for the business, with executive and senior managers looking at the overall understanding of Cairn's position, international drivers, risk and opportunities. Our Management Team's operational responsibilities involve reviewing corporate and operational risk and opportunity registers, to assimilate information gathered at a project, asset, department and corporate level.

Our annual CRMS review in September 2019 involved reporting back to the Board with an external perspective of Cairn's position with regard to TCFD reporting. This included an examination of the position of selected peer companies, primary shareholders and investors. During the year we have taken action to improve our reporting against TCFD recommendations and we will continue to make improvements in this area.

This was followed by a 'deep-dive' energy transition and climate action risk workshop[5], aimed at increasing our Board's oversight and understanding of climate-related risks and opportunities. The workshop looked at strategic risks and contained a presentation from a leading advisory and asset management firm. It also considered potential ways to improve governance mechanisms for the Company as a whole.

Strategy
The Energy Transition is a long-term issue and our strategy is to be transparent, improve governance and analyse our portfolio with a view to developing ways of meaningfully dealing with the issues that arise in the context of the energy transition period ahead.

Energy demand projections and the balance of energy sources are discussed in the World Energy Outlook (WEO) 2019[6]. It indicates annual growth in energy demand of between 1% and 1.3% until 2040, due to the rising population and the expanding global economy. The WEO also states that there is a gap between the promise of energy for all and the reality that almost one billion people do not have access to electricity. This frames the challenges of introducing renewable energy sources and providing an affordable supply.

In its Sustainable Development Scenario, which maps out ways to meet sustainable energy goals in full, the WEO report states that the breadth of the world's energy needs means there is no simple or single solution. The role for oil and gas is indicated as remaining significant. Oil demand is unlikely to flatten out until the 2030s and gas will form part of a crucial mechanism for delivering energy to consumers and as a source of energy flexibility.

We continue to believe that we have a significant role in this energy mix for the foreseeable future, providing affordable energy to complement renewable sources. We will focus on efficient delivery within the context of the UN SDGs.

Risk Management[7]
In recent years, there has been a tangible rise in interest in energy transition and climate action from selected financial institutions, the ethical investment community and the media. This led us to examine our portfolio resilience in 2018, an exercise we revisited in 2019 using different climate scenarios, including limiting global temperature rise to well below 2°C (see below).

Following our initial portfolio resilience work, our commercial team determined that the impact on Net Present Value of the most stringent climate scenario had a smaller impact than the standard downside oil price sensitivity already considered for investment proposals. This is covered in more detail below under 'External Scenario Analysis'.

1 www.brindex.co.uk/Climate-Change
2 www.cdp.net/en
3 Read more on **p54**
4 Read more on **p34**
5 Read more on **p49**
6 International Energy Agency, World Energy Outlook 2019
7 Read more on **p39**

The scenarios are also applicable to the early assessment of opportunities to include in our investment proposals.

We also set up a workstream to identify the key indicators of global energy transition for our business, to enable routine reporting to the Board. This involved the initial development of a dashboard of global initiatives and trends that may influence the take-up of different energy technologies. This will consider developments in this area that may impact the business over the short, medium or long term. We also consider physical risks including potential for increased impact on our activities from adverse weather and sea-level rise and we will continue to improve the level of scrutiny in these areas as information becomes available and on a geographic basis.

External Scenario Analysis
In 2018 Cairn retained an independent consultant, Critical Resource, to assess the resilience of economic returns from the Group's asset base under different climate change policy scenarios in alignment with the recommendations of the TCFD. In 2019 we expanded the scope of work to more challenging scenarios and to fully assess the existing portfolio and our ongoing investment decisions under scenarios where demand for oil is significantly reduced over time in response to policies to reduce carbon emissions and minimise global warming.

Critical Resource is an independent consultant advising on political, stakeholder and sustainability issues. Based in London they specialise in provision of Group-level strategy and engagement services including climate change to extractive industries. They maintain an advisory network[8] of issue specialists from the industry, investor, government, academic and NGO sectors with a strategic Senior Advisory Panel to provide input to them on emerging sustainable business issues.

Using the International Energy Agency's climate modelling framework, Critical Resource has created multiple scenarios, including a Sustainable Development Scenario (SDS)[9] which envisages a transition to a lower carbon economy well beyond current stated government policies, in order to meet the United Nations Sustainable Development Agenda and limit long-term temperature rises to well below 2°C (as recommended as best practice by the TCFD). The SDS sees global CO_2 emissions at roughly half current levels by 2040, and global oil demand gradually falling from now to below half of current levels by 2050.

Under the SDS, Critical Resource has also assessed the expected impact of different transition patterns: a smooth transition over time; a less disciplined transition that results in a steady oversupply of hydrocarbon energy sources; and a market shock scenario with a near-term significant oversupply as a result of accelerated government policy changes.

Critical Resource has translated each of these scenarios into an oil price impact, a geo-political and fiscal risk impact and a cost of capital impact, and we have modelled the effects on Cairn's existing asset base and future investment decisions. The results have then been compared with economic evaluations using the Group's base planning assumptions which have a three year forward curve pricing for Brent followed by $65/bbl long-term, as well as the group's downside case which tests all investment decisions for a base internal rate of return of at least 10% at long-term $50/bbl Brent.

Under all of these SDS model variations, each of Cairn's existing assets delivers returns in excess of our downside case 10% internal rate of return threshold. We therefore remain confident that the Group's portfolio is resilient to energy transition policy changes and will remain relevant in a global economy that is expected to transition to lower carbon sources of energy.

Investment decisions in our exploration acreage are also tested against the SDSs to ensure that successful discoveries will be viable under the projected oil demand and pricing scenarios at the time of expected development. Each of our current exploration commitments meets these criteria and all future drilling decisions will be tested against these scenarios to ensure we are targeting resources that can play a part in the global energy mix and will continue to attract capital in a world where demand for hydrocarbons may be materially below today's levels.

Policy and Legislation
We continue to assess legislation and policy drivers across our activities. These are specific to regions or countries in which we operate or plan to enter. We reviewed international and local legislation for existing implications, along with potential mechanisms that may be introduced at a later date, for example under country-specific National Determined Contributions submitted as part of the Paris Agreement[10].

As part of our routine engagement with partners on non-operated activities, we continued to assess our Catcher and Kraken production assets against the EU Emissions Trading Scheme (EU ETS) Regulations in 2019, maintain compliance, and look at partner strategies and the associated costs.

8 They maintain over 200 experts and draw on intelligence from over 80 countries.
9 The International Energy Agency, Sustainable Development Scenario allows for an accelerated transition to low-carbon economy and a 50% chance of the long-term temperature rise is limited to 1.65°C. If net negative emissions are taken into account, the scenario has a 50% probability of limiting the rise to 1.5°C.
10 UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP21) in Paris, December 2015. Countries participated submitted NDC as part of their commitment which indicate policies to be pursued to limit global average temperatures to well below 2°C.

Climate Change Policy and Energy Transition continued

In the year ahead, we will focus on operator plans associated with addressing EU ETS (Phase IV), which commences in 2021.

In 2019, we also qualified under the UK Energy Savings Opportunity Scheme (ESOS) Regulations (Phase II)[12]. We completed the obligatory assessment, support pack development and submission based on 2018 data, well in advance of the December deadline.

Metrics

Operational Performance

We routinely collect Greenhouse Gas (GHG) emissions data from our operated activities[13]. Target setting remains a challenge, given that we do not operate any production assets and our operated emissions arise from highly variable field activities. In 2019, we operated three drilling programmes, compared to one in 2018; consequently, operated emissions rose accordingly.

We plan our operations to be safe and efficient, and aim to minimise our time in the field, reducing emissions and costs. We select rigs, vessels, bases and aviation to meet the requirements of the programme, with safety as a priority. Different environments dictate their type, minimum capability and size.

In 2019, we looked more closely at our non-operated production emissions. This included compliance and flaring during maintenance activities, in line with our aim to avoid flaring and preference for deferred production where possible. To this end, in 2020, we plan to endorse the World Bank Global Gas Flare Reduction partnership[14], which seeks to phase out all routine flaring by 2030. We aim to use our leverage with operating partners to support this position and factor it into any future developments operated by Cairn.

As part of our examination of partner operator performance, our Management Team reviewed the carbon intensity of our non-operated production assets. These appear to compare favourably with others in the UKCS. However, further work is required to develop transparent methodologies. Consequently, in 2020, we plan to develop ways not only to improve comparisons between our non-operated production assets but also to enable the early assessment of other assets in development. This will help us to produce metrics of value to the Board and SLT, to inform investments and strategic decision making.

From a seismic and drilling perspective, our intention for 2020 is to develop mechanisms for assessing the relative carbon emission performance indicators of the key equipment we use (rigs and vessels) and more fully incorporate them into our selection process. This will help us to choose the most efficient equipment to achieve our well-drilling objectives, while maintaining strong performance in accident prevention and safety.

Performance in Communities[15]

Cairn has a strong track record of working with communities on CSR initiatives, from our historic operations in India to more recent initiatives in Senegal. As part of our commitment to working with communities, we continue to support opportunities that promote sustainable projects and empowerment, which we link to the UN SDGs. A process is currently underway to identify climate adaptation related projects and consider how we can support them through social investment programmes in our different countries of operation.

In 2019, we started evaluating potential mangrove rehabilitation programmes in Suriname and Senegal, which will help to improve environmental diversity and improve livelihoods. This may also help communities in adaption to climate-related risks and impacts.

11 Read more on **p60**
12 Read more on **p60**
13 www.worldbank.org/en/programs/gasflaringreduction
14 Read more on **p63**

CASE STUDY

BOARD WORKSHOP ON MANAGING ENERGY TRANSITION RISK

Every year, the Cairn Board incorporates a workshop into one of its Board meetings to consider and address a key risk to the business. This year's session focused on some of the energy transition-related challenges facing our industry. The objective of the workshop was to give the Board further insight into these challenges and to consider initiatives to strengthen the governance of risks and opportunities associated with the evolution to a low carbon economy.

The session began with an internal overview of the challenges facing the extractives industry. Access to capital, risk to commercialisation of developments and the negative perception of extractive companies in general were all identified as risks to Cairn. The evolving regulatory landscape, with new policies and legislation being introduced globally, was also identified as a potential risk to our licence to operate in certain locations in the future.

The workshop included a presentation from Lazard Asset Management, an investment management company and Cairn shareholder. Lazard's representatives provided the Board with an external view of how energy transition risk, and Environmental Social and Governance (ESG) risks more generally, are influencing investment agendas. Lazard gave an investment perspective on institutional asset owners facing increased pressure from regulators and beneficiaries to consider ESG factors in their investment processes. This was considered within the context of a number of financial institutions withdrawing investment from fossil fuel projects.

Lazard also provided an insight into initiatives that companies like Cairn could implement to position themselves as a more attractive oil and gas company to invest in. These were then considered against the current initiatives we have identified to strengthen our management of energy transition risk. Initiatives such as TCFD and the UN SDGs were identified as key areas against which Cairn should be demonstrating progress. There was discussion and recognition of the positive work we are undertaking on both of these initiatives with identification of impacts – both positive and negative – against the UN SDGs and a commitment to improved reporting against TCFD requirements.

The key outcome of the workshop was the Board's decision to elevate energy transition policy from an emerging risk to a principal risk to the business. With this shift in emphasis, senior managers are now charged with developing short-, medium- and long-term actions to manage this risk appropriately, from new policies and governance arrangements to reweighting KPIs linked to managing GHG emissions.

Stakeholder Engagement

We engage our stakeholders as part of our day to day business. Their support is fundamental to enabling us to operate.

In 2019 we carried out a review of Cairn's Corporate Responsibility Management System (CRMS) and reporting in relation to the AA1000 Accounting Principles (2018). As a result we have looked to strengthen the link between our stakeholder engagement activities, our materiality process and our decisions and strategy. Additionally, where engagement is led by senior management or other employees, this is regularly fed back to the Board through meetings and informal discussions to ensure they are fully informed in advance of key decisions.

The board is cognisant of the importance of their role in understanding stakeholder 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.

Read more: **Materiality on P52**

Stakeholder	Investors	Governments
Why it is important to engage?	– Their views influence our strategic and operational decision making – We are dependent on access to funding – We are accountable to shareholders	– We are responsible to them for legal compliance – Their permissions are required in order for us to access acreage and operate
How management and/or directors engaged	Annual comprehensive investor programme including: – Attending the AGM, 232 investor meetings including one to ones, attending 18 roadshows or conferences – Conducting regular financial reporting – Responding in timely manner to investor and analyst enquiries – Meeting with shareholder group to discuss board diversity and succession planning, and engaging regarding new remuneration policy	– Meetings with Heads of State, UK and Country Ambassadors, Ministers and Civil Servants
What were the key topics of engagement	– Strategy and performance – Corporate governance – Sustainability, including energy transition – Board diversity – Remuneration	– Legal Compliance – Major accident prevention – Investment and economic growth
Examples of the impact of such engagement and responses taken	– Energy Transition workshop held at Board meeting in November 2019 (discussed on page 49) – New director appointments (discussed on page 92) – Amendments to remuneration policy proposal (discussed on page 94) – Regular reviews of corporate objectives	– 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, reviewed at all board meetings (discussed on pages 32-35) – Reviewing feedback and commentary from Government and regulatory bodies regarding performance expectation (see our responsible approach discussed on page 10)

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 board of directors consider, both individually and together, that they have acted in the way they consider, in good faith, 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.

Business partners/peers	Local community/ interest groups	Employees
– We are reliant on viable partners for joint ventures – We are commercially responsible to suppliers and partners – Their performance directly impacts our financial, operational and responsible performance	– They provide a diverse perspective leading to new understanding of situations and the mitigation of tensions – We have an ethical responsibility to minimise impact on livelihoods and environment	– 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
– Board visits – Partner visits – Senior executive meetings – Maintaining membership of industry bodies – Active management of key projects and assets (including alignment of project deliverables)	– Community meetings – Social investment (discussed on page 65 in respect of Senegal) – Board/senior management visits – Media monitoring	– Regular staff meetings – Monthly pulse surveys (discussed on page 57) – Biannual Employee Voice Forum (EVF) meetings (discussed on page 57) – AGMs – Exit interviews – Staff focus groups
– Policies and standards – Industry reputation – Long term relationships – Opportunities for growth	– Protection of resources and livelihoods – Community development – Access to employment and business opportunities – Transparency of payments to government – Biodiversity	– Strategy – Lessons learned from projects – Internal communication – Collaboration across teams – Remuneration and benefits
– Working with BRINDEX on climate change policy and its impacts on energy transition (discussed on page 46) – Careful selection of contractors (discussed on page 59) – Continued membership of IOGP Security Committee (performance against IOGP benchmarks discussed on page 58) – Ongoing close collaboration with JV partners to successfully deliver objectives (discussed on page 25 in respect of the final investment decision in Senegal)	– Future community investment focus to include adaption to climate change and its impact on energy transition (discussed on page 49) – Continued membership of the Extractive Industries Transparency Initiative (EITI) in Senegal – Operations managed to address community concerns regarding safe seismic and responsible exploration (discussed on page 21 in respect of Norway)	– Clarity on our strategy – An enhanced approach to entering new countries – New process implemented, streamlining contractors' onboarding procedure – A revised approach towards internal communications including increasing the frequency of staff meetings and regulation of departmental bulletins – Establishing team workshops to develop cross-functional collaboration

Prioritising Issues Important to Stakeholders and Cairn

To manage risk effectively and to operate with the support of our stakeholders, we need to understand the issues that matter to them and to our business. We do this by conducting a materiality assessment.

This assessment considers a series of relevant issues determined from international reporting requirements including IPIECA[1], GRI[2] and SASB[3], and comparing our approach with that of peer companies. We then classify these issues (as high, significant, medium, low or insignificant) to indicate their importance to Cairn based on risk, and their importance to stakeholders based on stakeholder and investor engagement, and media scanning. The results of this materiality assessment are presented to the Board on an annual basis for detailed review.

We assess scores for 'importance to stakeholders' across five different stakeholder groups (investors, governments, employees, community and business partners), while 'importance to Cairn' is assessed through quarterly risk reviews. We track each issue deemed material to manage and address any associated impacts. In this section, we report on high material governance issues on page 53, people issues on page 56, environment issues on page 60 and society issues on page 63.

Every two years, we specifically engage representatives from each of our five groups of stakeholders to gain feedback on the issues we have identified as material to the business. As we last did this in 2017, we undertook this engagement process once again in 2019. This year, we interviewed 17 internal and external stakeholders.

The stakeholders from within our business represented central procurement, finance and human resource functions, as well as our international locations. External stakeholders spanned suppliers, partners, investors, NGOs, peer companies and industry associations.

The issues we have identified as material to both stakeholders and Cairn are shown in the materiality matrix below. This matrix represents the positioning of the issues after adjustments have been made to our assessment of the 'importance to stakeholders', in line with feedback gathered.

More detail on our materiality process and the feedback from our stakeholders is available in our Corporate Responsibility Report at **www.cairnenergy.com/working-responsibly**.

MATERIALITY MATRIX

Governance

1. ABC – Contractors and Suppliers
2. ABC – Governments and Authorities
3. Advocacy and Lobbying
4. Anti-Competitive Behaviour
5. Business Partners Alignment on CR Issues
6. Cairn ABC Practices (Personnel)
7. Climate Change Policy and Planning
8. CR Governance
9. Data Protection
10. Fines and Prosecutions
11. Funding
12. Global Energy Transition
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. Tax and Payments to Governments

Environment

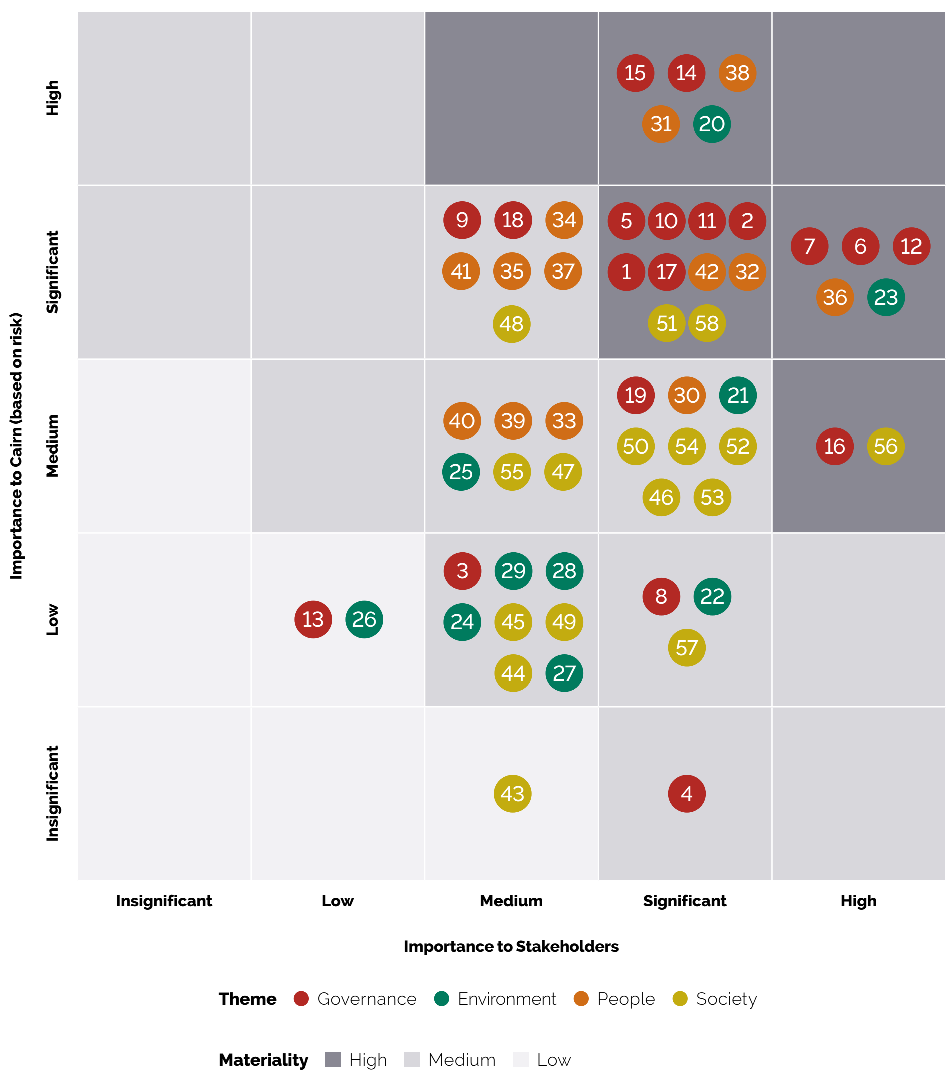
20. Biodiversity and Sensitive Areas
21. Discharges to Sea, Water, Land and Sound
22. Energy Use and Alternative Sources
23. GHG Emissions (Including Venting and Flaring)
24. Materials Use
25. Other Emissions
26. Product Stewardship
27. Reuse, Recycle and Waste Management
28. Use of Local Resources
29.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

People

30. Anti-discrimination (employees)
31. Assets Security
32. Contractor Selection, Capacity and Leadership
33. Equal Pay, Equal Opportunity
34. Human Capital Development
35. Infectious Diseases
36. Major Accident Prevention
37. Office Security
38. Personnel Security and Travel
39. Talent Attraction (Selection)
40. Workplace Culture and Employee Leadership
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. Grievance Mechanisms
50. Indigenous People's Rights
51. Local Community Stakeholders
52. Local Content
53. Local Energy Access
54. Local Workforce Development
55. Modern Slavery
56. Security and Human Rights
57. Social Investment
58. Working Conditions/ Ts and Cs



1 IPIECA Oil and Gas Industry Voluntary Guidance on Sustainability Reporting, 3rd edition, 2016 – **www.ipieca.org/resources/good-practice/oil-and-gas-industry-guidance-on-voluntary-sustainability-reporting-3rd-edition/**
2 Global Reporting Initiative – **www.globalreporting.org**
3 Sustainability Accounting Standards Board – **www.sasb.org**

We consider our material issues within four themes, in line with our Business Principles shown below: **governance**, **people**, **environment, society**.

RESPONSIBLE GOVERNANCE

#1 We manage risk and seek to continually improve.

#2 We behave honestly, fairly and with integrity.

Relevant Material Issues

1 2 5 6 7 10 11 12 14 15 16 17

BEHAVING RESPONSIBLY TO PEOPLE

#3 We develop the potential of our people.

#4 We foster a workplace that respects personal dignity and rights, is non-discriminatory and provides fair rewards.

#5 We provide a healthy, safe and secure work environment.

Relevant Material Issues

31 32 36 38 42

BEHAVING RESPONSIBLY TOWARDS THE ENVIRONMENT

#6 We take a precautionary approach to our effect on the environment.

#7 We strive to prevent and minimise our impact on the environment.

Relevant Material Issues

20 23

BEHAVING RESPONSIBLY TO SOCIETY

#8 We seek to make a positive social impact in every area where we work.

#9 We respect the rights and acknowledge the aspirations and concerns of the communities in which we work.

Relevant Material Issues

51 56 58

Responsible Governance

RESPONSIBLE GOVERNANCE

The Board is responsible for governing a business that is ethical, transparent, respectful of its many stakeholders, and capable of operating sustainably to deliver its stated strategy.

#1 We manage risk and seek to continually improve

#2 We behave honestly, fairly and with integrity

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

1 2 5 6 7 10 11 12 14 15 16 17

Materiality Matrix see **page 52.**

#1 We manage risk and seek to continually improve

Management of Material Issues
Every year, we conduct a thorough materiality assessment to better understand issues that are material to both the business and to our stakeholders, and that we need to manage on an ongoing basis. In doing so, we ensure we are well placed to manage our risk efficiently and to operate with the support of our many stakeholders.

Investment
Increasingly, investors around the world are asking us to demonstrate our responsible working culture and practices before they make investment decisions.

CASE STUDY

MAINTAINING STANDARDS WITH JOINT VENTURE PARTNERS

Our joint venture partner in Mexico, Citla Energy, is owned and funded by ACON Investments, the China Mexico Fund and the International Finance Corporation (IFC). The latter offers investment and advisory services to encourage private-sector development in less-developed countries. As such, Citla is obliged to comply with the IFC's Performance Standards, as are any partners with joint operating agreements.

At least once a year, an independent consultant audits Citla and, by association, its operating partners. These audits check that Citla is exerting its influence to ensure that its partners, including Cairn, are complying with the IFC Performance Standards.

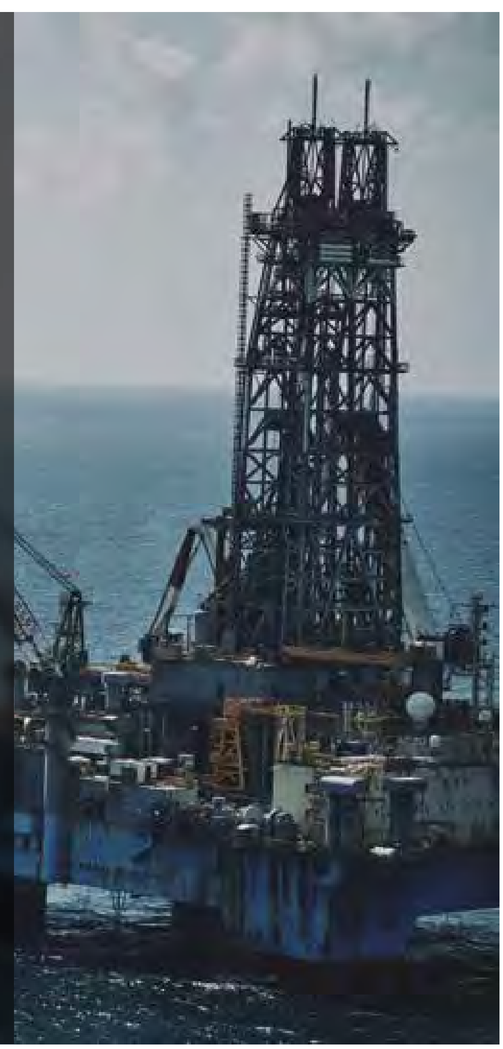
Cairn's own operating standards largely align with the IFC but there have been instances where Citla and Cairn have needed to collaborate to ensure their drilling activities in the South East Gulf of Mexico meet the IFC's requirements.

For example, our own Environmental Impact Assessment (EIA) for exploration drilling was prepared in alignment with Mexican legislation, as well as the specific definitions and criteria stated in IFC's Standards. This identified habitat for the critically endangered Kemp's Ridley turtle. Together with Citla and the IFC, we agreed a range of measures to mitigate against any potential impacts from our offshore supply vessels, such as maintaining a minimum distance from reported sightings, setting a vessel speed limit and having a dedicated marine observer on board.

Cairn and Citla have also raised awareness among suppliers and contractors around the grievance mechanisms we have in place, and we have developed an HSSE plan, giving Citla a degree of contractual influence over the technical and environmental aspects of our joint activities.

"Our experience of working with Cairn has been extremely positive. We communicate openly, we work as equal partners and despite Citla being a relatively new company, Cairn values our experience, expertise and local insight."

William Murdoch, HSSE Manager, Citla Energy



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 (see page 8).

Joint Venture Partners and Funding
We recognise the increasing pressure on our industry to improve performance within a challenging business environment. Volatile oil prices continue to be a principal risk, so working closely with our joint venture partners to allocate capital efficiently is vital (see case study below, left).

Global Energy Transition
This continues to be a high-profile issue for Cairn and its stakeholders, and the Board has actively considered climate action related risk during the year (see page 46).

Cairn's ABC Practices
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 with 199 employees trained in Cairn's anti-corruption policies and procedures in 2019.

Operations in Sensitive and Complex Locations
We operate in a number of different jurisdictions around the world, each of which presents a unique set of physical and regulatory considerations such as logistics, environment, national legislation and local community context. As part of our new ventures work, understanding often increasingly complex country environments is paramount to operating to best practice standards and managing associated risk accordingly. Wherever we work, we are committed to not operating in UNESCO World Heritage sites.

#2 We behave honestly, fairly and with integrity

Business Partner Alignment on Corporate Responsibility Issues
Working ethically requires our business partners, as well as our employees, to align on CR issues, such as adhering to our Code of Ethics. In 2019, we revised and reissued the Code to all personnel.

Climate Change Policy and Planning
Given the importance of climate change policy and planning to both Cairn and its stakeholders – especially investors – we have assessed our reporting against the Task Force on Climate-Related Financial Disclosures (TCFD). We are building on our recent climate portfolio resilience review by using more challenging scenarios, and developing a dashboard to monitor trends in climate action indicators. A workshop on managing energy transition risk was held at our Board meeting in November 2019.

Governments', Authorities', Contractors' and Suppliers' ABC Practices
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.

Read more: **Climate Change Policy and Energy Transition** on **P46**.

Tax and Payments to Governments Including Fines and Prosecution
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 supported the adoption of the new 2019 EITI standard, approved at the EITI Global Conference 2019, which requires implementing countries to publish all extractive contracts, licences and payments to and from governments from 2021, and share any information about fines and prosecutions, as and when relevant.

Payments to governments in 2019

US$37.8m

Behaving Responsibly to People

BEHAVING RESPONSIBLY TO PEOPLE

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

#3 We develop the potential of our people.

#4 We foster a workplace that respects personal dignity and rights, is non-discriminatory and provides fair rewards.

#5 We provide a healthy, safe and secure work environment.

This year the following people issues were identified as material: 31 32 36 38 42

Materiality Matrix see P52.

#3 We develop the potential of our people

People Management
We work with key sourcing organisations across the UK to help us find the best people to match our needs and aspirations. We have attracted them to live and work in Edinburgh from across the UK, as well as from Europe and the United States.

Read more: Governance statement on P76.

Enabling and empowering people to work at their best is the key to being a high-performing organisation, so proactively managing our workforce is critical for us. We have people across all levels of our business with the competency and potential to deliver our strategy. We are working with several partners to build a flexible assessment tool that identifies any skills gaps so that we can implement focused, accelerated development.

Learning and Development
Through our ongoing commitment to professional development, managers work with team members to support their career aspirations and help them to deliver greater value to the business. We offer opportunities through e-learning modules, traditional classroom training, workshops, conferences and field trips, and we regularly have people on overseas secondments as part of their development.

In 2019, we launched the Cairn Academy. This online tool enables colleagues to undertake both mandatory compliance and self-help refresher training, to improve their understanding of important governance, regulatory and security topics as well as our processes and procedures. We plan to give all staff access to relevant learning and development opportunities through this platform, helping to maintain the high levels of competency we demand.

Total days of training and development provided (~7 days per employee)

1,577

Management Training
Empowering our managers to support and motivate their teams, our bespoke modules – covering Performance-Enhancing Discussions; Conscious Management; Enhanced Team Performance and Engagement; and Effective Coaching Skills – were included in our long-established Management Bootcamp programme in 2019. All people managers will have completed them by the end of 2020. To maintain a strong line of succession, places are also open to staff interested in becoming managers in the future.

To support young people, we also:
- supported and sponsored local events that promote STEM subjects;
- held a summer intern programme for seven university students; and
- supported work experience opportunities for a number of schoolchildren throughout the year.

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

Intern visit to Maersk rig, Dundee

#4 We foster a workplace that respects personal dignity and rights, is non-discriminatory and provides fair rewards

Diversity and Inclusion
Our organisation's future success depends on a diverse range of talented people with the necessary skills, competencies and passion. For us, diversity is about recognising and respecting our differences, and inclusion is about getting the best from those differences.

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

Read more: **A Responsible Approach** on **P10**.

Employee Engagement
Our people are the foundation on which our success is built, and we aim to create positive, collaborative work environments that enable them to fulfil their potential. We respect personal dignity and rights, and want everyone to feel involved, heard and valued by colleagues and managers.

We engage with our people through a number of channels, including regular staff meetings, monthly 'pulse' surveys (see case study), biannual Employee Voice Forum meetings (see below), AGMs, staff focus groups and our intranet. Such engagement has led to greater clarity about our strategy, a fresh approach to entering new countries, a revised model for internal communications and team workshops about collaboration.

Employee Voice Forum
In May 2019, we launched our Employee Voice Forum, which gives our people direct access to the Board. Biannual meetings, chaired by Non-Executive Director Nicoletta Giadrossi, put colleagues' concerns, ideas and suggestions forward for the Board to consider during their decision-making discussions. The eight members of the forum utilise the outputs from our employee pulse surveys (see case study below) to identify common themes and to stimulate debate and discussion.

Rewards and Benefits
Every year, we benchmark salaries and benefits against other oil and gas companies. This helps us to continue to offer a competitive package as a way to attract and retain employees. We provide employees with an annual Total Reward Statement (TRS) to demonstrate the total value of their compensation and rewards, as well as an online Rewards and Benefits Guide for UK-based staff, giving them immediate access to relevant information and resources.

Read more: **Directors' Remuneration Report** on **P94**.

Total workforce

278

Gender split

Group

Male	Female
160	118

Management

Male	Female
48	19

Board

Male	Female
6	3

Average age

44

(reduced from 46 since 2018)

Maternity returners

7

100% of staff returned to work after maternity/paternity/adoption leave

Part-time staff

Part-time	Full Time
26	252

CASE STUDY

'HAVE YOUR SAY' PULSE SURVEYS

As part of a new employee engagement strategy, we introduced monthly 'Have your say' pulse surveys across the Group in late 2018. During the first year, these short, regular snapshots have had consistently high participation rates (over 90% of employees) and attracted more than 3,000 comments from staff.

Our online survey tool allows us to focus on key areas and to compare our results with our industry peers. We have consistently tracked equal to or above the energy sector on overall employee engagement throughout the first 12 months. Each of our Senior Leadership Team personally sponsors an action from the results and champions its progress across the business. We are starting to see positive results and will report on them next year.

Behaving Responsibly to People continued

#5 We provide a healthy, safe and secure work environment

Workplace 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. Managing safety hazards involves several safe working procedures, including management visits, audits, a permit-to-work system, toolbox talks and safety drills. We actively engage with contractors to ensure they have effective systems in place.

Although we have limited direct exposure to potentially hazardous materials, we still have robust requirements for chemical and waste management in our CRMS, to protect human health and the environment.

We ensure compatible arrangements from our contractors. In the UK, for example, we conducted on-board training and used other awareness-raising communications to manage the risks associated with drilling wells using oil-based mud.

We support all staff who may be exposed to health risks such as infectious diseases, where we have assets or during visits to new locations. We perform risk assessments to identify and reduce health risks and other risks before travel and have improved our Traveller Health and Security intranet site.

Read more: **Travel and the Security of Personnel** on **P59**.

CASE STUDY

PREVENTING MAJOR ACCIDENTS THROUGH CMAPP

Our Corporate Major Accident Prevention Policy (CMAPP) strengthens our commitment to mitigate risks and enhance our emergency response capability.

Required under the EU Offshore Safety Directive, our CMAPP was introduced in October 2017, and revised in both July 2018 and October 2019. It has since been rolled out globally and we continue to stress its importance and application. CMAPP places an emphasis on:

- managing Safety and Environment Critical Elements (SECEs), and preventing a major incident through robust control and maintenance mechanisms;
- demonstrating and verifying the high levels of competency required among our staff and contractors, and conducting appropriate training and succession planning to maintain that capability; and
- independent assurance processes, at key stages of our projects, covering the acceptance of equipment and the lifecycle of our wells.

During the year Cairn's Management Team, whose responsibility includes how Cairn complies with CMAPP across all operations, went to Spadeadam in Cumbria for a one-day Major Accident Awareness Training session. The objective was to re-emphasise the potential consequences following loss of containment incidents in the oil and gas industry.

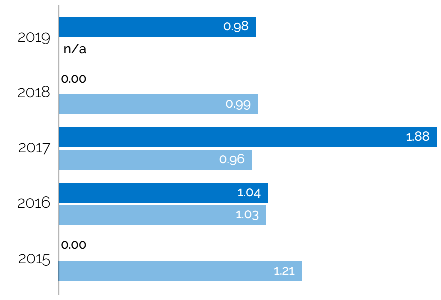
Part of the training focused around drilling and production operations and the importance of instilling a sense of vulnerability to what can happen if these are managed inappropriately.

A Group-wide CMAPP training module for employees was released in early 2019, raising internal awareness and knowledge, and an independent internal audit was undertaken in Q4. This looked at how the major accident hazard and risk controls across the three drilling programmes were applied. Improvements identified will be implemented in 2020.

Our 2019 Performance
Overall, our occupational safety performance in 2019 compared well with IOGP benchmarks. We experienced a single restricted workday case (RWDC) in Mexico when a rig crew member injured a finger during equipment handling; the root cause was failure to follow procedure.

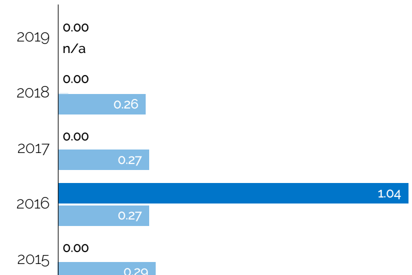
We had two first aid cases during UK operations (bruised hands) and one in Mexico (twisted ankle). No spills to sea occurred in 2019.

Total Recordable Injury Rate (TRIR)
(Total recordable injuries per million hours worked)



Cairn total for employees and contractors
IOGP benchmark

Lost Time Injury Frequency (LTIF)
(Lost time injuries per million hours worked)



Cairn total for employees and contractors
IOGP benchmark

* IOGP is the International Association of Oil and Gas Producers. We have included overall IOGP benchmark figures (average of onshore and offshore for employees and contractors). IOGP benchmark figures for 2019 are not yet available.

Cairn TRIR and LTIF statistics can be higher than the IOGP benchmark after only one incident, or a small number of incidents. This is because our exploration activities are often short in duration, meaning there are relatively few hours worked compared with ongoing production and other long-term operations.

Preventing Major Accidents
Our industry faces a number of major accident hazards and it is important we avoid the risks arising from these hazards, or at least manage them to a level that is As Low As Reasonably Practical (ALARP).

Our Corporate Major Accident Prevention Policy (CMAPP) captures our position and the arrangements we have in place around the world to address these risks. This year, we applied the mechanisms of control it describes in our operated activities in Norway, Mexico and the UK. As part of our improvement programme, the CMAPP was independently reviewed in September and reissued following minor improvements. We also conducted an internal audit of its application across operations at the end of the year.

We focus on prevention but, in the unlikely case a significant event does occur, we maintain a three-tiered crisis and emergency response arrangements that are capable of supporting our activities wherever they are in the world. For a quick and effective response to a major accident or incident, we have Incident Management Teams (IMTs) in all our operational locations, supported by Incident Response Teams in our field assets. Our Crisis and Emergency Response Team (CERT) in Edinburgh also provides strategic and tactical support, depending on local capability.

We remain an associate member of Oil Spill Response Limited (OSRL), a specialist organisation working to assist operators to respond effectively to oil spills. We also invest heavily in other supplementary OSRL memberships to gain access to third party specialist response equipment and techniques for containment, dispersal and surveillance.

During 2019, we held two emergency scenario exercises for Block 9 in Mexico, and two emergency response readiness exercises for our Chimera well in the UK. Using a crisis management company to present a scenario, the exercises check that everyone – on rigs, at shore bases and in other business functions – correctly assesses the risks and implements the agreed plan. A third exercise in Mexico was conducted by Maersk in November.

The CERT team also held two further exercises relating to possible scenarios that are unconnected with specific field operations.

Security of Personnel and Travel

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 monitor and respond to emerging threats, acting on intelligence from embassies, civil authorities and contractors in both active locations and potential countries of interest.

Our due diligence process requires us to assess and address the risks our people may face. Employees can access journey management plans and traveller guides before they travel and while they are away. In operational locations where risks are considered to be 'moderate' or above, we develop and implement Security Management Plans. These may involve ground security teams to provide safe transit to hotels, airports and meetings or to support access to field locations.

In Mexico, we experienced a significant near miss this year. An employee and a contractor failed to follow procedure, giving rise to a potentially serious personal safety issue. This incident was fully investigated and a report shared with senior leadership and the Management Team. It prompted us to re-emphasise the existing procedure with educational sessions and risk workshops in Mexico in January 2019; these were also delivered to the project team in Edinburgh. Support services were also improved in terms of access to transport facilities.

Since then, our travel risk policy has been reissued and a session held to remind our people of their responsibility to follow procedure, as well as all relevant health and safety legislations.

We also held a security-related emergency exercise with the CERT and issued detailed staff briefings about personal safety.

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, to ensure we align with industry best practice.

We also conducted a gap analysis of the Industrial Safety, Operational Safety and Environmental Protection Administration System (SASISOPA) process required by legislation in Mexico. We found no non-compliances in the security of our operations or third-party providers of aviation, accommodation and logistics services.

Contractors

To support the delivery of our operational projects, we supplement our core staff resources with experienced consultants and contractors.

Cairn procures a substantial amount of goods and services from contractors and third-party vendors, so our relationships with them are fundamental to our success. We continue to rely on high-quality and competitively priced suppliers for much of the technical expertise, equipment and services needed to maintain our operational capability.

While there may be technical reasons why we select international contractors (such as suppliers with the capability to acquire 2D seismic data offshore Suriname), we continue to promote and use local services wherever we can. In Mexico and Norway, for example, all the partner companies that Cairn engages with are local organisations or registered local entities of international contractors.

In Mexico, under the terms of our Production Sharing Contract (PSC), we are required to achieve local content obligations and targets. In 2019, we engaged with all of our key contractors through a series of workshops to ensure that local content requirements, expectations and considerations for Mexico are fully understood.

Contractor Selection

We need our contractors to share our commitments as they appear in the Code of Ethics and to work in a manner that meets our standards. This helps to protect people and communities, the environment and our reputation. Effective selection, strong working relationships and good performance also enable us to maintain our licence to operate.

All contractors are selected on the basis of their adherence to our principles and standards, experience, service capability, competency and competitiveness. Our approach to evaluating contractors and tenders includes specific requirements that ensure they use management systems and apply ways of working that meet our CR policies and procedures; these range from safety and environmental matters through to anti-bribery and human rights issues such as modern slavery.

So that all our activities conform to our CRMS and Cairn Operating Standards (COS), we use an integrated contractor and supply chain audit plan. This plan identifies corporate and operational risks and develops an assurance and audit programme to demonstrate effective controls are in place across systems and processes, as well as on individual rigs and vessels. This is extended to the Audit and Assurance Plans we apply in our operated projects. Consultant organisations are required to align with our CRMS and have access to online training modules to raise awareness of the human rights and labour standards we expect.

In 2019, we revised our audit plan for contractors, and risk-assessed all key contracts and services.

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

Behaving Responsibly Towards the Environment

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 helps us to minimise any adverse impact on the environments in which we work, without affecting our commitment to safety.

#6 We take a precautionary approach to our effect on the environment.

#7 We strive to prevent and minimise our impact on the environment.

This year, the following environment issues were identified as being of high materiality: 20 23

Materiality matrix see **page 52**.

#6 We take a precautionary approach to our effect on the environment

Greenhouse Gas (GHG) Emissions
GHG emissions from our activities arise mainly from the combustion of fuels such as marine diesel by rigs and transport vessels and form a relatively modest part of our operational footprint. We monitor and manage the emissions from our assets on an 'operational control' basis and disclose them in accordance with industry requirements and standards. Some of the locations we work in, such as the UK, are heavily regulated so complying with national regulators' requirements is an important aspect.

Around 95% of the GHG emissions associated with our operations occur in the supply chain, which means our influence over carbon management and reporting is limited largely to the selection of contractors, efficient operations and the use of modern equipment. For example, one vessel contracted for our marine operations in Norway was powered by liquified natural gas (LNG), although the availability of such alternative fuels varies with location.

In absolute terms, our annual GHG emissions vary with the duration and nature of the projects during the year, but most arise from exploration and appraisal activities. The selection of major equipment and contractors is influenced by safety considerations, technical well requirements, the distance between operations and support bases, and local environmental and meteorological conditions.

2019 was a year of high activity for Cairn. We had three concurrent drilling campaigns during the year, with one operated well in the UK, two in Norway and two in Mexico, in addition to three non-operated wells. By contrast, in 2018, our operations involved only one well using a rig with relatively low energy demand.

In line with the increase in activities in 2019 our total GHG emissions increased to 43,496 tonnes CO_2e. Normalised emissions also increased to 42.74 tonnes CO_2e per 1,000 hours worked.

Higher than expected emissions and normalised emissions occurred overall due to the need to drill an unplanned side-track as a result of geological challenges, while maintaining safe operations in our Bitol-1 Well in Mexico. In addition, normalised emissions increased due to weather delays affecting access to our operational supply and aviation bases in Mexico causing greater standby time than anticipated.

Acknowledging the importance placed on climate change risks by our investors, we have assessed our reporting against the Task Force on Climate-Related Financial Disclosures (TCFD) – see A Responsible Approach on page 10.

Read more: **Emerging Risks** on **P38**.

Air Emissions, Discharges and Waste
Informed by regulatory compliance and industry best practice, we monitor and report on other air emissions, discharges to the marine environment and waste in connection with our activities.

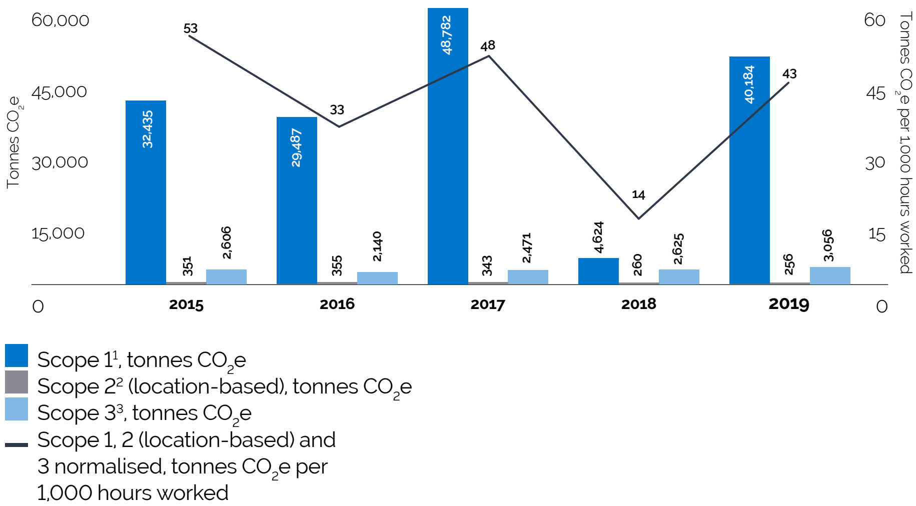
For more information please see our **Corporate Responsibility Report**: **www.cairnenergy.com/working-responsibly**

Energy Saving Opportunity Scheme (ESOS) Regulations 2014
The ESOS Regulations 2014 require large UK organisations to undertake comprehensive assessments of their energy use and energy efficiency opportunities at least once every four years. We qualified under these regulations for the first time this year and made our first submission under ESOS Phase II in November 2019.

Full compliance with these regulations will help us to identify and benefit from reduced energy use, lower carbon emissions and cost savings.

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

43,496



Notes

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, CH_4 and N_2O from the Intergovernmental Panel on Climate Change (IPCC) – with the Fourth Assessment Report (AR4) values applied when using Defra 2018/2019 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 2018 in 2018). 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 2019 in 2019). 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 2019 emission factors in 2019 (see www.ukconversionfactorscarbonsmart.co.uk/). For calculating Scope 3 (electricity transmission and distribution losses) GHG emissions, we use Defra 2019 emission factors.
4. Limited assurance of our 2019 GHG data (Scopes 1, 2 and 3, and normalised) has been provided independently by ITPEnergised which, within the scope of the limited assurance engagement, has found that the GHG emissions reported are materially correct and a fair representation of available information. A full assurance statement detailing the verification undertaken and its limitations is available on our website.

Behaving Responsibly Towards the Environment continued

#7 We strive to prevent and minimise our impact on the environment

Protecting Biodiversity and the Environment

Global awareness of the threat to biodiversity has increased dramatically in recent years. We have always recognised the risks to the habitats, ecosystems and species that sustain our planet, and their importance to communities relying on them. We remain committed to protecting them in the locations where we work and we do not 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 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 activities required.

Our approach to this complex and critical work is set out in our CRMS and all our commitments related to preserving biodiversity are covered by our Business Principles and our Environment Policy, which was reviewed and reissued globally in October 2019. We also require biodiversity aspects to be included in investment proposals to identify critical risks before any work commences.

Understanding Biodiversity Risks Offshore Mexico

We are working hard to understand the biodiversity risks associated with both operated and non-operated new ventures opportunities, such as the potential environmental impacts offshore Mexico.

We carried out a Critical Habitat Assessment (CHA) and a residual Biodiversity Impact Assessment (BIA) for Block 9, one of our operated licences offshore Mexico, which identified possible impacts on marine turtles arising from our planned activities. One of the species is the critically endangered Kemp's Ridley sea turtle, the rarest species of marine turtle.

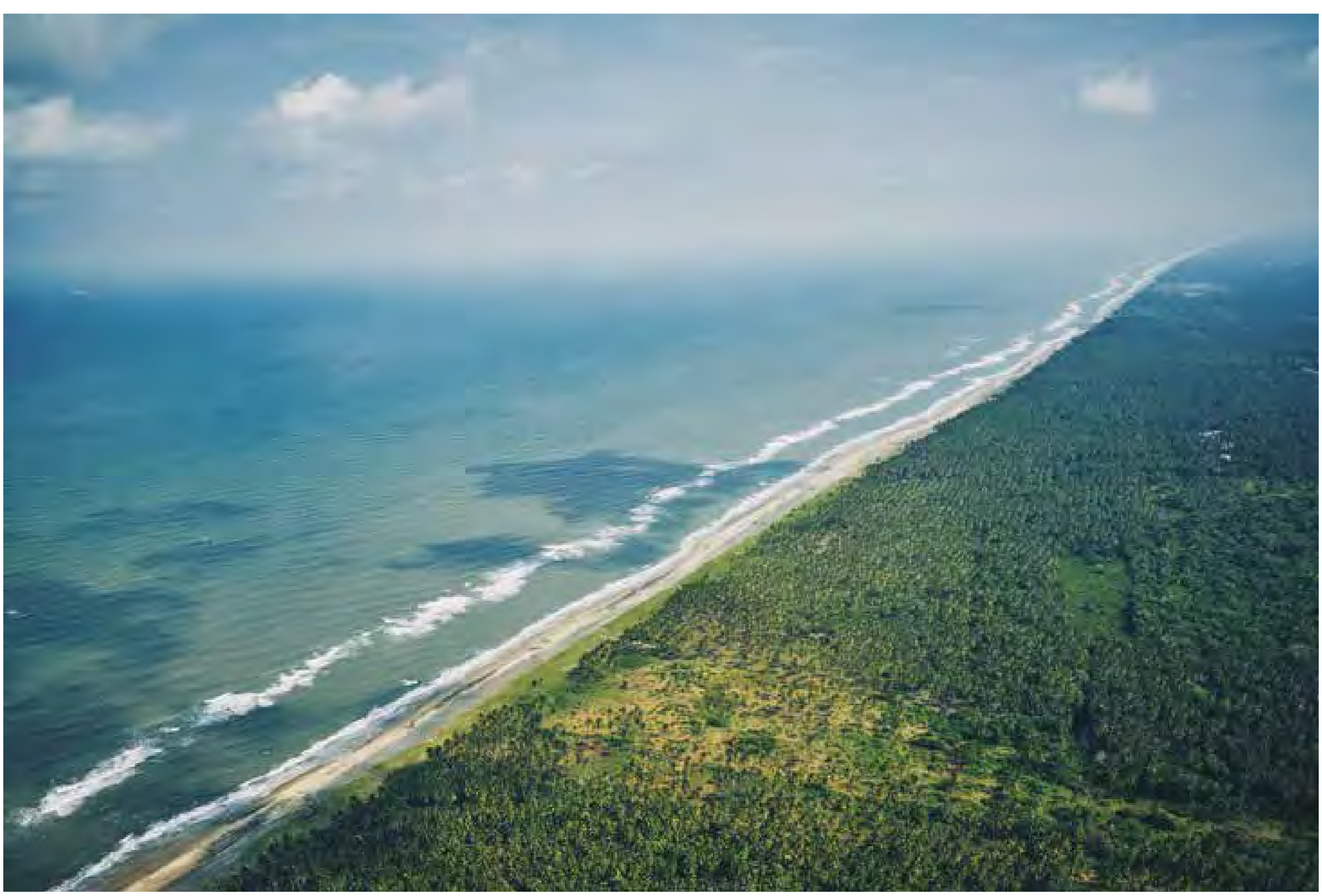
Taking into account the mitigation measures already underway through our Environmental and Social Impact Assessment (ESIA), we have proposed additional monitoring and recording of all sea turtles and marine mammals by an observer for our offshore drilling unit and any support vessels, which were restricted to speeds below 10 knots.

Environmental Baseline Surveys

Environmental baseline (EBL) surveys help us to define existing biodiversity, environmental and other conditions near our activities, using techniques including photography, seabed sampling and physicochemical analysis. We conducted several EBL surveys in 2019 in preparation for activities in the UK, Norway and Mexico. We also undertook a number of environmental desk studies in support of our new ventures team when looking at new opportunities.

As well as providing data for assessing our potential impacts on habitats and developing mitigation measures, EBL surveys also help to determine the extent of existing damage arising from the previous activities of others. Repeating these surveys on entering and exiting a location helps to delineate our impact and avoids liability for impacts caused by others.

More detail about our locations is available in our **CR Data Index**.



Behaving Responsibly to Society

BEHAVING RESPONSIBLY TO SOCIETY

While we seek to make a positive difference to society through economic and community development, we also recognise that we must manage and mitigate any potential risks and impacts associated with our activities.

#8 We seek to make a positive social impact in every area where we work.

#9 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: 51 56 58

Materiality matrix see **page 52.**

#8 We seek to make a positive social impact in every area in which we work

We seek to share the value generated by oil and gas discoveries through our activities. We promote good practice, support a wide range of international agreements and standards, and develop programmes designed to support capacity building, local participation and the mobilisation of communities.

Social and Economic Impacts and Opportunities
Our CRMS requires us to evaluate the potential social risks and impacts of any major activity we undertake using a Social Impact Assessment (SIA), the scope and nature of which depends on the local context and regulations. SIAs are often performed as part of a combined Environmental and Social Impact Assessment (ESIA).

We also use the UN Sustainable Development Goals (see page 12) as an additional framework for understanding environmental, social and governance risks and opportunities, and developing Impact Benefit Plans.

We develop a social management plan for each project to mitigate any negative impacts and enhance the positive benefits identified. In this way, we can assess and track the benefits and impacts together, with the aim of providing a positive overall benefit.

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

CASE STUDY

IMPLEMENTING SOCIAL MANAGEMENT PLANS AND MONITORING PERFORMANCE

In Mexico, we finalised a Social Impact Assessment for our proposed offshore exploration projects in Block 9 in the Gulf of Mexico.

Developed in line with best practice from the IFC and the European Development and Reconstruction Bank, the SIA determined baseline data for the area covered by our proposed activities, evaluated our likely impacts and designed mitigation measures. The assessment also involved developing a social management plan, informed by discussions with community members, fishermen and fishing cooperatives, local government representatives, port captains and business owners.

In 2019, the plan identified actions and responsibilities, including:
- selecting contractors on the basis of shared values, principles and standards, using local contractors and services where we can, including our local shore base in Dos Bocas, helicopter provider Transportes Aereros Pegaso and support vessel provider Naviera Bourbon;
- providing information about the project to stakeholders within our area of influence through our website, newspaper articles, statutory notifications and local engagement;
- establishing a grievance mechanism;
- monitoring the implementation of the plan through direct feedback from field work in Tabasco state and a number of performance indicators;
- tracking performance internally and sharing data with joint venture partners; and
- reporting to the regulator on an annual basis.

As this is our first operational activity in Mexico, we are keen to understand how we can participate in community development and to design an Impact Benefit Plan for future operations.

Behaving Responsibly to Society continued

#9 We respect the rights and acknowledge the aspirations and concerns of the communities in which we work

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. For each project, we develop a stakeholder engagement plan, which details how we will access information and community feedback to inform our understanding. This includes monitoring media and civil society commentary, stakeholder enquiries, community engagement, government and local authority engagement, and the use of grievance mechanisms.

Key Issues Raised by Local Community Stakeholders

- **The transparency of payments from the oil and gas industry to national governments:** Cairn has long recognised this concern and has been a member of the Extractive Industry Transparency Initiative (EITI) since 2013. The EITI requires companies to publish what they pay, and governments to publish what they receive from companies; both are independently verified. The UK, Norway, Mexico and Senegal are all implementing countries.
- **The opportunity to participate in the sector through local employment and business opportunities:** Cairn promotes the use of local service providers where possible (see page 59). In 2019, we continued to support capacity building within the supply chain through the Invest in Africa initiative in Senegal, and supported a number of education institutions there (see page 65), as well as in Suriname (see page 28) and Mexico.
- **Potential threats to resources and livelihoods:** Even when our assets are located offshore, we recognise that our activities can affect the people close to our operations. For example, in maintaining a safety zone around drilling vessels, our work can interfere with local fishing activity. In such instances, we share our plans and invite feedback from local fishermen to minimise disruption and maximise benefits (see page 63).

We also seek to engage with local communities to support their community development activities.

Read more: **Stakeholder Engagement** on **P50**.

Human Rights
Respecting human rights is a fundamental part of our commitment to protecting stakeholders. We acknowledge that slavery is a significant issue in some regions where we operate, such as West Africa, and therefore take steps to ensure it is not present in our supply chain. We respect and support internationally recognised human rights standards; seek to ensure non-complicity in human rights abuses by identifying, assessing and managing human rights risks within our sphere of influence; and putting mechanisms in place for raising and addressing grievances.

In the oil and gas industry, not managing human rights-related risks can also result in business consequences such as delays in design or permits, problems with local relations, higher financing costs, reduced output or even project cancellation.

To develop and maintain effective relationships with employees, contractors, communities and other stakeholders, we support international standards such as the UN Universal Declaration of Human Rights.

Our own Human Rights Guidelines define how we identify, assess and manage potential human rights issues at key project stages. This documentation was updated in 2019 in line with the latest business and human rights guidance, making it a more succinct, accessible and effective management tool. Our HSE team members, who are integrated into operational projects, attended a human rights training workshop hosted by an independent specialist to improve their understanding of human rights in our business and their application of good practice.

When operating in complex security environments, we recognise that we must maintain the safety and security of our operations within an operating framework that ensures respect for human rights. For our operations, we assess security risks and the potential for human rights abuses.

Security contractors are assessed on their adherence to our principles and standards, which include our aim that operations, equipment and training meet the requirements of the Voluntary Principles on Security and Human Rights, and reflect the requirements of key UN human rights guidelines. Effective selection of security contractors, strong working relationships and good performance protect people and communities, and enable us to maintain our licence to operate.

For operational activities, grievance mechanisms are established to provide individuals and community representatives the opportunity to address any concerns to the company.

Our position on human and labour rights is also integrated into our Corporate Social Responsibility Policy and our Code of Ethics (see page 55). Our human rights and modern slavery training has been rolled out as two separate e-learning modules, providing awareness for all personnel, and our procedure for selecting service providers and contractors now incorporates modern slavery assessments. We also held a one-day workshop for CR specialists on current human rights and business developments.

In addition, we use our influence to advocate for improved human rights management measures in our supply chain.

Our Modern Slavery statement is available online at www.cairnenergy.com/services/modern-slavery-statement/.

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

Operations subject to human rights reviews or impact assessments

100%

UN SDGs in Action

CASE STUDY

CREATING VALUE IN SENEGAL

Cairn is committed to delivering lasting and positive social and economic benefits in countries where it operates. In Senegal our objective was and is to build a resource base that can be developed to maximise the value for Senegal as a country and improve its energy security.

One of the ways in which we did this was through targeted social investment programmes, with a total expenditure of US$1.3 million to date. In Senegal much of this has taken place through a charity committed to reducing hunger and poverty called The Hunger Project. We worked with them to develop a pilot community development project to support seven fishing communities, one of Cairn's key stakeholders and comprising around 22,000 fishermen. The three-year project was successfully handed over to Woodside in its second year, as part of our transfer of operatorship.

Given that oil and gas activities were relatively new to Senegal, we also focused on supporting and building local industry expertise. To support the oil and gas regulatory environment in Senegal we provided industry training to representatives of contractors, academic institutions and regulatory authorities. This training covered oil and gas industry awareness, HSE awareness, offshore safety, offshore emergency response including oil spill response, waste management and language training.

We have provided English language training to a total of 38 employees across DEEC (Ministry of Environment), Ministry of Energy, HASSMAR (the International Maritime Rescue Federation) and national oil company Petrosen since 2016 as well as to 111 geoscience and science students at the Earth Sciences Institute (IST) and the Polytechnic School (ESP) in Dakar. Ongoing support for these courses will now be provided by the National Institute for Oil and Gas (INPG) and other industry operators.

In support of local industry and employment, during the development phase we engaged local companies in logistics and supply base support, waste management services, aircraft handling services, transport services, fishing liaison, administration, accommodation and environmental and social consultancy services.

We also played a founding part in the launch of both Invest in Africa in Senegal, an initiative to promote the development of local small and medium businesses and facilitate their access to oil and gas industry projects and other multi-national projects; and the Institut National Du Pétrole et du Gaz (National Petroleum Institute) which aims to develop national expertise in the oil and gas sector in Senegal. Both of these entities have the common aim of building national capacity and participation.

In 2018 Cairn transferred operatorship of its licence to Joint Venture partner Woodside. Woodside has developed a comprehensive social investment strategy which will be progressively implemented through the execution phase.

Financial Review
James Smith,
Chief Financial Officer

SUSTAINABLE PRODUCTION AND CASH FLOWS

Key Statistics

	Year ended 31 December 2019	Year ended 31 December 2018
Production – net WI share (boepd)[1]	**23,739**	17,533
Sales volumes (boepd)[2]	**21,412**	15,946
Average price per bbl (US$)[2]	**65.70**	67.55
Revenue from production (US$m)	**504.2**	395.7
Average production costs per boe (US$)[4]	**17.38**	20.49
Depletion and amortisation costs per boe (US$)	**24.87**	26.75
Net cash inflow from oil and gas production (US$m)	**390.2**	228.9
Net cash inflow from operating activities (US$m)	**406.5**	209.0

1 Based on 20% Catcher production and 29.5% of Kraken production before deducting FlowStream's entitlement to Kraken volumes during the year of 1,460 boepd (2018: 1,360 boepd)
2 Working interest share of cargoes sold during the period, net of FlowStream entitlement
3 Excluding hedging gains of US$1.42/bbl (2018 : loss of US$1.34/bbl)
4 Based on total production costs of US$150.5m (2018: US$131.1m), including total lease payments; see table below

Production
During 2019, daily production volumes on both assets have increased significantly. Catcher production averaged ~67,200 boepd (2018: ~42,500 boepd) gross for the year and Kraken averaged ~35,600 bopd (2018: ~30,000 bopd). Net to Cairn, combined production for 2019 averaged ~23,800 boepd before adjusting for FlowStream entitlement.

Revenue
Revenue from the sale of oil and gas was US$504.2m (2018: US$395.7m), before adjusting for hedging gains of US$10.9m (2018: hedging loss of US$7.8m). Oil sales realised US$65.70/bbl against an average Brent price of US$64.36/bbl for the year reflecting the strong pricing of both Catcher and Kraken crudes. Release of deferred revenue of US$17.2m (2018: US$21.2m) and royalty income in Mongolia of US$1.1m (2018: US$1.2m), increased total revenue to US$533.4m (2018: US$410.3m).

At 31 December 2019, Cairn has hedged 2.8m barrels of forecast production through to December 2020. 1.9m barrels have been hedged using collar structures with a weighted average floor of US$62.09 per bbl and an average ceiling of US$74.89 per bbl, and 0.9m barrels hedged using swaps with a weighted average strike price of US$61.85 per bbl.

Cost of Sales
Total production costs of US$150.5m (2018: US$131.1m) include US$25.6m of variable lease payments (2018: US$59.5m variable and operating lease payments) on the Catcher and Kraken FPSOs respectively. Following adoption of IFRS 16, both the Kraken and Catcher FPSOs are recorded as right-of-use assets in the Balance Sheet with lease liabilities recognised representing fixed lease payments due over the expected life of the lease contract. Previously, Catcher was accounted for as an operating lease, with all payments charged directly to production costs. Comparative information in the financial statements has not been adjusted on adoption of IFRS 16.

Production costs included in the table above are calculated as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Production costs (US$m) (note 2.1)	**68.1**	64.2
Variable lease costs (US$m) (note 2.1)	**25.6**	59.5
Fixed lease costs for FPSOs (US$m)[1]	**56.8**	7.4
Total lease costs (US$m)	**82.4**	66.9
Total production costs (US$m)	**150.5**	131.1
Total production costs per boe (US$)	**17.38**	20.49
Total lease costs per boe (US$)[2]	**9.51**	10.46

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

Movements in oil inventory and underlift positions, measured at market value, of US$20.6m (2018: charge of US$7.7m) were credited against cost of sales in the year.

The increased depletion and amortisation cost per boe arise from the capitalisation and subsequent amortisation of the right-of-use asset in relation to the Catcher FPSO.

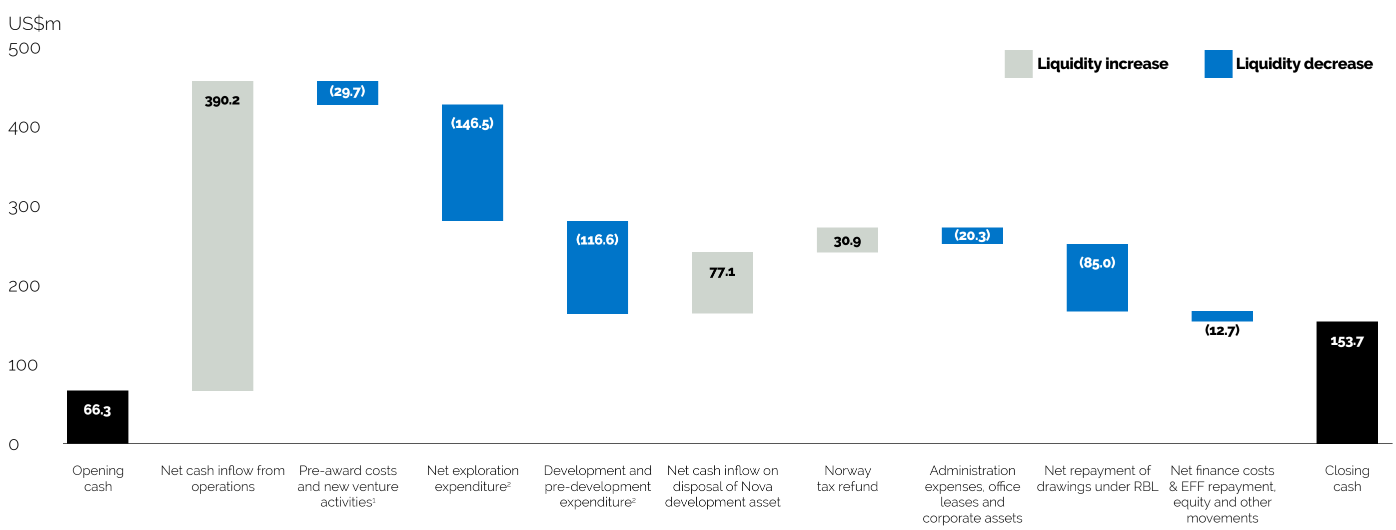
Financial Review continued

Sale of Capricorn Norge AS
Cairn has disposed of its interests in Norway through two transactions. A sale of a 10% Working Interest in the Nova development asset to Dyas for consideration of US$59.5m plus working capital adjustments from the effective date of 1 January 2019, completed in November 2019.

Subsequently, Cairn has sold the entire share capital of Capricorn Norge AS to Sval Energi for consideration of US$100m plus a working capital adjustment. This transaction completed in February 2020. As a result of this transaction being agreed, the Group's assets and liabilities in Norway, including goodwill allocated to Capricorn Norge AS, have been reclassified as held-for-sale at the balance sheet date and the financial performance of the Norwegian business disclosed as discontinued operations, including the gain on sale from the earlier part-disposal of Nova. Prior to re-classification as held-for-sale, the remaining deferred tax provision US$26.9m has been reversed as the disposal will not result in a chargeable gain.

The combined effect of the 10% Nova farm down and subsequent Capricorn Norge disposal is a small book loss of US$2.7m, included within the loss from discontinued operations. The 10% farm down resulted in a book profit after tax of US$36.1m but, as this was an asset sale only, it did not include any derecognition of goodwill associated with the wider Norway business. All goodwill associated with the Norway business was derecognised on the reclassification of the Capricorn Norge business as held-for-sale which resulted in an impairment, net of the deferred tax reversal, of US$38.8m.

Net Cash Inflow for the Year



1 Cash outflows on new venture activities of US$8.5m not relating to pre-award activities are reallocated from administration expenses
2 US$48.1m of Senegal pre-development expenditure categorised as exploration expenditure in the Statutory Cash Flow Statement has been reallocated to "pre-development" in this table and US$7.0m of lease reimbursements have been deducted from development expenditure
3 Includes cash balance of US$7.2m held by Capricorn Norge AS

Reconciliation of Statutory Cash Flow to Cash Inflow from Operations:

	Cash inflow from operations US$m
Operating cash flow per statutory cash flow statement	406.5
Non-GAAP Adjustments:	
Administrative costs reallocated	12.6
Pre-award and new venture costs reallocated	29.7
FPSO fixed lease payments	(56.8)
Tax refund reallocated	(1.8)
Net cash inflow from operations	**390.2**

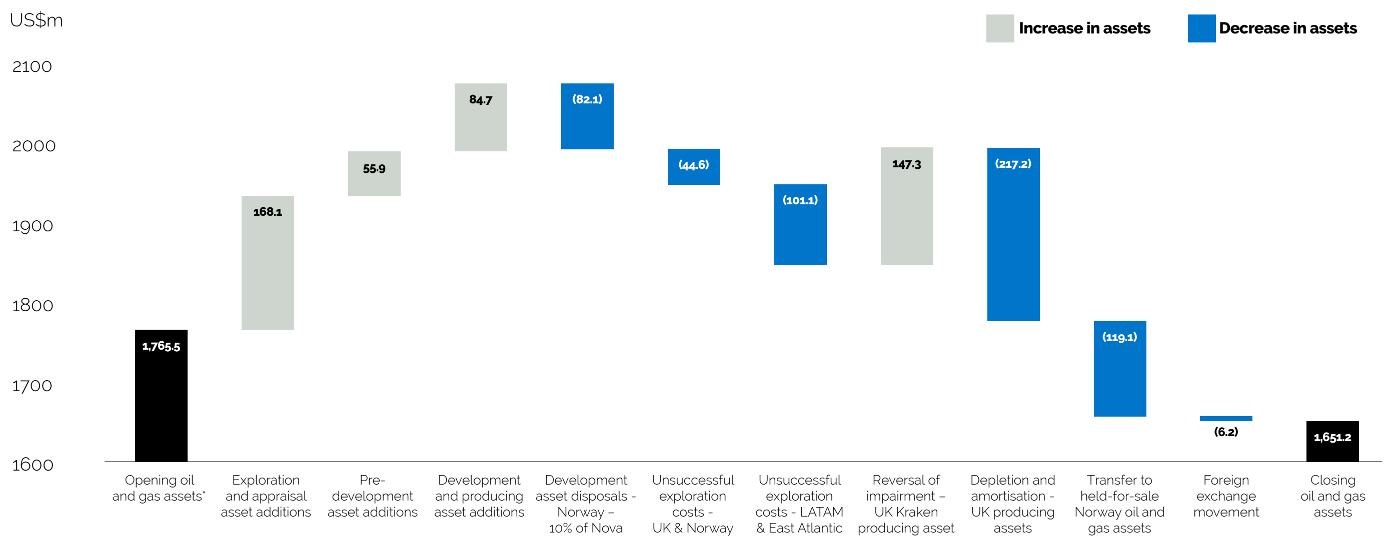
Cairn had cash balances of US$153.7m at 31 December 2019, representing a net cash inflow of US$87.4m over the year. Borrowings under the Group's Reserve-Based Lending facility, US$85.0m at 31 December 2018 (before adjusting for unamortised facility fees and accrued interest) were repaid during the year.

Cash outflows on exploration expenditure in the year include US$49.8m of UK & Norway costs, primarily relating to the unsuccessful wells Lynghaug, Godalen and Presto wells in Norwegian waters and the unsuccessful UK Chimera well, US$37.7m on completion of farm-ins to new acreage in LATAM and East Atlantic and US$45.3m on drilling in Mexico with the balance of US$13.7m on the Group's remaining exploration licence and licence options in Suriname, Ireland and Mauritania.

Development and pre-development cash outflows in the period primarily relate to costs on Kraken, Nova and Senegal. On Kraken, cash spend of US$18.3m included the completion of final development drilling on Drill Centre 4 and on Nova cash expenditure of US$52.3m was incurred, net of working capital refunded by Dyas, prior to the asset being reclassified as held-for-sale.

Cash outflows in relation to Senegal pre-development of US$48.1m included FEED costs prior to FID formally approved in January 2020.

Cash Expenditure on Oil and Gas Assets



* after opening IFRS 16 adjustment

Analysis of additions:

	US$m
UK & Norway	37.3
LATAM	108.3
East Atlantic	19.5
Senegal	3.0
Exploration and appraisal asset additions	**168.1**
Senegal	55.9
Pre-development asset additions	**55.9**
UK – Catcher and Kraken	16.3
Norway – Nova	50.2
Decommissioning assets additions	18.2
Development and producing asset additions	**84.7**

Exploration and appraisal asset additions in the UK & Norway include US$28.1m of costs for the four exploration wells that were completed in the year. In LATAM, US$70.3m of costs relate to Mexico including drilling costs of the Alom-1 and Bitol-1 wells incurred during the year and US$7.5m were incurred in Suriname following the 2018 farm-in to the B61 licence. The remaining LATAM additions were costs incurred in Nicaragua, though Cairn has subsequently withdrawn from the licences.

In the East Atlantic segment, US$15.2m was incurred following the completion of the farm-in to seven non-operated licences in Cote d'Ivoire and the balance on licence options in Mauritania and Ireland.

Senegal activities reflect the continuing work on development planning following the transfer of the operatorship of the licence to Woodside, with a small amount of exploration in the year as the Group acquired additional seismic. Following development plan approval by the joint venture partners, volumes associated with the Phase I development have been promoted to reserves at the year end. Accordingly, exploration and pre-development costs relating to the development area have been transferred to development assets at 31 December 2019. Formal Government approval was received early January 2020.

Development additions in the year totalling US$84.7m include the completion of development drilling on Kraken and related increases to the decommissioning asset and costs incurred on the Nova development. Spend on Catcher was minimal during the period.

Financial Review continued

Impairment Reversal on Kraken Producing Asset
During 2019, production performance on Kraken has improved significantly and in addition the Operator has conducted more regular well testing to improve reservoir monitoring. Consequently, Cairn has revised production profile estimates upward to reflect this improvement while also incorporating new volumes associated with the Worcester satellite field to be developed in 2020. The upward revision of production profiles is an indicator that the impairment recorded in 2018 may have reversed or decreased. Cairn has therefore run impairment tests and, despite a reduction in Group's long-term oil price assumption, down from US$70/bbl to US$65/bbl, the revised valuation of the Kraken asset is sufficient to reverse the prior-year impairment charge in full (after adjusting for the depletion charge avoided in the intervening period). Impairment tests conducted on the Catcher asset following the reduction in the long-term price assumption did not identify any impairment.

Impairment reviews were undertaken on the Group's remaining exploration/appraisal assets but no indicators of impairment were identified.

A formal impairment test was performed on Senegal exploration/appraisal asset prior to transfer to development assets at the year end, as required under IFRS, but no impairment arose. Cairn's impairment test assumes that full funding is in place to meet its net share of the development expenditure through to project completion. At the date of this report the Company is well progressed in agreeing terms for an expanded senior debt facility and is in discussions regarding additional sources of funding to support its Senegal development costs; however if these were to fail to conclude and the Group could not fully fund its share of the expenditure through to completion then the value of its investment in the project and/or its rights to participate in the project at its current equity levels may be affected which could trigger an impairment.

Impairment of Goodwill
Impairment tests on individual assets are performed before testing a cash-generating unit containing goodwill for impairment. Therefore, the reversal of impairment on Kraken is recorded prior to the impairment test on the UK & Norway operating segment containing goodwill. As a result of the Kraken reversal together with the reduction in the long-term oil price assumption and the lack of exploration success during the year, the impairment test performed annually on goodwill identified an impairment charge of US$79.0m on continuing operations.

Results for the Period – Other Operating Income and Expense
Other Operating Income and Costs, Administrative Expenses and Net Finance Costs

	Year ended 31 December 2019			
	Continuing operations US$m	Discontinued operations US$m	Total US$m	Year ended 31 December 2018 US$m
Pre-award costs	(17.2)	(4.0)	(21.2)	(25.4)
Unsuccessful exploration costs	(107.0)	(38.7)	(145.7)	(48.2)
Administrative expenses and other income/costs	(32.3)	(1.5)	(33.8)	(49.9)
Current tax (charge)/credits	(0.3)	27.7	27.4	35.5
Operational and administrative expenses	(156.8)	(16.5)	(173.3)	(88.0)
Loss on derecognition	–	–	–	(713.1)
Fair value movements	(1.8)	–	(1.8)	(352.2)
Loss on financial assets	(1.8)	–	(1.8)	(1,065.3)
Net finance costs	(33.6)	(6.4)	(40.0)	(18.6)

Pre-award costs reflects ongoing activity as Cairn seeks new opportunities to add to its portfolio of assets. During the year, Cairn was awarded eight licences offshore Israel and is progressing further opportunities globally.

Norwegian unsuccessful exploration and appraisal costs are included within discontinued operations. Unsuccessful exploration costs of US$38.7m include costs written off on the Lynghaug, Presto and Godalen wells offshore Norway of US$35.8m. The balance of US$2.9m was expensed on other licences where no further exploration activities are planned.

Unsuccessful exploration costs in continuing operations include the costs of the operated Chimera well in the UK North Sea of US$7.6m, partially offset by credits of US$1.7m on 2018 wells, and US$54.2m on the operated Alom-1 and Bitol wells offshore Mexico. Further exploration costs written off include US$47.1m in Nicaragua and Ireland where Cairn has elected not to pursue exploration activities further.

Administration costs have reduced year-on-year, largely due to the prior year costs of the International arbitration relating to the Indian Tax dispute, where an award is currently expected in the summer of 2020. The loss on financial assets in 2019 reflects the mark-to-market valuation of Cairn's residual shareholding in Vedanta Limited. No further share sales were instructed during the year.

Tax credits relating to operational and administration expenses reflect Norwegian current tax refunds receivable on qualifying exploration and administrative expenses and a small tax charge in Mexico.

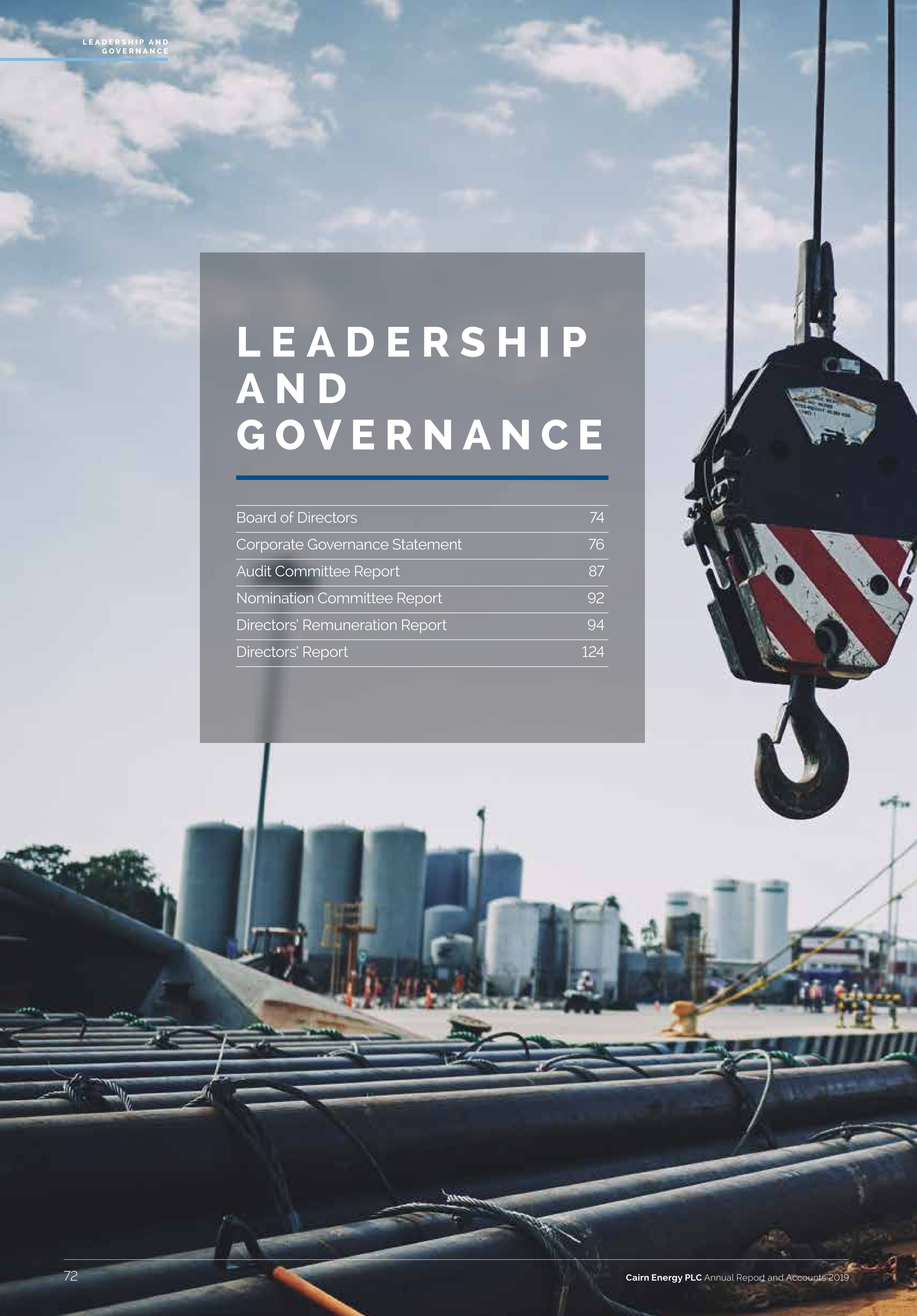
Net finance costs of US$40.0m in 2019 include an exchange loss of US$9.1m (2018: exchange gain of US$17.0m), loan interest and charges of US$12.0m (2018:US$24.4m) on the RBL and EFF facilities and lease interest of US$15.3m (2018: US$7.8m) with the year-on-year increase on the latter reflecting the adoption of IFRS 16 and leases which were previously operating lease, now recognised as discounted liabilities on the balance sheet.

Taxation
The Group's opening deferred tax provision of US$66.5m at 1 January 2019 related entirely to the Norwegian assets. On completion of the sale of a 10% working interest in Nova to Dyas, a deferred tax provision of US$35.4m was released. Following the announcement of the sale of the entire share capital of Capricorn Norge the remaining provision of US$26.9m (after adjusting for exchange movements) was released in full, reflecting the change in the nature of recovery of the carrying value of the underlying assets from continued use to sale and the related tax consequence of this change.

During the year, Cairn made a UK ring fence profit which was fully offset by brought forward losses. At 31 December 2019, Cairn had total UK ring fence losses of US$601.0m. All of the UK ring fence losses (at the applicable tax rate of 30%) and US$516.7m of supplementary charge tax losses (at the applicable tax rate of 10%, and activated UK investment allowance and decommissioning liabilities of US$577.5m and US$34.6m respectively) are recognised as deferred tax assets only to the extent they fully offset the deferred tax liabilities of US$303.6m. The remainder of the decommissioning liability represents an unrecognised deferred tax asset of US$105.2m at 31 December 2019.

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

Simon Thomson
Chief Executive
9 March 2020



LEADERSHIP AND GOVERNANCE


CINDY TIDE

Back row, from left to right: Todd Hunt, Catherine Krajicek, Alison Wood, Peter Kallos, Nicoletta Giadrossi, Keith Lough.

Front row, from left to right: James Smith, Simon Thomson, Ian Tyler.

Committee membership key:

A – Audit Committee
N – Nomination Committee
R – Remuneration Committee
RM – Risk Management Committee
SL – Senior Leadership
■ – Committee Chair

Board of Directors

Executive Directors

Simon Thomson
Chief Executive (55)

Committee membership
SL RM 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.

Independent
Not applicable

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.

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

James Smith
Chief Financial Officer (43)

Committee membership
SL RM

Term of office
James was appointed to the Board in May 2014 as Chief Financial Officer.

Independent
Not applicable

Skills and experience
BA (Hons), 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.

Key external appointments
No external appointments

Non-Executive Directors

Ian Tyler
Non-Executive Chairman (59)

Committee membership
N R

Term of office
Ian was appointed as an independent Non-Executive Director in June 2013 and became Non-Executive Chairman in May 2014.

Independent
Yes

Skills and experience
Bachelor of Commerce, Birmingham University

Ian Tyler qualified as a chartered accountant with Arthur Andersen in 1987, subsequently holding a number of senior finance and operational positions within listed companies before being appointed Chief Executive of Balfour Beatty plc from 2005 to 2013. During this time, he took the company from being primarily a UK construction business, to a global infrastructure services business.

Key external appointments
Public companies:
Non-Executive Director of BAE Systems plc
Non-Executive Chairman of Bovis Homes Group PLC

Non-public companies:
Independent Chairman of AWE Management Limited
Non-Executive Chairman of Amey PLC (a wholly owned subsidiary of a Spanish listed company)

Todd Hunt
Non-Executive Director (67)

Committee membership
None

Term of office
Todd was appointed as an independent Non-Executive Director in May 2003. Given his length of tenure, he is no longer considered to be independent in terms of the UK Corporate Governance Code. Todd will retire following the AGM on 14 May 2020.

Independent
No

Skills and experience
Bachelor of Business Administration, University of Texas

Todd Hunt has more than 45 years' experience in the oil and gas industry. He is President and joint owner of Atropos Exploration Company and Atropos Production Company based in Dallas, Texas.

Key external appointments
Public companies:
None

Non-public companies:
President and joint owner of Atropos Exploration Company and Atropos Production Company

Keith Lough
Non-Executive Director (61)

Committee membership
A N

Term of office
Keith was appointed as an independent Non-Executive Director in May 2015.

Independent
Yes

Skills and experience
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:
Non-Executive Chairman of Southern Water (from August 2019)

Non-Executive Chairman of Rockhopper Exploration PLC

Non-Executive Director (and SID) of Hunting PLC

Non-public companies:
None

Non-Executive Directors

Peter Kallos
Non-Executive Director (60)

Committee membership
R N

Term of office
Peter was appointed as an independent Non-Executive Director in September 2015.

Independent
Yes

Skills and experience
BSc (Hons) Applied Physics, Strathclyde University
MEng Petroleum Engineering, Heriot-Watt University

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.

Key external appointments
Public companies:
Executive Chairman of Buried Hill Energy

Non-public companies:
None

Nicoletta Giadrossi
Non-Executive Director (53)

Committee membership
R A N

Term of office
Nicoletta was appointed as an independent Non-Executive Director in January 2017.

Independent
Yes

Skills and experience
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.

Key external appointments
Public companies:
Non-Executive Director of Brembo S.p.A

Non-Executive Director of IHS Markit Ltd.

Non-Executive Director of Koninklijke Vopak N.V.

Non-public companies:
None

Alison Wood
Non-Executive Director (56)

Committee membership
A

Term of office
Alison was appointed as an independent Non-Executive Director in July 2019.

Independent
Yes

Skills and experience
BA in Engineering, Economics and Management, Oxford University
MBA, Harvard Business School

Alison's 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.

Key external appointments
Public companies:
Non-Executive Director of Costain plc
Non-Executive Director of TT Electronics plc

Non-public companies:
Non-Executive Director of The British Standards Institution

Catherine Krajicek
Non-Executive Director (58)

Committee membership
None

Term of office
Catherine was appointed as an independent Non-Executive Director in July 2019.

Independent
Yes

Skills and experience
BSc and MSc in Petroleum Engineering, Colorado School of Mines

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.

Key external appointments
Public companies:
None

Non-public companies:
None

Corporate Governance Statement

OPERATING WITH INTEGRITY AT ALL LEVELS, AT ALL TIMES

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 of this annual report on pages 1 to 71) 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 integrity 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 10). 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 the Company to meet its strategic objectives and measure performance against them. Further information on our strategy and Key Performance Indicators are included on pages 32 to 35 of this annual report. 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 of this annual report (which includes the Company's viability statement) and in the internal control statement on pages 85 and 86.

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 50 to 52 of this annual report, 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 2019.

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 pipeline 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.

Ian Tyler
Chairman

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 2019, with one minor exception in relation to the composition of the audit committee for the period from 17 May 2019 to 1 July 2019 (see page 83).

Following publication of the 2018 version of the Code, the Board has 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 has developed its governance arrangements as necessary in preparation for reporting against the new requirements for the first time this 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.

One particular area of focus during 2019 has been to expand the Company's existing channels of engagement with the workforce 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 eight 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).

The EVF met twice during the year with an inaugural meeting in May 2019, and a further meeting held in September 2019. The employee members of the EVF also hold a pre-meeting (without the chair present) approximately four weeks in advance of scheduled EVF meetings in order to identify agenda items and topics for discussion. 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 also 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, assist the Board in its key functions, and are prerequisites for appointment. This also applies to senior management appointments below Board level and to our succession planning.

The Company considers ongoing refreshment of the Non-Executive Directors on the Board to be positive as it brings new thinking to the Company as well as ensuring there is a healthy level of independent challenge to 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 a business like Cairn's.

Following the retirement of Jackie Sheppard and Alexander Berger as Non-Executive Directors on 31 December 2018 and 16 May 2019 respectively, the Company appointed Alison Wood and Catherine Krajicek as Non-Executive Directors with effect from 1 July 2019. The Company is currently in the final stages of the appointment process for one further Non-Executive Director, who will succeed our longest serving Non-Executive Director Todd Hunt. Mr Hunt will not seek re-election at the AGM to be held on Thursday 14 May and as such will retire as a Non-Executive Director immediately following the AGM. Further information on Board succession planning and the appointment process for our new Non-Executive Directors is included in the Nomination Committee Report on pages 92 and 93.

In view of the above changes, the Board currently comprises two Executive Directors and seven Non-Executive Directors, including the Chairman. The Directors of the Company as at the date of this statement are set out in the table below and further biographical information about our Directors is also included in the Board of Directors section on page 75.

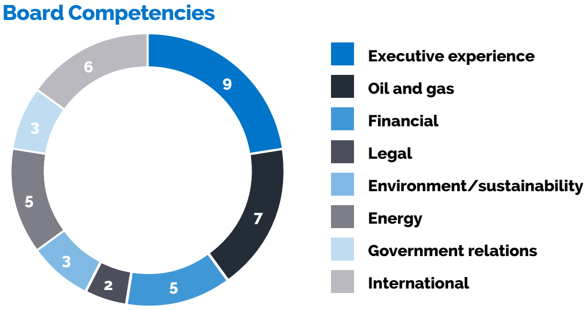
Name	Role	Date of appointment (in current role)	Date of last re-election
Simon Thomson	Chief Executive	July 2011	17 May 2019
James Smith	Chief Financial Officer	May 2014	17 May 2019
Ian Tyler	Non-Executive Chairman	May 2014	17 May 2019
Todd Hunt	Non-Executive Director	May 2003	17 May 2019
Keith Lough	Non-Executive Director	May 2015	17 May 2019
Peter Kallos	Non-Executive Director	September 2015	17 May 2019
Nicoletta Giadrossi	Non-Executive Director	January 2017	17 May 2019
Alison Wood	Non-Executive Director	July 2019	N/A*
Catherine Krajicek	Non-Executive Director	July 2019	N/A*

* Alison Wood and Catherine Krajicek will seek re-election by shareholders at the AGM to be held on 14 May 2020.

Corporate Governance Statement continued

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. 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 Chairman and Chief Executive

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

Chairman: **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 Senior Leadership Team 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 is the Company's Senior Independent Non-Executive Director. The main responsibilities of the Senior Independent Non-Executive Director are as follows:

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

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).

The main action points arising from the 2018 external 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
Refocusing of the management presentation part of Board meetings A review of the format and approach (including content and structure) for the management presentation part of Board meetings is being undertaken to ensure that this continues to allow for an appropriate level of Board discussion on different areas of the business, and that the main Board session is more focused around a tighter agenda.	The Board adopted a revised format for the management presentation part of Board meetings with effect from the March 2019 Board meeting. Feedback from the 2019 evaluation is that this is working well and allowing for rigorous discussion at Board meetings, whilst also remaining focused on key strategic issues.
Succession planning The evaluation provided useful insights into the Board's ongoing succession planning activities, with a particular focus on the current process to recruit two new Non-Executive Directors and how best to ensure that the Board has the right mix of skills and diversity going forward.	The Board appointed two new Non-Executive Directors in July 2019, both of whom are women. One further Non-Executive Director will shortly be appointed to succeed Todd Hunt, who will retire following the AGM on 14 May 2020. These appointments are key to ensuring that the Board has an appropriate mix of skills and diversity going forward.
Culture The evaluation reinforced that culture is a strategic matter which requires ongoing focus by the Board, including workforce and other stakeholder engagement. The Company will continue to develop and enhance its activities in this area to facilitate the integration of these matters with the Board's strategic discussions.	The Board is very cognisant of its critical role in driving the culture of the business and recognises the importance of seeking feedback on culture and strategy through appropriate mechanisms such as the Employee Voice Forum and employee engagement surveys.

For 2019, in view of the external evaluation carried out in 2018, it was agreed at the September 2019 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 Chairman. 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 Chairman 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 Chairman held a round table meeting with all Board members present to discuss the results of the performance evaluation. The Senior Independent Non-Executive Director also held a meeting with Board members (without the Chairman present) in order to discuss the performance evaluation of the Chairman.

The outcome and findings from the 2019 internal performance evaluation were then discussed at the November 2019 Board meeting. The main action points arising from the 2019 performance evaluation include the following:

Key action points	Implementation
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.
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.

As explained above, some improvements have been identified and have already been implemented or will be addressed during 2020.

Following the Board performance evaluation process conducted in 2019, the Board and the 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 2019 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 32 to 35). The 2019 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 123) 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.

The Board recognises that, in view of the characteristics of independence set out in the Code, length of service is an important factor when considering the independence of Non-Executive Directors and that Directors having served for longer than nine years may not be considered independent. Todd Hunt has served as a Non-Executive Director on the Board since May 2003. The Board is, however, satisfied that Todd's judgement has remained independent and that he has consistently displayed all of the behaviours expected of our independent Non-Executive Directors. However, as explained on page 77, Mr Hunt will retire as a Non-Executive Director following the AGM on 14 May 2020.

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 page 75.

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, Nicoletta Giadrossi's board positions are in different jurisdictions which do not conflict with her Cairn commitments and she is based in Paris which enables her to travel easily to each of her board commitments.

Corporate Governance Statement continued

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, other than Todd Hunt, will seek re-election at the AGM to be held on Thursday 14 May 2020.

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 are provided with 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 ahead of assuming any additional responsibilities such as membership of Board committees. By way of example, Alison Wood received a comprehensive induction presentation in July 2019 prior to attending her first meeting as a member of the Audit Committee in September 2019. Where appropriate, the Company also arranges for new Non-Executive Directors to receive additional briefings on key matters regularly discussed by the Board. By way of example, our new Non-Executive Directors were given a briefing on the Indian arbitration process by the Group Legal Manager.

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 2019, 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 2019, the subjects covered by these seminars included:

Q1	A presentation on Hedging delivered by the CEO of Commodities Trading Corporation.
Q2	A pre-strategy session (on the same day as the Board's annual strategy session) including a presentation delivered by Wood Mackenzie on 'The state of the oil and gas industry today and the view going forward'
Q3	Presentations delivered by senior management including: – Review of Cairn's Corporate Responsibility Management System (CRMS) delivered by the Group HSE Manager – Talent Management Project: Progress Update delivered by the Group HR Manager
Q4	– Board risk workshop considering the impact of climate change policy and energy transition on the Company and the oil and gas exploration and production sector, facilitated by Lazards (led by the Senior Vice President Research Analyst and Senior Vice President, Co-Head of Sustainable Investment and ESG) – Annual ABC update delivered by Pinsent Masons

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. By way of example, the session on Hedging in Q1 was arranged at the request of certain Board members to gain a deeper understanding of this topic in view of the Group's hedging activities.

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 and Deputy Company Secretary are 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 and Deputy 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 Secretary or Deputy Company Secretary 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 91.

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 2019 and Q1 2020 were:

Corporate	Board/Directors
The Company's 2018 and 2019 Annual Report and Accounts and 2019 Half Yearly Report	Approval of new terms of reference for each of the Board committees
The Company's 2019 AGM circular	Appointment of two new Non-Executive Directors
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 succession planning

Financial/Operational	Legal/Regulatory
The appropriateness of the Group going concern sign-off for the 2018 and 2019 full year accounts and 2019 half year Financial Statements	Oversight of the arbitration process seeking resolution of the Indian tax issue
The Company's viability statement	Approval of the Company's Modern Slavery Statement and its publication on the Company's website
The Company's annual work programme and budget	Approval of the Group Tax Strategy and its publication on the Company's website
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 of this throughout the year), an annual intensive 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.

Board and Management Committee Structure

Board of Directors

Board Committees (audit, remuneration and nomination*)

Risk Management Committee | **Chief Executive**

Senior Leadership Team (SLT)

Management Team (MT)

Exploration Leadership Team (ELT)

* Further information on our Board committees is contained later in this statement on pages 83 and 84 and in the separate Audit Committee Report, Nomination Committee Report and Directors' Remuneration Report.

The senior management structure beneath Board level remains unchanged from that disclosed in last year's corporate governance statement, with the Senior Leadership Team (SLT) and Management Team (MT) continuing to play a key role in supporting the Board.

In 2019, the SLT comprised the Chief Executive, the Chief Financial Officer, the Chief Operating Officer, the Director of Exploration, the Director, Corporate Affairs, the Directors for the UK/Norway and International regions and the General Manager, Senegal. The SLT is chaired by the Chief Executive and meets six times per year with those meetings scheduled in advance of Board meetings.

Key elements of the SLT'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 members of the SLT 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 page 86.

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.

Corporate Governance Statement continued

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.

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 2019, seven scheduled meetings of the Board were held, with the majority of these meetings taking place over two consecutive days (the only exceptions to this being one shorter Board update meeting held in January and another shorter meeting in early September to approve the Company's 2019 Half Year Report). The first day of Board meetings normally includes a CEO lunch 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. The full Board then meets for dinner at the end of the first day and is joined by the Chief Operating Officer and the Director of Exploration.

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 and a Board lunch. The Chairman also holds a short meeting with the other Non-Executive Directors (without the Executive Directors) at the end of the second day.

Four of the Board meetings during 2019 were held at the Company's registered office in Edinburgh and three were held at the Company's office in London. Details of attendance at each of those Board meetings, and at meetings of each of the Board committees, are set out on page 83. Any Director who is physically unable to attend Board and committee meetings is given the opportunity to be consulted and comment in advance of the meeting by telephone or in writing. Video and telephone conferencing facilities are used on the rare occasions that Directors are not able to attend meetings in person.

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 2020 and 2021. This process ensures that the Chairman 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 Chairman 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-Executives 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 Chairman 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 2019 Board and committee meetings

The table below sets out the attendance record of each Director at scheduled Board and Board committee meetings during 2019.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held during 2019[1]	**7**	**4**	**4**	**4**
	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Executive Directors				
Simon Thomson (CEO)	7	n/a[2]	n/a[2]	4
James Smith (CFO)	7	n/a[3]	n/a	n/a
Non-Executive Directors				
Ian Tyler (Chairman)	7	n/a[4]	4	4
Peter Kallos (senior independent director)	7	n/a	4	4
Todd Hunt	7	n/a	n/a	n/a
Keith Lough	7	4	n/a	4
Nicoletta Giadrossi	7	4	4	4
Alison Wood[5]	3	2	n/a	n/a
Catherine Krajicek[6]	3	n/a	n/a	n/a
Former Non-Executive Director				
Alexander Berger[7]	3	1	n/a	n/a

Notes:
n/a not applicable (where a Director is not a member of the committee).
1 During 2019, 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 Ian Tyler is not a member of the Audit Committee but attends its meetings by invitation.
5 Alison Wood was appointed as a Non-Executive Director and as a member of the Audit Committee with effect from 1 July 2019. The number of meetings she attended is stated from that date.
6 Catherine Krajicek was appointed as a Non-Executive Director with effect from 1 July 2019. The number of meetings she attended is stated from that date.
7 Alexander Berger retired as a Non-Executive Director on 17 May 2019. The number of meetings he attended is stated up to that date.

Board Committees

Board Committee Structure During 2019

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 the Deputy Company Secretary acts 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 87 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 123. Summary details of the composition of each committee and meetings held during 2019 are set out below.

Audit Committee

The members of the Audit Committee during the year were as follows:
- Keith Lough (Chair);
- Nicoletta Giadrossi;
- Alison Wood (appointed as a member of the Committee with effect from 1 July 2019); and
- Alexander Berger (retired as a Non-Executive Director and member of the Committee on 17 May 2019).

The Audit Committee met four times during 2019 and currently comprises three independent Non-Executive Directors. The Chairman of the Board is not a member of the Committee but attends its meetings by invitation. As referred to in the statement included on page 77 regarding compliance with the Code, there was a brief period during 2019 when the composition of the Audit Committee did not comply with Code provision 24 which states that 'The board should establish an Audit Committee of independent Non-Executive Directors, with a minimum membership of three, or in the case of smaller companies, two'. This non-compliance was limited to a short period of less than two months between Alexander Berger's retirement on 17 May 2019 and Alison Wood's appointment on 1 July 2019.

Further information on the role, responsibilities and work of the Audit Committee is included in the Audit Committee Report on pages 87 to 91.

Corporate Governance Statement continued

Remuneration Committee

The members of the Remuneration Committee during the year were as follows:
- Nicoletta Giadrossi (Chair);
- Ian Tyler; and
- Peter Kallos.

The Remuneration Committee met four times during 2019 and currently comprises three independent Non-Executive Directors. The Chief Executive is not a member of the Committee but attends its meetings by invitation. The Committee's remuneration advisers (Aon Hewitt Limited) and management's remuneration advisers (Deloitte) also attended some of the Committee's meetings. None of the members of the Committee, nor the Chief Executive nor the Chairman, 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-Executives 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 123.

Nomination Committee

The members of the Nomination Committee during the year were as follows:
- Ian Tyler (Chair);
- Simon Thomson;
- Keith Lough;
- Peter Kallos; and
- Nicoletta Giadrossi

The Nomination Committee met four times in 2019. The Chairman and three of the Company's independent Non-Executive Directors are members of the Committee. 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 Chairman is available to attend a number of these meetings. 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 between the Company and its 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 126. 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 2019, this also included consultation between the chair of the remuneration committee and major shareholders on the remuneration policy proposed for approval at the 2020 AGM.

AGM details (2019 and 2020)	Overview
2019 AGM: held on Friday 17 May 2019 The Caledonian Waldorf Astoria Hotel, Edinburgh	– Full Director attendance – Highest votes in favour >99% for five resolutions – No resolutions with <92% in favour
2020 AGM: to be held on Thursday 14 May 2020 The Caledonian Waldorf Astoria Hotel, Edinburgh (full details in Notice of AGM)	– Full Director attendance expected – 14 ordinary resolutions and 4 special resolutions being proposed to shareholders

The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. It is policy for all Directors to be present at the AGM, with the Chair of each of the Board committees expected to attend and be prepared to answer shareholder questions on areas within their remit. Our employees based in Edinburgh are also invited to attend the AGM as the Directors recognise that this provides a valuable opportunity for workforce engagement with the Board.

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 14 May 2020 and an explanation of each resolution can be found in the separate Notice of AGM.

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 Annual General Meeting of the Company.

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 2019 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 2019 and will ensure that a similar review is performed in 2020. 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 2019.

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 2019 to the following key controls, business processes and procedures:

- The Board completed a risk workshop which focused on identifying and analysing potential threats from climate change policy and the energy transition. The objective of the workshop was to give the Board further insight into some of the potential threats to Cairn during the transition to a low carbon economy and to consider some initiatives to strengthen the governance of the risks and opportunities associated with the transition;
- 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;
- An anti-bribery and corruption risk assessment was completed on Mexico to identify high risk areas. A number of actions were agreed at the workshop to further mitigate the identified risks;
- Pinsent Masons completed a review of the Group's anti-bribery and corruption management system. The objective of the review was to assess the design of the bribery and corruption compliance programme. The review concluded that the anti-bribery programme is well designed. The report identified possible enhancements which will further strengthen the compliance programme. These will be actioned in 2020;
- A compliance dashboard was developed to assess compliance with a number of key regulations impacting the Group including UK Bribery Act, GDPR, CCO, CMAPP and modern slavery. The dashboard was presented at each RMC meeting and annually to the Audit Committee as part of the year end control assessment;
- Assurance maps for the Group were updated in Q1 2019 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 2019 included IS strategy and Governance, Non-Operated JV Management, CRMS, and Key Financial 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 business ethics, anti-bribery and corruption, CMAPP and cyber security.

The following describes the key elements of the Framework and the processes used by the Board during 2019 to review the effectiveness of the system and the approach to be taken in 2020.

1. Strategic Direction

The Company's strategy and business plan are proposed by the SLT 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 SLT. 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 various regional units covering different countries and assets and with multiple partners on both an operated and non-operated basis. 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 SLT as well as by the MT and ELT. Further information on these teams and their remit can be found on pages 81 and 82. 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.

Corporate Governance Statement continued

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-, project-, country-, 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 2019, 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 2019 (see page 85).

The RMC, which continues to meet 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 2019 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 2019 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 RMC reviewed a gross to net risk assessment of principal risks, in order to gain a deeper understanding of high impact risks and identify any areas where there is a reliance on controls and mitigating actions.

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 2019 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: first of all 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 2019, 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 2019 Group internal audit plan.

The Directors derived assurance from the following internal and external controls during 2019:

- A regularly updated 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.

Ian Tyler
Chairman

9 March 2020

Audit Committee Report

The Audit Committee
Members and meetings in 2019

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.

	Member since	Meetings attended
Keith Lough (Chair)	05/15	4
Nicoletta Giadrossi	05/18	4
Alison Wood[1]	07/19	2
Alexander Berger[2]	03/12	1

1 Alison Wood was appointed a member of the Audit Committee with effect from 1 July 2019. The number of meetings she attended is stated from this date.
2 Alexander Berger retired as a Non-Executive Director on 17 May 2019. The number of meetings he attended is stated up to that date.

Dear Shareholder

Composition and Summary of Audit Committee Meetings During the Year
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 are two of my fellow Non-Executive Directors, Nicoletta Giadrossi and Alison Wood, who joined the Committee with effect from 1 July 2019. Alison replaces Alexander Berger who stepped down as a Non-Executive Director at the AGM. Both Nicoletta and Alison are considered by the Board to be independent. Ian Tyler also attended meetings in his capacity as Chairman of the Cairn Energy PLC Board but is not a member of the Committee.

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. Nicoletta brings comprehensive industry knowledge to the Committee.

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

The Audit Committee met four times in 2019, with meetings arranged around the key external reporting dates. The first meeting in March 2019 focused on the 2018 year end external audit process (reported in the 2018 Annual Report and Accounts). Meetings in June and August both centred on the Group's half year reporting and a November meeting focused on planning for the 2019 year end cycle and external audit process and the internal work programme for 2019. Subsequent to the year end, a further meeting was held in March 2020 to conclude the 2019 audit and significant issues.

At each meeting the Committee receives an updated report from the external auditors which either explains their plans and scope for a forthcoming audit or review, or contains the conclusions from that audit or review. The Audit Committee also receives a report on the internal audit process, tracking the progress of internal audits and reviewing their output and recommendations.

The Audit Committee also closely monitors Cairn's risk management system, reviewing the activities of the Group's Risk Management Committee and the Group's risk management project plan with further reviews and challenges of the Group's risk registers and opportunity matrix at each Committee meeting.

Other business covered by the Committee includes the annual approval of corporate assumptions and the annual review of the Group's policy on non-audit services and its Whistleblowing Policy.

Audit Committee Report continued

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 for inspection on the Group's website. A summary of the Committee's principal responsibilities and activities during the year is set out below.

	Principal responsibilities of the Committee	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.	– Going concern conclusions and linkage to the Viability Statement; – Significant accounting issues at the half year and year end (see below); and – Approval of the Group's corporate assumptions (those impacting impairment testing are summarised in section 2 of the Financial Statements).
External audit	– Overseeing the Group's relationship with the external auditors, including: • making recommendations to the Board as to the appointment or reappointment of the external auditors; • reviewing their terms of engagement and engagement for non-audit services; and • monitoring the external auditors' independence, objectivity and effectiveness.	– Reviewing the external auditors' scope and audit plan for the 2019 year end; – Discussing the materiality levels set by the auditors; – Approval of the auditors' remuneration; – Consideration of the results of the external audit with the auditors and management; and – Assessment of the effectiveness of the external audit.
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.	– 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 2020 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.	– 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 auditors; and – Reviewing booking of Group reserves and resources.	– Review and approval of the Group policy for approval of non-audit work to the Company's auditors; 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 Cairn Energy PLC Board. At the March 2020 meeting, the Committee specifically considered the disclosures of the risk associated with the Group's ability to fund its share of Senegal development costs. Management provided an overview of the disclosure made throughout the Annual Report and Accounts and the Committee concluded that the disclosure was presented in a fair, balanced and understandable manner.

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 10 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 2019 year end audit therefore represents the seventh year of PwC's tenure as Group auditors. Lindsay Gardiner continues as PwC's lead audit partner on the Cairn engagement for his second year. Lindsay was not previously involved with the audit of the Group or its subsidiaries prior to his appointment.

2019 Year End Significant Accounting Issues
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 judgements that management has used in applying the relevant accounting standard.

The key issues identified at the December 2019 year end reflect changes to accounting standards, changes in Cairn's portfolio of assets and performance of the Group's producing assets. Those issues identified are:
- Reserves and resources reclassification and revisions;
- Corporate assumptions and impairment testing of oil and gas assets and related goodwill, notably the Group's producing assets in the UK North Sea;
- Lease accounting for the Kraken and Catcher FPSOs on adoption of IFRS 16; and
- Disposal of the Group's Norwegian assets.

Reserves and Resources Reclassification and Revisions

With the UK producing assets performing strongly during the year and approval of the Senegal Phase 1 development plan, management have revised existing production profiles and promoted forecast production volumes to reserves during the year, directly impacting the classification of assets and impairment reversals/charges in the Financial Statements.

Audit Committee action	Audit Committee conclusions
The Committee closely monitored changes to the Group's reserves and resources of oil and gas and related production profiles, with emphasis on Cairn's two UK producing fields and the reclassification of Senegal reserves at the year end. During 2019, production performance on Kraken has improved significantly and in addition the Operator has conducted more regular well testing to improve reservoir monitoring. Consequently management have revised production profile estimates upward to reflect this improvement while also incorporating promoted volumes associated with the Worcester satellite field to be developed in 2020. In Senegal Sangomar Phase 1 oil production volumes have been promoted to reserves at the year end with the joint operators having approved the development plan. The Committee sought an explanation from management as to the reasons behind the changes in reserve estimates and classification. The Committee also reviewed the minutes of the meeting of the Group's Reserves and Resources Committee.	The Committee was satisfied that changes to reserve volumes and production profiles were properly recorded and in accordance with the Group's standard operating procedures which follow industry best practice. In particular the Committee were satisfied that the performance improvement witnessed on Kraken during the year, and revised expectation of future production volumes and costs, were appropriate. The Committee also accepted management's reclassification of the Sangomar reserves, given the conditions that existed at the year end.

Corporate Assumptions and Impairment Testing of Oil and Gas Assets and Goodwill

The Committee reviews and approves Group corporate assumptions which, together with reserve estimates, feed into the Group's impairment testing.

Audit Committee action	Audit Committee conclusions
The Committee reviews and approves assumptions and estimates that are key inputs into corporate modelling for impairment tests including, but not limited to, oil and gas price assumptions and discount rates. During the year, management reviewed oil price assumptions to ensure that a single long-term, base-case oil price assumption was being applied for all Group reporting, including investment proposals and statutory reporting. Following this review, management reduced the Group's long-term oil price assumption to US$65 per bbl. The Committee reviewed the impairment test calculations and ensured that impairment reversals and charges are recognised in accordance with accounting standards and in a timely manner within the Group Financial Statements.	The Audit Committee agreed with management's proposals to reduce the long-term oil price assumption after seeking assurance from the external auditors that assumptions did not significantly deviate from market consensus. The Committee was satisfied that reversing the prior year impairment on Kraken was appropriate given the changes to reserve estimates and the calculation of the reversal was correct. The Committee was also satisfied that the impairment charge of goodwill was appropriate and the classification between continuing and discontinued operations was fair presentation of the results for the year.

Lease Accounting for the Kraken and Catcher FPSOs on Adoption of IFRS 16

On 1 January 2019, Cairn adopted the new leasing standard, IFRS 16. The significant accounting impact of adoption was the recognition of a right-of-use asset and lease obligation in respect of the Catcher FPSO which had previously been recorded as an operating lease.

Audit Committee action	Audit Committee conclusions
The Committee reviewed adjustments proposed by management on adoption of IFRS 16. The Committee were satisfied that there were no adjustments required to the Kraken lease accounting (previously recorded as a finance lease). With the recognition of the Catcher FPSO lease obligation, the Committee's review focused on the key assumptions applied by management on fixed lease payments, the interest rate applied and the term of the lease.	The Audit Committee reviewed the accounting for the Catcher lease liability and associated right-of-use asset and concluded that the adjustment on adoption of IFRS had been properly recorded and that assumptions made by management were appropriate (see note 3.4).

Audit Committee Report continued

Disposal of the Group's Norwegian Assets

During the year the Group announced the sale of a 10% interest in the Nova licence in the Norwegian North Sea. Subsequently, in November 2019, the Group announced the sale of the Group's Norwegian business, with the sale completing in February 2020 on final approvals being received.

Audit Committee action	Audit Committee conclusions
The Committee reviewed the calculation of the gain on sale of the 10% interest in the Nova licence. With the agreed sale of the Norwegian business the Committee reviewed the disclosures in the Financial Statements where the assets are classified as held-for-sale at the year end, including allocated goodwill and subsequently impaired to their fair value less cost of disposal. The Committee sought explanation from management on the interaction between the gain on disposal of the 10% interest and the impairment of the disposal group and sought assurance from the auditors that the impairment was correctly computed and properly disclosed within discontinued operations.	The Committee concluded that appropriate disclosures had been made in the Financial Statements to explain the transitions entered into impacting the Norwegian business and that the financial performance of the discontinued operations, including the impairment charge, had been disclosed in accordance with applicable accounting standards.

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. While the Committee noted that if the Group failed to conclude on additional sources of funding to support its Senegal development, an impairment of the asset may follow, the Committee confirmed that this will not effect the Group's ability to continue to operate as a going concern. 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 37. Following this challenge, the Committee recommended approval of the Viability Statement to the Board.

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
A review of the audit plan including the materiality level set by the auditor and the process they have adopted to identify Financial Statement risks and key areas of audit focus (summarised in the Independent Auditor's Report on page 130).	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 2019 was presented to the Audit Committee in June 2019 and is summarised in the Independent Auditors' Report on page 130. 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 auditor's 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 levels of misstatements to be reported to the Committee. The final audit report was presented to the Audit Committee in March 2020. After thorough discussion, 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 reflects on the quality of the audit provided by the auditors. At each Audit Committee, the auditors present an update on their progress on the audit and where appropriate conclusion 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 2018 year end audit, the Committee discussed the quality of the audit service provided, using the questionnaire responses as a basis for the discussion. Though 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. Though the formal assessment of the 2019 audit has yet to be formally undertaken, no matters were raised at the Committee meeting held in March 2020 that would lead the Audit Committee to believe that the quality of the audit had regressed from previous years.

Auditor Independence and Provision of Non-Audit Services

We have a long-established policy in relation to the supply of non-audit services by the external auditors. 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 auditors, 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 allowable non-audit fees for the Groups' auditors is re-approved annually. All non-audit fees should be approved by the Audit Committee in advance of the engagement with a practical workaround of only seeking approval from the Committee Chair, rather than full Committee, 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 provided other services including certification of the Group's EITI submission in Senegal and support on potential corporate transactions. A full analysis of remuneration paid to the Group's external auditors in respect of both audit and non-audit work is provided in note 6.4 to the Financial Statements.

As an Audit Committee, we consider PwC to be independent.

Internal Audit

Following a competitive tender process, Ernst & Young LLP ("EY") was appointed as the Group's internal auditor with effect from July 2013. Prior to the beginning of each year, an internal audit plan is developed by the internal auditor, 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 page 85), 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 auditor also participates 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 receives 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.

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.

As part of this, 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 re-approved at the December 2019 Audit Committee 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 staff joining the Company. As Cairn enters new countries, further monitoring is undertaken and training is refreshed. Further information regarding these policies can be found on the Group's website.

Board and Committee Performance Evaluation

The Board retains overall responsibility for implementation of its annual performance evaluation, and the process and outcomes of the 2019 internally conducted evaluation are described in the Corporate Governance Statement on page 85. 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.

KG Lough

Keith Lough
Chair of the Audit Committee

9 March 2020

Nomination Committee Report

The Nomination Committee
Members and meetings in 2019

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

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 above 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.

Board Changes
As disclosed in last year's Annual Report, Jackie Sheppard retired as a Non-Executive Director on 31 December 2018 and Alexander Berger retired as a Non-Executive Director immediately following the Company's AGM on 17 May 2019. At the time of publishing last year's Annual Report, the Company had also disclosed that a recruitment process to appoint two new Non-Executive Directors was well advanced. The Company subsequently announced the appointment of Alison Wood and Catherine Krajicek during April 2019 and both became Non-Executive Directors with effect from 1 July 2019.

Alison Wood was also appointed as a member of the Audit Committee with effect from 1 July 2019.

The Company instructed recruitment consultants Spencer Stuart in connection with these appointments and Spencer Stuart provided advice and services to the Company throughout the search, including the preparation of both a long list and short list of candidates in respect of each position for consideration by the Committee. Spencer Stuart has no other connection with the Company or any of its individual directors.

All candidates on the short list for each position were initially interviewed by Committee members, following which Alison Wood and Catherine Krajicek were identified as the preferred candidates, and both were subsequently interviewed by the remaining members of the Board. Following these interviews, the Committee recommended to the Board that Alison and Catherine be appointed as independent Non-Executive Directors and each appointment was unanimously approved by the Board.

Prior to their appointment date, both Alison and Catherine were given the opportunity to carry out due diligence on the Company and were provided with all of the Company's induction materials for new Directors. As part of their induction process, Alison and Catherine also attended a tailored programme of induction meetings with other members of senior management and the company secretarial team. In addition, Alison attended a separate induction session focusing on the key issues which fall within the remit of the Audit Committee, prior to becoming a member of that committee. Further details of our induction process are included in the Corporate Governance Statement on page 80.
The Company has also identified a very strong candidate to replace

Todd Hunt as a Non-Executive Director and is in the final stages of the appointment process for this individual. Todd Hunt will therefore retire as a Non-Executive Director immediately following the AGM on 14 May 2020.

Succession Planning and Development of Executive Pipeline
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.

The Board and Nomination Committee work together with the aim of maintaining a comprehensive succession plan for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board. 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 managers.

The Board has also carefully considered the significance of succession planning and human resource management to the Company's strategy and annually reviews this at Board level. The key positions covered in our succession plan include the Executive Directors, Regional Directors and a number of other senior functional and technical managers. The Executive Directors and Senior Leadership Team members considered succession planning for each of the key positions, analysed any succession gaps or risks identified and considered how best to continue to develop the succession pipeline of executive talent; and this approach was shared with the Board. As a result, the Board has a deep understanding of succession planning across the Company and the range of measures being used to continue to develop and recruit talented senior employees. By way of example on how we support and develop our people for succession, in 2019 the Company introduced a rolling mentoring programme where senior team members and Board members act as mentors to potential future leaders.

During 2019, the Board's review of succession planning covered a review of the processes used by the Company for succession planning, key achievements since the previous review, and actions being undertaken to address any succession risks or challenges identified.

Diversity
The Nomination Committee very much recognises the benefits of building a diverse Board, not just in 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 2019). The Board remains diverse in terms of the range of culture, nationality and international experience of its members. The directors' 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. 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 does recognise the value of developing and increasing the number of women in senior management roles across the Group. We do however face particular 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 applying to join oil and gas companies. Despite this, our gender statistics compare well to our industry peers, with 12.5% female representation on the Senior Leadership Team; 18% on the Management Team and (perhaps most encouraging from a succession planning perspective) 24% of all direct reports to the Senior Leadership Team (all figures as at 31 December 2019). Further analysis of our succession planning data has shown that for five roles on the SLT which are considered to be key for value creation, eight of the potential successors for these roles are women, representing 63% of all potential successors (not all of whom are direct reports to the existing roles).

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 2019 inclusive). We are pleased to report that our ranking in the Hampton-Alexander Review Report published in November 2019 improved markedly compared to the previous year, from position 143 in 2018 to position 95 in 2019 (in the FTSE 250 category).

Board and Committee Performance Evaluation
The Board retains overall responsibility for implementation of its annual performance evaluation and the process and outcomes of the 2019 internally conducted evaluation are described in the Corporate Governance Statement on page 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.

Ian Tyler
Chair of the Nomination Committee

9 March 2020

Directors' Remuneration Report

The Remuneration Committee
Members and meetings in 2019

	Member since	Meetings attended
Nicoletta Giadrossi (Chair)	01/17	
Ian Tyler	06/13	
Peter Kallos	09/15	

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 2019. During the year, we continued to apply the executive remuneration policy that was strongly supported at the 2017 AGM. However, as this policy will expire shortly, shareholders will be asked to approve a new framework for directors' pay at the forthcoming AGM.

An overview of the new policy is set out below, with full details being provided in the Directors' Remuneration Policy that forms Part 2 of this report. Part 3 contains our Annual Report on Remuneration which identifies the various elements of pay that were actually delivered to the Company's directors under our current policy during the year ended 31 December 2019; an overview of these items is also set out in this introductory statement.

At this year's AGM on 14 May 2020 shareholders will be asked to vote on the contents of the new Directors' Remuneration Policy – if approval is received, the policy will immediately become binding and it is anticipated that it will be operated during the remainder of 2020 and onwards until the 2023 AGM. Shareholders will also be invited to pass an advisory vote in relation to the Annual Report on Remuneration. The committee hopes that our shareholders will be supportive of both these resolutions.

Our New Remuneration Policy for 2020 and Beyond
In anticipation of the renewal of our remuneration policy at the 2020 AGM, the committee undertook a detailed review of our existing pay structures. This process took into account a range of different factors, including:

- *The new corporate governance landscape* – the committee carefully considered the new remuneration related provisions that were incorporated into the 2018 UK Corporate Governance Code and, in particular, assessed whether the Company's remuneration framework adequately addressed the requirements relating to clarity, simplicity, risk mitigation, predictability, proportionality and alignment;
- *Investor feedback* – whilst formulating its thinking around the new policy, the committee undertook a programme of engagement with a selection of the Company's larger institutional investors and their representative bodies in order to understand their views on our existing approach to remuneration;
- *Discussions with key employees* – the committee sought feedback from our Executive Directors and other senior employees in order to establish whether they regarded our pay arrangements as being effective retention and incentivisation mechanisms;
- *Consultation with other relevant stakeholders* – the committee took into account feedback received from our broader stakeholder community, including the general employee population (who were involved in discussions around the setting of our KPIs); and
- *General trends in market and best practice* – the committee recognised the need for our remuneration arrangements to reflect best practice trends as they emerge.

Against this background, the committee concluded that the remuneration framework that had been in operation since 2017 remained broadly fit for purpose. In particular, it considered that Cairn's existing approach of combining a lower weighting on annual bonus opportunity with a slightly higher level of long-term incentive grants (when compared to other FTSE 250 companies) appropriately reflected and supported our overarching strategy as a business.

Notwithstanding the above, a small number of changes are being proposed in relation to the new policy, largely to address the requirements of the 2018 UK Corporate Governance Code and recent changes in shareholder expectations. In particular:

Pay element	Proposed change in policy for 2020	Rationale for the change
Pensions	For any future Executive Directors that are appointed to the Board, the rate of pension contributions will be capped at a level that is equal to the amount paid to the wider UK employee population (currently 10% of salary). For the avoidance of doubt, the policy will, for the time being, provide for the contribution rates for the Company's current Executive Directors to remain at 15% of salary per annum. Additional commentary on this point is provided after this table.	Compliance with the 2018 UK Corporate Governance Code.
Annual bonus	For the annual bonus plan that will operate in 2020 and later years, the committee will (where possible) set a defined payment scale for achievements against each KPI or other relevant measure. Any such scale, details of which will be disclosed on a retrospective basis, will include 'threshold', 'target' (which will deliver not more than a 50% payout for the relevant element) and 'maximum' levels.	Addresses feedback received from institutional investors and their proxy advisors.
Annual bonus	The circumstances in which "malus" and "clawback" can be applied by the committee in relation to the annual bonus scheme (including any element that is deferred into shares) will be expanded also to include (i) cases of gross misconduct; and (ii) corporate failure, due to the conduct of management, which results in the appointment of a liquidator or administrator.	Ensures that the Company's bonus scheme for Executive Directors is compliant with developing market practice and gives the committee greater powers to recover previously paid amounts where this is deemed appropriate.
2017 Long Term Incentive Plan	Similar changes will be made to the "malus" and "clawback" rules contained within the Company's 2017 Long Term Incentive Plan (although these enhanced provisions will only apply to awards vesting on or after 1 January 2020).	As above.
2017 Long Term Incentive Plan	The committee will be given a wider discretion to override the vesting outturn produced by the operation of the performance conditions applied to awards granted under this arrangement. This discretion will only be capable of reducing the number of shares to which participants would otherwise be entitled.	In line with the 2018 UK Corporate Governance Code, this change ensures that independent judgement and discretion is capable of being exercised by the committee in respect of formulaic remuneration outcomes.
Post-employment shareholding requirement	A new post-employment shareholding requirement will be introduced. Executive directors will be obliged to build up and maintain a holding of shares, worth 200% of salary, for the period of two years following cessation of employment.	Compliance with the 2018 UK Corporate Governance Code.

Full details of the new policy are set out in Part 2 of this report; pages 122 and 123 also contain a summary of how it will actually be implemented in its first year of operation.

Although the terms of the new policy will, as noted above, provide for the pension contribution rates for both Simon Thomson and James Smith (our current Chief Executive and CFO respectively) to remain at their existing levels, the committee is aware of the recently stated preference of investors that the pension benefits of incumbent directors should be aligned to those applicable to the wider workforce. Over the coming year, the committee intends to consider this issue further and its clear intention is to formulate a plan that will deliver equality of all contribution rates across the Group by the end of 2022 at the latest. Details of the conclusions reached by the committee and an outline of its proposed approach in this area will be included in next year's Directors' Remuneration Report.

In addition to the above, the committee will, during 2020, be undertaking a review of the Group KPIs which form the basis for determining award levels under the annual bonus scheme and will, in particular, consider how to incorporate an increased focus on ESG related matters. Again, details of the outturn from this exercise will be set out in next year's report.

Directors' Remuneration Report continued

Summary of 2019 Business Context and Key Remuneration Decisions
The work of the committee in 2019 was conducted against a backdrop of a year in which the Company made strong progress in building and diversifying its exploration portfolio; continued to maintain a strong balance sheet with sufficient cash flow from production to fund its attractive exploration programme; and maintained funding flexibility.

The key remuneration related decisions made by the committee in 2019 are described in more detail in the Annual Report on Remuneration contained on pages 106 to 123 and can be summarised as follows:

Base salary increases	At its meeting in November 2019, the committee agreed that, with effect from 1 January 2020, a base salary increase of 1.7% would be applied to both of the Company's Executive Directors (being Simon Thomson and James Smith). The above increase was consistent with the level of standard annual salary increase awarded to other employees at that time.
2019 annual bonus	Under the Executive Directors' bonus scheme for 2019 (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. Based purely on an assessment of the extent to which the relevant targets were achieved (being 71.2%), awards made under the annual bonus scheme to the Executive Directors during the year (as a percentage of annual salary) would have been 89% for both Simon Thomson and James Smith. However, in accordance with its normal practice, the above result was subject to a further review by the committee in order to assess whether these award levels were fair and reasonable. The conclusion reached was that, due to a number of macro economic considerations, it would be appropriate for the committee to exercise its overarching discretion and apply a reduction to these amounts. In particular, it decided that, for the purposes of calculating the executive directors' actual bonuses for 2019, the assumed level of overall achievement for the Group KPIs would be limited to 65% rather than the above noted 71.2%. The impact of this decision was that the awards (as a percentage of salary) for both Simon Thomson and James Smith were reduced to 81.3%. 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 111 to 115 of the Annual Report on Remuneration.
Long Term Incentive Plan (LTIP) – lapse of 2016 awards	The performance period applicable to the LTIP awards granted in 2016 came to an end during 2019. Over this period, the Company's Total Shareholder Return placed it below the median position in a group of eighteen comparator companies. This resulted in these awards lapsing in full.
LTIP – grant of 2019 awards	In March 2019, the committee made the third annual grant under the Company's LTIP that was adopted at the 2017 AGM (the 2017 LTIP). Details of the awards made to Executive Directors as part of this process are set out in the Annual Report on Remuneration.
Non-Executive Directors' fees and Chairman's fee	During 2019, the committee (excluding Ian Tyler) reviewed the Chairman'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 should be increased by 1.7% from £177,000 to £180,000 effective 1 January 2020. The fees paid to Non-Executive Directors were also reviewed during the year by the Executive Directors and the Chairman and it was determined that their basic annual fee would be maintained at £75,500. Similarly, no change was made to the additional fee payable for chairing the audit and/or remuneration committee.
Details of discretions exercised by the committee during 2019	In 2019, the only substantive discretions exercised by the committee related to the operation of the Company's various share-based incentive schemes. In particular, the committee: – determined the treatment of those members of the various LTIP comparator groups that delisted during the year (see page 119 for details of the approach taken); and – made various decisions in relation to the treatment of leavers (none of whom were Executive Directors or other PDMRs).

Each of the committee's decisions described above was made in the context of the requirements of the 2018 UK Corporate Governance Code (which applied to the Company with effect from 1 January 2019) and, in particular, after considering the various factors set out in its Provision 40. The committee was satisfied that, during 2019, the approved remuneration policy operated as intended, both in terms of Company performance and quantum.

Feedback on Directors' Remuneration Report
We welcome questions and feedback from all those interested on both the content and style of this report.

Nicoletta Giadrossi
Remuneration Committee Chair

9 March 2020

Part 2 – Directors' Remuneration Policy

Introduction

Background and Details of Approval Process

This Directors' Remuneration Policy provides an overview of the Company's policy on directors' pay that it is anticipated will be applied in 2020 and will continue to apply until the 2023 AGM. It sets out the various pay structures that the Company will operate 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.

In accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"), the policy contained in this part will be subject to a binding vote at the AGM to be held on 14 May 2020 and will take effect immediately upon receipt of such approval from shareholders.

Overview of the Decision Making Process That Was Followed for the Determination of the New Policy

As explained in the Chair's introduction on pages 94 and 95, the new policy that shareholders are being asked to approve at the 2020 AGM was developed by the committee following a detailed review of the Company's existing remuneration arrangements; it also involved the committee undertaking a consultation exercise with a variety of different stakeholders including significant investors (primarily those holding 3% or more of the Company's issued share capital), a number of proxy advisors and the senior Management Team.

As part of the above review and consultation process, the committee took into account the remuneration-related provisions contained in the 2018 UK Corporate Governance Code and, in particular, sought to ensure that the proposals for the new policy adequately addressed the requirements contained in its Provision 40 (relating to clarity, simplicity, risk mitigation, predictability, proportionality and alignment).

In its deliberations, the committee received support and advice from Aon, its "independent external advisor" (see page 107 for details); it also took into account views expressed by Deloitte, which had been appointed by the management team to provide it with guidance on various remuneration-related issues (see page 107 for details). No other committee was involved in the decision-making process.

Although the Executive Directors (and their appointed advisor) provided the committee with a level of input in relation to the formulation of the new policy, the final decisions around its structure were taken by the committee alone in order to avoid any conflicts of interest arising.

Significant Revisions Made to the Previous Policy

The proposed policy largely mirrors the previous policy approved by shareholders at the 19 May 2017 AGM. However, and as noted in the Chair's introduction on pages 94 and 95, a relatively small number of changes have been made in order to take account of the requirements of the 2018 UK Corporate Governance Code and to reflect developments in market practice over the past three years. In particular:

- the pension policy for new Executive Director appointees has been updated so as to ensure that the levels of Company contributions they may receive will be line with those offered to the wider UK workforce;
- when formulating the structure of the annual bonus scheme for each year, the committee will set (and disclose on a retrospective basis) a more detailed payment scale for each measure;
- the "malus" and "clawback" provisions contained within the annual bonus and LTIP structures have been expanded to ensure that they can be operated in cases of gross misconduct and corporate failure;
- the committee has been given broader powers to adjust downwards the formulaic vesting outcome produced by the LTIP performance conditions where it is deemed appropriate taking into account the particular circumstances at the time; and
- a new post-employment shareholding requirement has been introduced.

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.

Directors' Remuneration Report continued

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.

As explained above, the process surrounding the formulation of the new policy included a programme of engagement with the Company's largest institutional investors (i.e. primarily those holding 3% or more of our issued share capital), and a selection of proxy agencies, in order to understand their views on the proposed approach. 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 is hosted by the Chair of the committee), the attendance of directors at team meetings and employee engagement surveys.

Overview of Proposed Remuneration Policy
Cairn's policy on Executive Directors' remuneration for 2020 and subsequent financial years 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

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.

Directors' Remuneration Report continued

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 2020, 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 103.	Not applicable.	None

Directors' Remuneration Report continued

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 Chairman 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.	Company's Articles of Association place a limit on the aggregate annual level of Non-Executive Directors' and Chairman's fees (currently £900,000).	None
Chairman's fees	Helps recruit and retain the relevant individual. Reflects time commitment.	The Chairman'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 Chairman's duties for the Company may be reimbursed or paid for directly by the Company, including any tax due on the expenses.	Company's Articles of Association place a limit on the aggregate annual level of Non-Executive Directors' and Chairman'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 2020 is provided on pages 122 and 123.

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 168 to 170).
- 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 116) 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 the date this Directors' Remuneration Policy is approved by shareholders, Executive Directors (and certain other senior managers) will normally be 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:

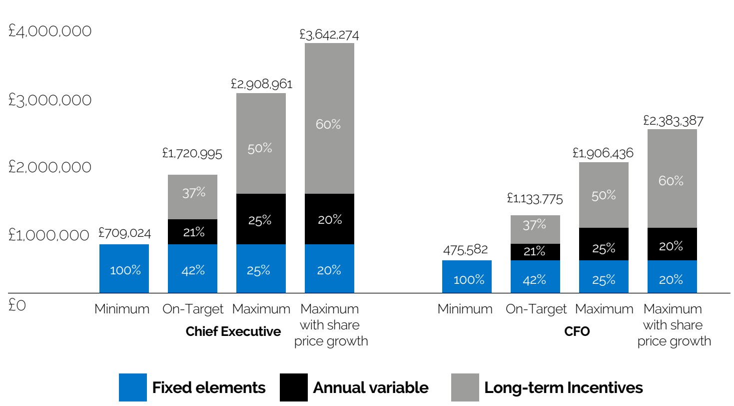
- be granted as conditional share awards or nil-cost options or in other such form that the committee determines has the same economic effect;
- have any performance conditions applicable to them amended or substituted by the committee if an event occurs which causes the committee to determine that an 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 2020 under minimum, on-target and maximum scenarios. A further column 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.



Directors' Remuneration Report continued

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

- The "minimum" columns are intended to show the fixed level of remuneration to which the Executive Directors are entitled in 2020 irrespective of performance levels, namely base salary (at current rates), benefits (using the details set out in the 2019 single total figure table provided on page 108) 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" columns 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 2020 over shares worth 250% of salary.
- For the "maximum with share price growth" column, share price appreciation of 50% over the relevant performance period has been assumed for the LTIP awards. For all other columns, 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.

Chairman and Non-Executive Directors

On the appointment of a new Chairman 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 whistle-blowing) 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.

Directors' Remuneration Report continued

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 Chairman and the Non-Executive Directors and specifies the date on which each individual is next subject to election or re-election:

Director	Date of original appointment	Date when next subject to election or re-election
Ian Tyler	28 June 2013	14 May 2020
Todd Hunt	14 May 2003	14 May 2020
Keith Lough	14 May 2015	14 May 2020
Peter Kallos	01 September 2015	14 May 2020
Nicoletta Giadrossi	10 January 2017	14 May 2020
Alison Wood	01 July 2019	14 May 2020
Catherine Krajicek	01 July 2019	14 May 2020

None of the Non-Executive Directors nor the Chairman 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 Chairman's letters of appointment are available for inspection, on request, at the Company's registered office.

Part 3 – 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 2019 and explains how Cairn's approved Directors' Remuneration Policy that was in force during that period was implemented. It also summarises how the new Directors' Remuneration Policy set out on pages 97 to 106 will be applied in 2020, assuming it is approved by shareholders at the AGM to be held on 14 May 2020.

In accordance with the Regulations, this part of the report will be subject to an advisory vote at the 2020 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 2019
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.

Biographical information on the individuals that were committee members as at 31 December 2019 is shown on page 75 and details of attendance at the committee's meetings during 2019 are shown on page 83.

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 2019	Fees for committee assistance in 2019[1]	Other services provided to the Company during 2019
Aon[2 3]	Appointed by the committee to give periodic advice 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 (including the formulation of the new policy).	**£47,435**	Provided advice on various aspects of remuneration practice across the Group.
Deloitte LLP[3]	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.	**£27,867**	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.	**£32,011**	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 Both Aon and Deloitte LLP are 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.
4 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 2018 Directors' Remuneration Report	17 May 2019	465,053,278	96.11%	18,802,383	3.89%	483,855,661	24,483
To approve 2017 Directors' Remuneration Policy	19 May 2017	465,933,235	97.96%	9,688,508	2.04%	475,621,743	7,035,403

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.

Directors' Remuneration Report continued

Payments to Past Directors During 2019 (Audited)
During the year to 31 December 2019, 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 2019 (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 fixed remuneration	Total variable remuneration	Total remuneration
Directors												
Simon Thomson	**2019**	**£576,844**	**£34,376**	**£86,527**	**£7,197**	**£468,686**	**£0**	**£468,686**	**£0**	**£704,944**	**£468,686**	**£1,173,630**
	2018	£565,533	£27,930	£84,830	£7,197	£494,841	£0	£494,841	£1,023,670	£685,490	£1,518,511	£2,204,001
James Smith	**2019**	**£375,183**	**£36,787**	**£56,277**	**£7,197**	**£304,836**	**£0**	**£304,836**	**£0**	**£475,444**	**£304,836**	**£780,280**
	2018	£367,826	£8,681	£55,174	£7,197	£321,848	£0	£321,848	£665,800	£438,878	£987,648	£1,426,526

Notes:
1 Taxable benefits available to the Executive Directors during 2019 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 2018, with the higher figures for both the Executive Directors in 2019 primarily being attributable to increased charges for their company cars.
2 Additional disclosures relating to the pension provision for the Executive Directors during 2019 are set out on page 111.
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 2019 are set out on pages 119 and 120.
4 Under the Company's annual bonus scheme for 2018 and 2019, 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 2019 is provided on pages 111 to 115. 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 2019 are provided on pages 115 to 119; confirmation of the amount of the 2018 vesting values that were attributable to share price appreciation was included in last year's Directors' Remuneration Report.
6 Following the end of the year to 31 December 2019, 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

	Financial year	Fixed Remuneration: Salary and fees[1]	Fixed Remuneration: Benefits	Fixed Remuneration: Pension[2]	Variable Remuneration: Annual bonus[2]	Variable Remuneration: Long-term incentives[2]	Totals: Total fixed remuneration	Totals: Total variable remuneration	Totals: Total remuneration
Directors									
Ian Tyler	**2019**	**£177,000**	**–**	**–**	**–**	**–**	**£177,000**	**–**	**£177,000**
	2018	£177,000	–	–	–	–	£177,000	–	£177,000
Todd Hunt	**2019**	**£75,500**	**–**	**–**	**–**	**–**	**£75,500**	**–**	**£75,500**
	2018	£75,500	–	–	–	–	£75,500	–	£75,500
Alexander Berger[3]	**2019**	**£28,941**	**–**	**–**	**–**	**–**	**£28,941**	**–**	**£28,941**
	2018	£75,500	–	–	–	–	£75,500	–	£75,500
Keith Lough[4]	**2019**	**£85,500**	**–**	**–**	**–**	**–**	**£85,500**	**–**	**£85,500**
	2018	£81,782	–	–	–	–	£81,782	–	£81,782
Peter Kallos	**2019**	**£75,500**	**–**	**–**	**–**	**–**	**£75,500**	**–**	**£75,500**
	2018	£75,500	–	–	–	–	£75,500	–	£75,500
Nicoletta Giadrossi[4]	**2019**	**£85,500**	**–**	**–**	**–**	**–**	**£85,500**	**–**	**£85,500**
	2018	£81,782	–	–	–	–	£81,782	–	£81,782
Alison Wood[5]	**2019**	**£37,750**	**–**	**–**	**–**	**–**	**£37,750**	**–**	**£37,750**
	2018	£0	–	–	–	–	£0	–	£0
Catherine Krajicek[5]	**2019**	**£37,750**	**–**	**–**	**–**	**–**	**£37,750**	**–**	**£37,750**
	2018	£0	–	–	–	–	£0	–	£0

Notes:
1 As disclosed in the 2018 Annual Report on Remuneration, the Chairman's fee for 2019 was unchanged at £177,000. Similarly, the basic annual fee for Non-Executive Directors in 2019 remained at £75,500, being the same level paid in 2018.
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 Alexander Berger retired as a director on 17 May 2019. His fees for 2019 reflect the period from the start of the year to that date.
4 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. These individuals served as Chair of their relevant committee for part of 2018 and their share of the additional £10,000 fee for that year reflected their respective periods in post.
5 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.

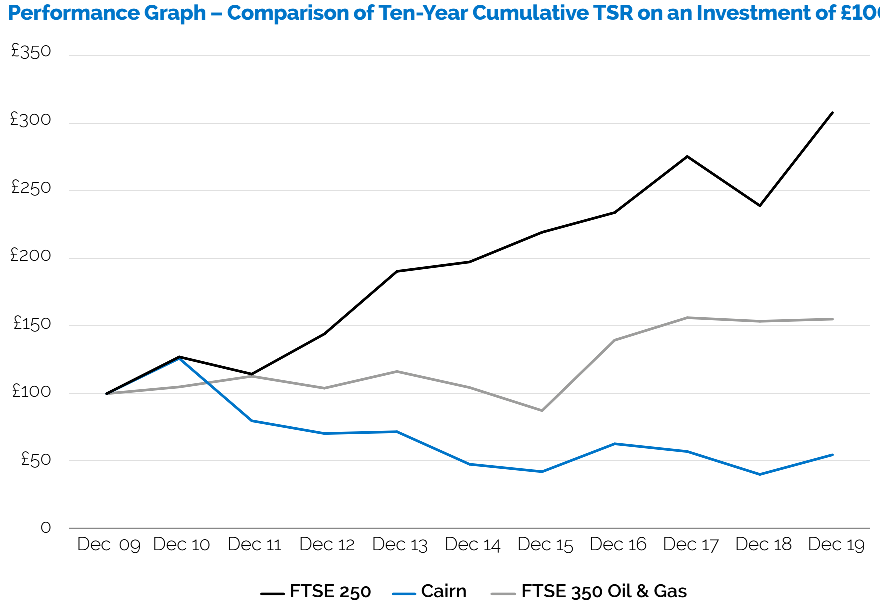
TSR Performance Graph and Further Information on Chief Executive Pay

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 2019; 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 ten-year period.

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



Directors' Remuneration Report continued

Total Remuneration of Chief Executive During the Same Ten-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)
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[2]	Sir Bill Gammell	£4,053,822	N/A	106%
2010	Sir Bill Gammell	£7,302,533	58%	113%

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 108.
2 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).

Percentage Annual Change in Chief Executive's Remuneration Elements Compared to All Group Employees

The table below illustrates, for various elements of the Chief Executive's 2019 remuneration package, the percentage change from 2018 and compares it to the average percentage change for all the Group's employees in respect of that same period.

	% change in base salary	% change in taxable benefits	% change in annual bonus
Chief Executive	2%	23.08%[1]	(5.29%)
All Group employees	3%[2]	(1.44%)[3]	1.07%

Notes:
1 As highlighted on page 108, the above increase in the Chief Executive's taxable benefits is largely attributable to higher charges for his company car.
2 The standard level of salary increase across the Group in 2019 was 2%. However, a small number of individuals received higher percentage increases which raised the average for all employees to 3%.
3 This fall in average taxable benefits for all Group employees has arisen due to a lower level of relocation expenses being paid in 2019.

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 2019), 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 last year, with the result that the following table shows the relevant ratios for both 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)
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 2019 (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 2019 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). In addition, in-line with the Company's existing and proposed Directors' Remuneration Policy, pension contributions available to the current executive team are higher than for the wider workforce.

The committee notes that each of the pay ratios for 2019 is lower than in the previous year. This is largely attributable to the fact that, unlike during 2018, no awards vested under the Company's various discretionary share incentive plans in the period of 12 months to 31 December 2019. Given that the Executive Directors receive a higher level of annual award (as a percentage of salary) under these arrangements than all other employees, this absence of 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 2019 and 2018 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 2019 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	£576,844	£37,519	£62,271	£116,172
Total pay and benefits	£1,173,630	£60,743	£96,538	£172,861

Executive Directors' Base Salaries During 2019
Based on a review carried out in November 2018, the following salary increases for Executive Directors became effective on 1 January 2019:

2019 Annual Salary Details

	Job title	Annual salary as at 31 December 2018	**Annual salary as at 1 January 2019**	% increase with effect from 1 January 2019
Current directors				
Simon Thomson	Chief Executive	£565,533	**£576,844**	2%
James Smith	CFO	£367,826	**£375,183**	2%

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 2019.

Executive Directors' Pension Provision During 2019 (Audited)
As highlighted in the Directors' Remuneration Policy described on pages 97 to 106, the Company operates a defined contribution, non-contributory Group personal pension plan which is open to all UK permanent employees. The Company contributes 10% of basic annual salary (15% in respect of current Executive Directors) on behalf of all qualifying employees. 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 2019 are set out in the "pension" column of the single total figure table on page 108.

Annual Bonus – 2019 Structure and Outcome (Audited)
During 2019, 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, 2019 bonus awards were based on achievement against a mixture of personal objectives, project-based KPIs 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 2018, 100% of each Executive Director's bonus opportunity for the year to 31 December 2019 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 and achievement levels is set out below.

Directors' Remuneration Report continued

2019 Annual Bonus Scheme – Group KPI Performance Conditions (100% Weighting) and Achievement Levels

KPI measures and performance achieved in 2019				Weighting	Bonus awarded	KPI remuneration committee decision
Purpose	2019 KPI	Measurement	2019 performance	(as % of allocated proportion of maximum opportunity)		
Maintain licence to operate						
Deliver value in a safe, secure and environmentally and socially responsible manner.	– Demonstrate clear progress and achieve defined milestones in relation to HSSE/corporate responsibility (CR) objectives, split into four key categories (Governance, Society, People and the Environment). – Achieve lagging HSSE indicators set in line with IOGP targets.	– Achievements of leading indicators linked to the four key categories listed. – Lagging indicators set in line with IOGP targets and guidelines.	– The Group's lost time injury frequency (LTIF) for operated activity in 2019 was 0 per million hours worked. Our total recordable injury rate (TRIR) for 2019 was 0.98 per million hours worked. There were no spills to the environment. – Good progress made against leading indicators, including: • Code of Ethics revised and issued to all staff (including Spanish version); • The Group's Corporate Major Accident Prevention Policy (CMAPP) was independently reviewed in 2019; and • A suite of training programmes was rolled out across the Group including topics such as bribery and corruption, CMAPP, human rights and modern slavery.	15%	12.9%	Substantially achieved
Portfolio management						
Portfolio optimisation and replenishment.	– Secure two new venture opportunities that meet corporate hurdles and have risk levels consistent with our Risk Appetite Statement; measured against tests of control, materiality and commercial robustness.	– Each new opportunity secured will be measured against tests of (i) control; (ii) materiality based on documented NPV10 thresholds; and (iii) commercial robustness based on success case Pmean economics.	– In 2019, the Senegal JV successfully received the presidential decree for the two-year exploration and appraisal extension of FAN, SNE North and Spica. – Following applications in the 2019 Norwegian APA in September, Cairn was awarded three licences as operator: Mabbutt; Gough; and Fearless. – During 2019, Cairn also completed the farm-in to onshore Cote d'Ivoire, made a strategic swap of equity in B9 and B10, offshore Mexico and completed a bid round licence application and was awarded operatorship in two zones in Israel in a joint venture with Pharos Energy plc and Ratio Oil Exploration.	8%	7%	Substantially achieved

KPI measures and performance achieved in 2019				Weighting	Bonus awarded	KPI remuneration committee decision
Purpose	2019 KPI	Measurement	2019 performance	(as % of allocated proportion of maximum opportunity)		
Deliver exploration success						
Grow the reserves and resources base to provide a basis for future growth.	– Successfully drill and evaluate a programme of six exploration wells across our portfolio. – Discover potentially commercial hydrocarbons in line with pre-drill expectations. – Mature six new independent exploration prospects with JV support for drilling in the period 2020-2021.	– 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 our year-end 2019 reserves and resources report. – Measured by the number of prospects approved by joint ventures on an operated and non-operated basis.	– In 2019, three wells in Norway (Presto, Lynghaug and Godalen), one in the UK (Chimera) and two in Mexico (Alom and Saasken) were successfully drilled. The Saasken well made a new oil discovery on Block 10, Mexico, and according to preliminary estimates, may contain between 200 and 300 million barrels of oil in place. All other wells were reported as dry and plugged and abandoned. – Prospects successfully matured and recommended during 2019 for drilling in 2020 or 2021 included the Duncan prospect in Norway; and the Diadem prospect in the UK with other prospects also successfully matured, assured and recommended for drilling, the details of which remain commercially sensitive at the date of this report.	25%	11.33%	Partially achieved
Progress developments						
Progress Senegal and Nova development projects.	– Mature the SNE field development project in Senegal to Final Investment Decision. – Progress the Nova development project against key predefined project milestones.	– SNE Final Investment Decision being taken, finalisation and approval of joint venture financing plan, and finalisation of certain development contracts. – Nova milestones measured: (i) complete scope of shut-down #1 and commence fabrication and assembly of the Nova module; (ii) delivery and offshore installation of the subsea umbilical; (iii) delivery and offshore installation of the production, water injection and gas lift pipelines; and (iv) delivery of certain subsea infrastructure.	– An updated SNE Exploitation and Development Plan was submitted in August 2019 and approved by the Ministry of Petroleum and Energy in December 2019. – Final Investment Decision was taken by the JV and granting of the 25-year exploitation licence by the Government of Senegal took place in January 2020. – The Nova development is on schedule with first oil targeted in 2021. In H1, two subsea templates were installed on the ocean floor. This unlocked the next phase of the field development with 65km of pipelines laid in preparation for tie-back to the nearby Gjøa platform. All pre-defined project milestones for the year were achieved.	18%	17%	Substantially achieved

Directors' Remuneration Report continued

Purpose	2019 KPI	Measurement	2019 performance	Weighting	Bonus awarded	KPI remuneration committee decision
KPI measures and performance achieved in 2019				(as % of allocated proportion of maximum opportunity)		
Production performance						
Maximise revenues through efficient operations.	– Ensure production and operating cash flow from Kraken and Catcher are at or within guidance on net production volume and lifting cost per barrel.	– Measured against target net oil production volumes and lifting cost per barrel.	– Catcher- stretch target net oil production volumes were exceeded, at better than target lifting costs. – Kraken- stretch target net oil production volumes were exceeded, at better than target lifting costs.	10%	10%	Fully achieved
Deliver a sustainable business						
Manage balance sheet strength.	– Implement funding strategy to support exploration, appraisal and development activity and to mitigate any downside revenue scenarios. – Progress the UK-India bilateral treaty arbitration to conclusion and receipt of awarded sums in event of success.	– Ensure recovery of the award from the international arbitration ruling upon receipt of a successful award. – Ensure adequate sources of funding through debt financing, cash flow generation, portfolio optimisation and/or hedging strategies to support our strategy, with four pre-determined, commercially sensitive, tests against which funding levels will be measured.	– Funding headroom was maintained throughout the year covering the Group's committed forward capital expenditure. – The sale of 10% stake in Nova to Dyas in November 2019 and the disposal of Capricorn Norge AS, the Company's wholly owned subsidiary in Norway, to Sval (previously known as Solveig Gas) in December 2019 enhanced Group liquidity at attractive metrics. – Arbitration proceedings under the UK-India Bilateral Investment Treaty were largely concluded in 2018. In 2019, however, the Tribunal indicated that the issuance of the arbitration award would not be made until summer 2020.	24%	13%	Partially achieved
Totals				**100%**	**71.2%**	

2019 Annual Bonus Scheme – Exercise of Committee's Overarching Discretion

In accordance with its normal practice, the above outturn from the assessment of the Group KPIs was subject to a further review by the committee in order to assess whether the resulting level of awards that it would generate for executive directors under the annual bonus scheme structure for 2019 would be fair and reasonable. The conclusion reached was that, due to a number of macro economic considerations, it would be appropriate for the committee to exercise its overarching discretion (contained within the approved remuneration policy in place at that time) and apply a reduction to these amounts. In particular, it decided that, for the purposes of calculating the executive directors' bonuses, the assumed level of overall achievement for the Group KPIs would be limited to 65% rather than the 71.2% shown in the table above. The impact of this decision is illustrated below.

2019 Annual Bonus Scheme – Overview of Awards and Actual Payments Made

The application of (i) the outturn from the above performance condition assessments; and (ii) the subsequent exercise of the committee's above noted discretion, 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		
	Assumed achievement level (after the application of the committee's above noted discretionary reduction)[1]	65%	65%
	=		
	Award percentage (as % of max. bonus opportunity)	65%	65%
Award calculation	Max. bonus opportunity (as % of salary)	125%	125%
	x		
	Award percentage (as calculated above)	65%	65%
	=		
	Total award (as % of salary)	81.25%	81.25%
	Total award (as an amount)	£468,686	£304,836
Form of payment	Cash payment[2]	£468,686	£304,836
	Deferred share award[3]	£0	£0

Notes:
1 In the absence of the committee's discretionary reduction to the Group KPI achievement level, the total award (as a percentage of salary) for both Simon Thomson and James Smith would have been 89% (i.e. 71.2% achievement x 125% of salary maximum opportunity).
2 Cash payments due under the annual bonus were paid to the relevant individuals shortly after completion of the assessment of the relevant performance measures and conditions.
3 Under the Company's annual bonus scheme for 2019, 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.

Long-Term Incentives During 2019

Introduction

During the year to 31 December 2019, the Executive Directors participated in the Company's 2009 LTIP (which was originally approved by shareholders at the AGM held on 19 May 2009) and its 2017 LTIP (which was approved by shareholders at the AGM held on 19 May 2017).

Both the 2009 LTIP and 2017 LTIP enable 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. Following the introduction of the 2017 LTIP during the year to 31 December 2017, no further awards have been, or will be, granted under the 2009 LTIP, although existing entitlements under the earlier arrangement continued to subsist on their original terms.

Overview of Performance Conditions – 2009 LTIP

In the case of all awards under the 2009 LTIP (including those granted during 2016), the performance conditions involve a comparison of the TSR of the Company over a three-year performance period (commencing on the date of grant of the relevant award) with the TSR of a share in each company in a comparator group (details of which are set out on page 119). At the end of this period, each company in the comparator group is listed in order of TSR performance to produce a "ranking table". The vesting of awards then takes place as follows:

Ranking of Company against the comparator group	Percentage of ordinary shares comprised in award that vest
Below median	0%
Median	20%
Upper decile (i.e. top 10%)	100%
Between median and upper decile	20%–100% on a straight line basis

Directors' Remuneration Report continued

In order to ensure that the 2009 LTIP encourages and rewards exceptional performance in terms of delivering increased growth and shareholder value, the performance conditions attaching to awards also provide that, where the TSR of the Company produces a ranking at or above the upper decile level in the appropriate comparator group, a participant will then be given the opportunity to increase the percentage of his/her award that vests through the application of a 'multiplier' that is linked to the TSR actually achieved over the performance period. The way in which this multiplier operates is as follows:

Multiplier applied to determine the number of ordinary shares that actually vest	TSR of the Company over the performance period
1	50% or less
1.33	100% or more
1–1.33 on a straight line basis	Between 50% and 100%

However, notwithstanding the performance of the Company against the above targets, no part of any currently outstanding award granted under the 2009 LTIP 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.

Overview of Performance Conditions – 2017 LTIP

For the awards granted to Executive Directors under the 2017 LTIP during 2017, 2018 and 2019, 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% 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 119). 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% 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.

As with the 2009 LTIP, no part of a currently outstanding award granted under the 2017 LTIP 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.

Summary of Vesting Terms, Holding Periods and Clawback Arrangements – 2009 and 2017 LTIPs

On any vesting of an award under the 2009 LTIP, 50% of the ordinary shares to which the holder has become entitled are released or become exercisable immediately, with the remaining 50% normally being released or becoming exercisable after a further holding period of one year.

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 will apply to both the kicker and core elements (see above) of these awards.

As noted in the Directors' Remuneration Policy, awards granted under the 2009 and 2017 LTIPs 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 such lower vesting being determined. The circumstances in which clawback can be applied in respect of awards vesting on or after 1 January 2020 will be 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.

LTIP Awards Granted During 2019 (Audited)

On 13 March 2019, the following awards under the 2017 LTIP were granted to Executive Directors:

	Description of award	Form of award	Basis of award granted	Share price at date of grant[3]	No. of shares over which award originally granted	Face value (£000) of shares over which award originally granted[4]	% of shares over which award originally granted that vest at threshold	Vesting determined by performance over
Directors								
Simon Thomson	Core award	Nil-cost option	2 x base salary of £576,844	£1.677	687,947	£1,154	25%	3 years until 12 March 2022
	Kicker award	Nil-cost option	0.5 x base salary of £576,844	£1.677	171,986	£288	100%	
James Smith	Core award	Nil-cost option	2 x base salary of £375,183	£1.677	447,444	£750	25%	3 years until 12 March 2022
	Kicker award	Nil-cost option	0.5 x base salary of £375,183	£1.677	111,861	£188	100%	

Notes:
1 Details of the performance conditions applicable to the awards granted in 2019 are provided on page 116.
2 No price is payable by participants for their shares on the exercise of a nil-cost option granted under the LTIP.
3 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 13 March 2019 was £1.709.)
4 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".
5 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 15 March 2019, the three-year performance period applicable to the awards granted under the 2009 LTIP on 16 March 2016 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 20 March 2019, can be summarised as follows:

Performance measure	% of award subject to measure	Performance achieved 2016-2019	% of award vested
Relative TSR performance against a comparator group of 18 companies with the opportunity for additional multiplier of up to 1.33 to be applied for upper decile/ absolute TSR performance.	100%	Cairn's TSR over the period placed it between the tenth and eleventh ranked companies in the comparator group. As this ranking was below median level, no part of the relevant awards vested and they 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 pages 115 and 116.
2 At various points in the period 16 March 2016 to 15 March 2019, 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 were the subject of takeover transactions. No other discretions 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 2009 LTIP awards that lapsed during the year:

	Type of award	Date of grant	No. of shares over which award originally granted	% of award to vest as per performance condition assessment	No. of shares in respect of which award lapsed	Date of lapse
Current Director						
Simon Thomson	Nil-cost option	16 March 2016	856,994	0%	856,994	20 March 2019
James Smith	Nil-cost option	16 March 2016	557,395	0%	557,395	20 March 2019

Directors' Remuneration Report continued

LTIP – Awards Exercised During 2019 (Audited)

Details of vested LTIP awards (which are in the form of nil-cost options) that were exercised by the Executive Directors during the year to 31 December 2019 are as follows:

	Date of grant	Plan	Date of vesting	Date of exercise	Number of ordinary shares acquired on exercise	Exercise price	Market value of ordinary shares at date of exercise	Gain on exercise
Current Director								
Simon Thomson	19/03/15	2009 LTIP	26/03/18	03/04/19	248,464	Nil	£1.599	£397,294
James Smith	19/03/15	2009 LTIP	26/03/18	03/04/19	161,602	Nil	£1.599	£258,402

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 2019, 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	23/05/17	2017 LTIP	Core award	Nil-cost option	2 x base salary of £559,934	£2.18	513,700	£1,120	25%	22/05/20
		2017 LTIP	Kicker award	Nil-cost option	0.5 x base salary of £559,934	£2.18	128,425	£280	100%	
	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%	
James Smith	23/05/17	2017 LTIP	Core award	Nil-cost option	2 x base salary of £364,185	£2.18	334,114	£728	25%	22/05/20
		2017 LTIP	Kicker award	Nil-cost option	0.5 x base salary of £364,185	£2.18	83,528	£182	100%	
	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%	

Notes:
1 Further details of the performance conditions that apply to these awards are set out on page 116.
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 2019, 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 2009 and 2017 LTIPs to Executive Directors that were outstanding during 2019.

	Comparator group applicable to LTIP awards granted on…			
Company	16/03/16	23/05/17	28/03/18	13/03/19
Africa Oil Corp.	✓	✓	✓	✓
Aker BP ASA (formerly named Det Norske Oljeselskap ASA)	✓	✓	✓	✓
Cobalt International Energy, Inc.*	✓			
DNO ASA	✓	✓	✓	✓
Energean Oil & Gas PLC				✓
EnQuest PLC	✓	✓	✓	✓
Faroe Petroleum PLC*	✓	✓		
Genel Energy PLC	✓	✓	✓	✓
Hurricane Energy PLC				✓
Kosmos Energy Limited	✓	✓	✓	✓
Lundin Petroleum AB	✓	✓	✓	✓
Maurel & Prom	✓			
Nostrum Oil & Gas PLC	✓	✓	✓	✓
Ophir Energy PLC*	✓	✓		
Petroceltic International 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. For the 2009 LTIP, all delisted companies are retained in the group, regardless of when such delisting occurs.

Participation of Executive Directors in All-Employee Share Schemes During 2019

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 2019/2020, the Company awarded two matching shares for every one partnership share purchased and intends to continue using this award ratio for the tax year 2020/2021.
- **"Free shares"** – employees can be given up to £3,600 worth of ordinary shares free in each tax year. On 10 April 2019, an award of free shares was made to employees, including to the Executive Directors.

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 2019

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 01/01/19	Free shares awarded on 10/04/19 at a price of £1.64 per share	Partnership shares awarded on 07/05/19 at a price of £1.6018 per share	Matching shares awarded on 07/05/19 at a price of £1.6018 per share	Total SIP shares held at 31/12/19
Directors					
Simon Thomson	28,972	2,195	1,123	2,246	34,536
James Smith	20,677	2,195	1,123	2,246	26,241

Directors' Remuneration Report continued

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 124.

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. Further details of the terms of this policy are set out on page 103.

The following table discloses the beneficial interest of each director in the ordinary shares of the Company as at 31 December 2019 (or date of cessation of directorship, if earlier). It also highlights the fact that, on 1 January 2020, the above shareholding requirements were satisfied by both Simon Thomson, Chief Executive, and James Smith, CFO.

	Shares held				Awards over shares under the LTIP		
	Ordinary shares[2]	Ordinary shares held in the SIP[3]	Total holding of ordinary shares	Value of holding as a % of salary on 1 January 2020[4]	Ordinary shares subject to vested but unexercised awards[5]	Ordinary shares subject to unvested awards[6]	Total interest in ordinary shares
Executive Directors							
Simon Thomson	1,311,386	34,536	1,345,922	404%	–	2,172,120	3,518,042
James Smith	524,403	26,241	550,644	254%	–	1,412,759	1,963,403
Non-Executive Directors							
Ian Tyler	–	–	–	–	–	–	–
Todd Hunt	72,012	–	72,012	–	–	–	72,012
Keith Lough	–	–	–	–	–	–	–
Peter Kallos	10,982	–	10,982	–	–	–	10,982
Nicoletta Giadrossi	–	–	–	–	–	–	–
Alison Wood	–	–	–	–	–	–	–
Catherine Krajicek	–	–	–	–	–	–	–
Former Director							
Alexander Berger	40,008	–	40,008	–	–	–	40,008
	1,958,791	**60,777**	**2,019,568**		**–**	**3,584,879**	**5,604,447**

Notes:
1 Details of the Company's share ownership policies for Executive Directors are set out on page 103.
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 Share price used is the average share price over the year to 31 December 2019.
5 This column shows all vested but unexercised awards under the LTIP that were held by the Director concerned as at 31 December 2019.
6 This column shows all unvested and outstanding awards under the LTIP that were held by the Director concerned as at 31 December 2019 (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 117 and 118.

As highlighted on page 94, the new Directors' Remuneration Policy described in pages 97 to 106 will, if it is approved by shareholders at the AGM to be held on 14 May 2020, introduce an additional requirement in terms of which Executive Directors will normally be required to maintain a specified holding of shares for a period of two years following cessation of their employment.

Dilution of Share Capital Pursuant to Share Plans During 2019

In any ten-year rolling period, the number of ordinary shares which may be issued in connection with the Company's "discretionary share plans" (which includes both the LTIPs 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 ten-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 2019

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 2019, and the fees that were payable, are as follows:

	Position held	Fees received for the year to 31/12/19
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 2018 and 2019.

	Financial Year 2018	Financial Year 2019	% change
Employee costs (US$m)	38.1	39.1	2.6%
Distributions (US$m)[1]	0	0	0%

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

Directors' Remuneration Report continued

Implementation of Remuneration Policy in 2020

The following table provides details of how the Company intends to implement the key elements of the new Directors' Remuneration Policy described in pages 97 to 106, assuming it is approved by shareholders at the AGM to be held on 14 May 2020.

Remuneration element	Implementation during 2020
Base salary	Both of the Executive Directors received a 1.7% increase in base salary on 1 January 2020 – 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 2020 are as follows: – Simon Thomson, Chief Executive – £586,650; and – James Smith, CFO – £381,561.
Benefits	Executive directors will continue to receive the same benefits as in 2019.
Annual bonus – 2020	In accordance with the requirements of the new 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 2020. 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 2020 bonus opportunity will be based on the Group KPIs described below (with details of the weightings specified in brackets): – **HSSE/CR (15%);** • 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. – **Portfolio Management (5%);** • Secure new venture opportunities that meet the corporate hurdles and have risk levels consistent with our Risk Appetite Statement. Measured against tests of control, materiality and commercial robustness, with threshold, target and stretch levels identified for measurement where appropriate. – **Exploration (35%);** • 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. – **Development (10%);** • Achieve certain milestones on the Sangomar (formerly SNE) development in categories of subsurface, wells, subsea, FPSO and project controls. – **Production/Cash flow (10%);** • Deliver Group production in line with guidance for 2020, with threshold, target and stretch volumes of production identified for measurement. – **Maintain balance sheet strength/funding (25%).** • 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. 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 2020 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. 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 2020 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 2020
LTIP	It is intended that, during the early part of 2020, 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 2019. Irrespective of whether the above awards are granted before or after the AGM on 14 May 2020, they will be subject to terms that are compliant with the new executive remuneration policy that is to approved by shareholders at that meeting.
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	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 new 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 2020, both the annual Non-Executive Director fee and the additional annual fee for chairing the audit and/or remuneration committee remain unchanged at £75,500 and £10,000 respectively.
Chairman's fees	The annual Chairman's fee for 2020 has been increased from £177,000 to £180,000.

The Directors' Remuneration Report was approved by the Board on 9 March 2020 and signed on its behalf by:

Nicoletta Giadrossi
Chair of the Remuneration Committee

9 March 2020

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 2019 together with the audited consolidated Financial Statements of the Group and Company for the year. These will be laid before the shareholders at the AGM to be held on 14 May 2020. 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 information and a description of the principal risks and uncertainties of the Company's Group and can be found on pages 2 to 71 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 profit after tax of US$93.6m (2018 loss after tax of US$1.1 billion).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2019.

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 71 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 123. 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 105 and 106. 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 86 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 74 and 75. In addition to those listed on those pages, during the year, Alexander Berger was a Non-Executive Director of the Board until his retirement on 17 May 2019. The beneficial interests of the Directors in the ordinary shares of the Company are shown below:

	As at 31 December 2018 Number of shares	As at 31 December 2019 Number of shares	As at 6 March 2020 Number of shares
Simon Thomson	1,211,397	1,345,922	1,345,922
James Smith	461,204	550,644	550,644
Ian Tyler	0	0	0
Todd Hunt	72,012	72,012	72,012
Keith Lough	0	0	0
Peter Kallos	10,982	10,982	10,982
Nicoletta Giadrossi	0	0	0
Alison Wood[2]	–	0	0
Catherine Krajicek[3]	–	0	0
Alexander Berger[1]	40,008	–	–

Notes:
1 Alexander Berger retired as a Non-Executive Director on 17 May 2019.
2 Alison Wood was appointed as a Non-Executive Director on 1 July 2019.
3 Catherine Krajicek was appointed as a Non-Executive Director on 1 July 2019.

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 123.

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 123.

Share Capital
The issued share capital of the Company is shown in section 7 of the notes to the Financial Statements. As at 6 March 2020, 589,552,585 ordinary shares of 231/169 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.

Directors' Report continued

The Directors may, in their absolute discretion and without assigning any reason therefor, 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 2019 and 21 February 2020 (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 2019	% Share Capital	As at 21 February 2020	% Share Capital
MFS Investment Management	78,634,023	13.34	79,980,486	13.57
BlackRock	59,898,144	10.16	58,644,948	9.95
Aberdeen Standard Investments	48,452,348	8.22	48,529,128	8.23
Hotchkis & Wiley	27,992,456	4.75	26,014,738	4.41
Vanguard Group	23,469,501	3.98	23,639,855	4.01
Franklin Templeton	21,572,196	3.66	20,537,589	3.48
Aviva Investors	19,887,632	3.37	18,661,949	3.17
Kames Capital	19,759,238	3.35	19,484,415	3.30
Legal & General Investment Management	17,957,264	3.05	18,949,906	3.21

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 for the year ended 31 December 2019 can be found in the Strategic Report section on pages 60 and 61, which are deemed to form part of this report by reference.

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 2019.

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 pages 79 and 80 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 Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). 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 applicable IFRS issued by the IASB and adopted by the EU 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 2019 (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 74 and 75, 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 71 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 9 March 2020, 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 2020
The AGM of the Company will be held in the Castle Suite of The Caledonian, a Waldorf Astoria Hotel, Princes Street, Edinburgh EH1 2AB at 12 noon (BST) on Thursday, 14 May 2020. 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.

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 9 March 2020.

By order of the Board

Duncan Wood
Company Secretary

9 March 2020

FINANCIAL STATEMENTS

Contents


IMO NO. 8768361

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 2019 and of the Group's profit and the Group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company balance sheets as at 31 December 2019; the Group income statement and statement of comprehensive income; the Group and Company statements of cash flows; 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.

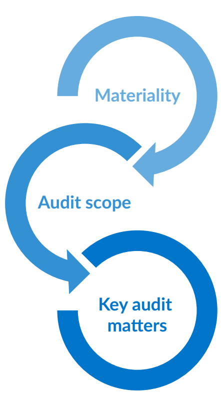
Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe 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 or the company.

Other than those disclosed in note 7.4 to the financial statements, we have provided no non-audit services to the Group or the company in the period from 1 January 2019 to 31 December 2019.

Our Audit Approach
Overview



- Overall group materiality: $20.8 million (2018: $20.0 million), based on 1% of total assets.
- Overall company materiality: $20.1 million (2018: $17.9 million), based on 1% of total assets.

- The majority of audit work was performed in the UK by PwC UK, with PwC Norway and PwC Mexico performing audit work over the Norwegian and Mexican components respectively. The group audit team visited both locations as part of the audit process.
- Our audit scope covered 96% of total assets.

- Risk of impairment of intangible exploration/appraisal assets, development/producing assets ('oil and gas assets') and goodwill.

Independent Auditors' Report to the Members of Cairn Energy PLC
Report on the audit of the financial statements continued

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
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 statement. 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 (significantly, the assessment of impairment of assets) 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 and external legal counsel, and individuals outside the finance function, including consideration of known of suspected instances of non-compliance with laws and regulations and fraud;
- Understanding of 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 assessments of asset impairment; and
- Identifying and testing journal entries, in particular, any journal entries posted by unexpected users, journals posted at unexpected times (for example, weekend), journals reflecting unusual account combinations or journals with descriptions containing key unexpected words.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

Independent Auditors' Report to the Members of Cairn Energy PLC
Report on the audit of the financial statements continued

Key audit matter	How our audit addressed the key audit matter
Risk of impairment to intangible exploration/appraisal assets, development/producing assets ('oil and gas assets') and goodwill In determining the fair value of a CGU, management are required to make significant judgements in relation to key assumptions such as: – long-term oil price; – reserves estimates; – production volume profiles; – cost profiles and escalation applied; and – discount rates. We focused on this area due to the significant values and the nature of the judgements and assumptions management are required to make in determining the existence of impairment triggers and the amount of any impairment. The group has continued to invest in its exploration/appraisal activities with a carrying value of $245.9m at 31 December 2019. The majority of this asset relates to Cairn's discovery offshore Senegal in the SNE North and FAN fields, amounting to $143.1m. Development/producing assets of $1,026.5m reflect spend to 31 December 2019 on Catcher and Kraken in the North Sea. Development assets of $378.8m relate to the Sangomar fields in Senegal. The goodwill balance that arose on the acquisitions of Agora and Nautical Petroleum in 2012 has been fully impaired in the year. In 2019, management has not identified any specific indicators of impairment on their remaining assets. However, after allocating goodwill to the Nova held-for sale asset, the goodwill balance remaining in the North Sea CGU has been fully impaired. In addition, due to a change in cost and production profile which led to impairment on the Kraken asset in 2018, management has reversed $147.3m of the previously recorded impairment. The reversal is attributed to improved performance of the FPSO and certainty of water levels in reserves resulting in a write-back of previously de-recognised proven and probable ('2P') reserves. Refer to notes 2.3 and 2.7 to the financial statements.	We challenged management's assessment of impairment triggers for exploration assets under IFRS 6 by considering licence conditions, the company's budgets and plans for, and results of, drilling activities. We note that the groups' ability to fund future development activity on its Senegal asset specifically is a key consideration of when an impairment trigger may exist. Failure to secure sufficient funding may result in a significant impairment to the carrying value of the asset. We did not identify any additional triggers that had not been identified by management. We tested management's impairment reviews and calculation of the associated asset impairment reversal and goodwill impairment charge by performing the work described below: – Assessing the integrity and mathematical accuracy of the impairment model; – Comparing the assumptions used within the impairment review models to approved budgets and business plans and other evidence of future intentions for the relevant assets; – We 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; – Benchmarking key assumptions including commodity price and inflation against external data and recent public announcements from other oil companies; – Comparing the discount rates used for each asset to expected ranges prepared by our own valuations specialists; – Reviewing 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; – Assessing the inclusion of all appropriate assets and liabilities in the cash generating unit and in particular 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 discount rate, to be at the upper end of our independently assessed range, while other assumptions, for example the use of a 3 year forward curve, were around the median of a market benchmark range. Our audit therefore focused on the sensitivity of the impairment assessments to movements in the reserves and production profile and long-term oil price. We obtained management's future financing plans which support future expenditure required to maintain and enhance the value of the group's oil and gas assets. We considered the group's ability to obtain the required facilities taking into account the status of discussions with lenders and the group's historical funding capability. While no impairment has been identified on the Senegalese assets, the development is dependent on the ability of the group to secure future funding. Any failure to fund Cairn's ongoing share of the development costs may result in the forfeiture of the Group's participating interest or mean that the development does not proceed in accordance with the Exploitation Plan and therefore an impairment may arise. Based on our work performed we conclude that the impairment calculations and related disclosures in the financial statements to be appropriate.

We determined that there were no key audit matters applicable to the company to communicate in our report.

Independent Auditors' Report to the Members of Cairn Energy PLC
Report on the audit of the financial statements continued

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 four segments: Senegal, UK Norway, LATAM and East Atlantic. During 2019, all of the production activity has been in UK Norway, with the majority of the exploration and development activity occurring in LATAM and Senegal.

For accounting purposes, the group is structured into 38 reporting units ("components") The majority of the finance function in based in Edinburgh with the exception of the UK Norway components which were primarily accounted for in Norway, and the Mexican components which are accounted for in Mexico. Work performed by PwC Norway and PwC Mexico was restricted to the Norwegian and Mexican statutory entities, with all other audit work performed by our group audit team in Edinburgh.

Our group scoping was based 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 six 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 two component audit teams throughout the year. For Norway, the group audit team attended the audit planning meeting, and was directly involved in scoping and review of work performed by PwC Norway including directing areas of audit work and maintained contact throughout the execution and completion of the audit. Senior members of the group audit team visited Norway to perform these procedures. For Mexico, the group audit team attended the audit planning meeting by telephone and maintained contact throughout the execution phase of the audit. This included a member of the group team reviewing audit work on site in Mexico and attending the internal clearance meeting in person.

Our group audit approach resulted in coverage of 96% 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:

	Group Financial Statements	Company Financial Statements
Overall Materiality	\$20.8 million (2018: \$20.0 million).	\$20.1 million (2018: \$17.9 million).
How We Determined It	1% of total assets.	1% of total assets.
Rationale for Benchmark Applied	We believe that total assets is an appropriate measure that reflects the group's portfolio of oil and gas exploration and production assets. The group aims to maximise the value of its assets.	The Company's purpose is to hold investments in the subsidiaries of the group. The Company has limited income statement transactions, therefore we believe 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 between \$0.1 million and \$19.1 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$1.1 million (Group audit) (2018: \$1 million) and \$1 million (Company audit) (2018: \$0.9 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going Concern
In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Independent Auditors' Report to the Members of Cairn Energy PLC
Report on the audit of the financial statements continued

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 the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

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. *(CA06)*

The Directors' Assessment of the Prospects of the Group and of the Principal Risks That Would Threaten the Solvency or Liquidity of the Group
We have nothing material to add or draw attention to regarding:
- The directors' confirmation on page 36 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 37 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. *(Listing Rules)*

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:
- The statement given by the directors, on page 127, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 88 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- 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.

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. *(CA06)*

Independent Auditors' Report to the Members of Cairn Energy PLC
Report on the audit of the financial statements continued

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 set out on page 127, 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.

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 received 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 7 years, covering the years ended 31 December 2013 to 31 December 2019.

Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
9 March 2020

Group Income Statement
For the year ended 31 December 2019

	Note	2019 US$m	2018 (restated) US$m
Continuing operations			
Revenue	2.1	**533.4**	410.3
Cost of sales	2.1	**(73.1)**	(131.4)
Depletion and amortisation	2.3	**(217.2)**	(171.2)
Gross profit		**243.1**	107.7
Pre-award costs	4.2	**(17.2)**	(21.5)
Unsuccessful exploration costs	2.2	**(107.0)**	(5.5)
Other operating income		**–**	5.0
Administrative expenses	4.3	**(32.3)**	(48.4)
Reversal of impairment/(Impairment) of property, plant & equipment – development/producing assets	2.3	**147.3**	(166.3)
Impairment of goodwill	2.6	**(79.0)**	–
Operating profit/(loss)		**154.9**	(129.0)
Loss on derecognition of financial assets at fair value through profit or loss		**–**	(713.1)
Loss on financial assets at fair value through profit or loss		**(1.8)**	(352.2)
Finance income	4.5	**3.0**	18.8
Finance costs	4.6	**(36.6)**	(36.1)
Profit/(Loss) before taxation from continuing operations		**119.5**	(1,211.6)
Taxation			
Tax (charge)/credit	5.2	**(0.3)**	89.4
Profit/(Loss) from continuing operations		**119.2**	(1,122.2)
Loss from discontinued operations	6.1	**(25.6)**	(13.3)
Profit/(Loss) for the year attributable to equity holders of the Parent		**93.6**	(1,135.5)
Earnings per share for profit/(loss) from continuing operations:			
Profit/(Loss) per ordinary share – basic (cents)	4.7	**20.48**	(193.30)
Profit/(Loss) per ordinary share – diluted (cents)	4.7	**20.27**	(193.30)
Earnings per share for profit/(loss) attributable to equity holders of the Parent:			
Profit/(Loss) per ordinary share – basic (cents)	4.7	**16.08**	(195.59)
Profit/(Loss) per ordinary share – diluted (cents)	4.7	**15.92**	(195.59)

Group Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019 US$m	2018 US$m
Profit/(Loss) for the year attributable to equity holders of the Parent		**93.6**	(1,135.5)
Other Comprehensive Income – items that may be recycled to the Income Statement			
Fair value on hedge options	3.5	**(29.7)**	36.1
Hedging (gain)/loss recycled to the Income Statement	2.1	**(10.9)**	7.8
Currency translation differences		**0.4**	(15.6)
Other Comprehensive (Expense)/Income for the year		**(40.2)**	28.3
Total Comprehensive Income/(Expense) for the year attributable to equity holders of the Parent		**53.4**	(1,107.2)

Group Balance Sheet
As at 31 December 2019

	Note	2019 US$m	2018 US$m
Non-current assets			
Intangible exploration/appraisal assets	2.2	**245.9**	595.1
Property, plant & equipment – development/producing assets	2.3	**1,405.3**	1,022.9
Intangible assets – goodwill	2.6	**–**	125.8
Other property, plant & equipment and intangible assets		**13.6**	7.9
Derivative financial instruments	3.5	**–**	7.7
		1,664.8	1,759.4
Current assets			
Inventory	2.1	**13.8**	8.2
Financial assets at fair value through profit or loss		**5.1**	6.9
Cash and cash equivalents	3.1	**146.5**	66.3
Trade and other receivables	3.4	**111.2**	91.2
Derivative financial instruments	3.5	**4.1**	36.7
Income tax asset	5.3	**–**	32.8
		280.7	242.1
Assets held-for-sale	6.2	**143.5**	–
Total assets		**2,089.0**	2,001.5
Current liabilities			
Loans and borrowings	3.2	**–**	26.2
Lease liabilities/Finance lease liability	3.3	**43.1**	18.5
Derivative financial instruments	3.5	**1.6**	–
Trade and other payables	3.6	**134.6**	103.1
Deferred revenue	3.7	**16.9**	22.0
Provisions – other		**–**	2.8
		196.2	172.6
Non-current liabilities			
Provisions – decommissioning	2.4	**141.2**	119.1
Loans and borrowings	3.2	**–**	75.5
Lease liabilities/Finance lease liability	3.3	**239.8**	146.9
Deferred revenue	3.7	**18.7**	30.8
Deferred tax liabilities	5.4	**–**	66.5
		399.7	438.8
Liabilities held-for-sale	6.2	**37.6**	–
Total liabilities		**633.5**	611.4
Net assets		**1,455.5**	1,390.1
Equity attributable to equity holders of the Parent			
Called-up share capital	7.1	**12.6**	12.6
Share premium	7.1	**489.8**	489.7
Shares held by ESOP/SIP Trusts	7.1a,b	**(15.8)**	(19.6)
Foreign currency translation	7.1c	**(190.1)**	(190.5)
Merger and capital reserves	7.1d	**296.7**	296.7
Hedge reserve	7.1e	**0.4**	41.0
Retained earnings		**861.9**	760.2
Total equity		**1,455.5**	1,390.1

The Financial Statements on pages 136 to 182 were approved by the Board of Directors on 9 March 2020 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 2019

	Note	2019 US$m	2018 US$m
Cash flows from operating activities:			
Profit/(Loss) before taxation from continuing operations		**119.5**	(1,211.6)
Loss before tax from discontinued operations	6.1	**(115.6)**	(54.4)
Profit/(Loss) before tax including discontinued operations		**3.9**	(1,266.0)
Adjustments for non-cash income and expense and non-operating cash flow:			
Release of deferred revenue		**(17.2)**	(21.2)
Unsuccessful exploration costs		**145.7**	48.2
Depreciation, depletion and amortisation		**223.2**	174.9
Share-based payments charge		**11.9**	14.7
(Reversal of impairment)/Impairment of property, plant & equipment – development/producing assets		**(147.3)**	166.3
Impairment of goodwill		**79.0**	–
Impairment of disposal group non-current assets		**65.7**	–
Loss on derecognition of financial assets at fair value through profit or loss		**–**	713.1
Loss on financial assets at fair value through profit or loss		**1.8**	352.2
(Gain)/Loss on disposal of oil and gas assets		**(0.7)**	4.5
Finance income		**(3.4)**	(19.2)
Finance costs		**43.4**	37.8
Adjustments for cash flow movements in assets and liabilities:			
Income tax refund received relating to operating activities	5.3	**2.3**	20.4
Income tax paid		**(0.5)**	–
Inventory movement		**(5.6)**	2.2
Trade and other receivables movement	3.4	**2.2**	(41.6)
Trade and other payables movement	3.6	**4.9**	22.7
Other provisions movement		**(2.8)**	–
Net cash flows from operating activities		**406.5**	209.0
Cash flows from investing activities:			
Expenditure on intangible exploration/appraisal assets		**(194.6)**	(188.0)
Expenditure on property, plant & equipment – development/producing assets		**(75.5)**	(109.5)
Proceeds on disposal of intangible exploration/appraisal assets		**–**	3.6
Proceeds on disposal of property, plant & equipment – development/producing assets		**77.1**	–
Income tax refund received relating to investing activities	5.3	**28.6**	16.4
Purchase of other property, plant & equipment and intangible assets		**(5.0)**	(2.9)
Interest received and other finance income		**3.2**	2.0
Net cash flows used in investing activities		**(166.2)**	(278.4)
Cash flows from financing activities:			
Debt arrangement fees	3.2	**–**	(10.4)
Other interest and charges		**(13.9)**	(12.6)
Proceeds from borrowings	3.2	**47.4**	117.4
Repayment of borrowings	3.2	**(134.0)**	(31.2)
Proceeds from issue of shares		**0.1**	1.7
Cost of shares purchased	7.1a	**–**	(13.6)
Lease payments	3.3	**(59.5)**	(7.4)
Lease reimbursements	3.3	**7.0**	4.7
Net cash flows (used in)/from financing activities		**(152.9)**	48.6
Net increase/(decrease) in cash and cash equivalents		**87.4**	(20.8)
Opening cash and cash equivalents at beginning of year		**66.3**	86.5
Foreign exchange differences		**–**	0.6
Closing cash and cash equivalents	3.1	**153.7**	66.3

Group Statement of Changes in Equity
For the year ended 31 December 2019

	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 2018	500.5	(10.2)	(174.9)	296.7	(2.9)	1,885.3	2,494.5
Loss for the year	–	–	–	–	–	(1,135.5)	(1,135.5)
Fair value on hedge options	–	–	–	–	36.1	–	36.1
Hedging loss recycled to the Income Statement	–	–	–	–	7.8	–	7.8
Currency translation differences	–	–	(15.6)	–	–	–	(15.6)
Total comprehensive expense	–	–	(15.6)	–	43.9	(1,135.5)	(1,107.2)
Share-based payments	–	–	–	–	–	14.7	14.7
Shares issued for cash	0.1	(0.1)	–	–	–	–	–
Cost of shares purchased	–	(13.6)	–	–	–	–	(13.6)
Exercise of employee share options	1.7	–	–	–	–	–	1.7
Cost of shares vesting	–	4.3	–	–	–	(4.3)	–
At 31 December 2018	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	**–**	**–**	**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**

Section 1 – Basis of Preparation

On 1 January 2019, Cairn adopted IFRS 16 'Leases' and this section contains details of the impact of adoption including the asset and liability recognised in relation to the Catcher FPSO. Also included in this section are 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.

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 2019 were authorised for issue in accordance with a resolution of the Directors on 9 March 2020. 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").

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") as adopted by the EU, and interpretations issued by the IFRS Interpretations Committee ("IFRS IC"), and Companies Act 2006 applicable to companies reporting under IFRS. The Group's Financial Statements are also consistent with IFRS as issued by the IASB as they apply to accounting periods ended 31 December 2019.

Effective 1 January 2019, Cairn has adopted the following standards and amendments to standards:
- Amendments to IAS 28 'Investments in Associates and Joint Ventures'
- Amendments to IFRS 9 'Financial Instruments'
- IFRS 16 'Leases'
- Annual improvements to IFRS 2015 – 2017 cycle

In 2018, Cairn early adopted the following interpretation issued by IFRS IC:
- IFRIC 23 'Uncertainty over Income Tax Treatments'

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

The impact of adoption of IFRS 16 can be found in note 1.3. None of the other amendments adopted have a material impact on the Group's Financial Statements or disclosures.

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 pages 193 to 194.

Costs incurred relating to an interest in a joint operation other than costs relating to production 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 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 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 2019	YTD Average 2019	Closing 2018	YTD Average 2018
GBP	**0.754**	**0.783**	0.784	0.749
NOK	**8.780**	**8.793**	8.641	8.133

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 signing these Financial Statements.

The Directors have a reasonable expectation that the Group will continue in operational existence for this 12-month period 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 37.

1.3 Adoption of IFRS 16 'Leases'
Cairn has adopted IFRS 16 'Leases' with effect from 1 January 2019. Cairn has chosen to apply IFRS 16 retrospectively with the cumulative effect of initial application recognised at the date of adoption. In doing so Cairn has elected not to re-assess whether contracts contain a lease.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

In assessing the impact of IFRS 16, Cairn identified the following assets where right-of-use assets and lease liabilities are recognised on adoption:
- Accounting for the FPSO on the UK Catcher producing asset; and
- Accounting for non-cancellable leases of the Group's office premises in Edinburgh, London, Stavanger and Mexico City.

All other leases identified have either yet to commence on the date of adoption, are for periods of less than one year, have less than one year remaining on the date of adoption or are for low value items which have no material impact on the Group's Financial Statements.

In applying IFRS 16, Cairn has used the following practical expedients permitted by the standard:
- Accounting for leases with a remaining term of less than 12 months at 1 January 2019 as short-term leases; and
- The exclusion of initial direct costs for the measurement of the right-of-use assets at the date of adoption.

Cairn has also chosen to measure the right-of-use assets recognised at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, immediately before the date of adoption for all right-of-use assets recognised. There is therefore no adjustment to opening retained earnings.

Section 1 – Basis of Preparation continued

1.3 Adoption of IFRS 16 'Leases' Continued

Kraken FPSO

Under IFRS 16, the carrying amount of a right-of-use asset and lease liability for leases previously classified as finance leases is equal to the carrying amount of the lease asset and lease liability immediately before the date of adoption. Therefore the adoption of IFRS 16 has no impact on the right-of-use asset and lease liability previously recognised for the Kraken FPSO.

Catcher FPSO

Cairn has recognised a lease liability and a corresponding right-of-use asset of US$147.5m for the Catcher FPSO on adoption of IFRS 16. The Catcher FPSO lease was previously classified as an operating lease under IAS 17.

The key estimates and assumptions applied in measuring the right-of-use asset and lease liability were as follows:

- The minimum lease commitment is equal to 75% of the contracted day rate with all payments in excess of the minimum being classified as variable lease payments dependent upon performance;
- The lease term is equal to the current non-cancellable period of the lease with no reasonable plans to extend the lease contract beyond the initial term;
- No exercise of the option to purchase at the end of the initial term; and
- The interest rate applied is equal to the Group's incremental borrowing rate on the date of adoption rather than a rate implicit in the lease contract which could not be readily determined.

The right-of-use asset is being amortised on a unit-of-production basis in accordance with the Group's accounting policy.

Other Property, Plant & Equipment – Leasehold Property

The Group recognised lease liabilities and corresponding right-of-use assets of US$10.0m in relation to leasehold premises.

The key estimates and assumptions applied in measuring these right-of-use assets and lease liabilities were as follows:

- The lease term is equal to the current non-cancellable period of the lease with no reasonable plans to extend the lease contract beyond the initial term for any of the Group's office premises; and
- The interest rate applied is equal to the Group's incremental borrowing rate on the date of adoption rather than a rate implicit in the lease contracts where this could not be readily determined.

The assets will be amortised on a straight-line basis over the remaining life of the leases.

Adjustments Recognised on Adoption of IFRS 16: Reconciliation to 2018 Operating Lease Commitment

A reconciliation of operating lease commitments at 31 December 2018 to the opening lease liabilities on adoption of IFRS 16 is as follows:

	Production costs US$m	Exploration/ Appraisal assets US$m	Development/ Producing assets US$m	Administrative expenses US$m	**Total US$m**
Operating lease commitments	171.6	21.2	13.4	11.5	**217.7**
Attributable to:					
Leases yet to commence	–	(20.7)	(9.5)	–	**(30.2)**
Short-term leases	–	(0.5)	(3.9)	–	**(4.4)**
Lease of low value items	–	–	–	(0.3)	**(0.3)**
Gross lease liability	171.6	–	–	11.2	**182.8**
Interest implicit in lease	(24.1)	–	–	(1.2)	**(25.3)**
Increase in opening lease liabilities	**147.5**	**–**	**–**	**10.0**	**157.5**
Right-of-use asset – tangible development/producing asset	147.5	–	–	–	**147.5**
Right-of-use assets – property, plant & equipment – other	–	–	–	10.0	**10.0**
Increase in opening right-of-use assets	**147.5**	**–**	**–**	**10.0**	**157.5**

The weighted average incremental borrowing rate used to discount opening lease liabilities is 5.75%.

Section 1 – Basis of Preparation continued

1.3 Adoption of IFRS 16 'Leases' Continued

Impact on Financial Statements at 31 December 2019

As a result of adoption of IFRS 16, the following Income Statement line items have been impacted for the year ended 31 December 2019:

	US$m
Impact on Income Statement line items:	
Decrease in cost of sales	33.9
Increase in depletion and amortisation	(36.7)
Decrease in gross profit	(2.8)
Decrease in administrative expenses	0.5
Decrease in operating profit	(2.3)
Increase in finance costs	(7.7)
Decrease in profit before taxation from continuing operations	(10.0)
Decrease in profit after taxation from continuing operations	(10.0)
Decrease in profit for the year attributable to equity holders of the Parent	(10.0)
Impact on profit after taxation by segment:	
UK & Norway	(10.0)

Both basic and diluted earnings per share decreased by 1.7 cents per share for the year ended 31 December 2019.

In the Cash Flow Statement, lease payments of US$36.2m, which would previously have been classified as operating cash outflows, are now included in financing activities.

In the Group Balance Sheet at 31 December 2019, property, plant & equipment – development/producing assets have increased by US$110.9m, other property, plant & equipment by US$7.0m and lease liabilities by US$128.8m as a result of adoption. The impact on assets and liabilities per segment as disclosed in note 4.1 is as follows:

	US$m
Increase in segment assets:	
UK & Norway	110.9
Other Cairn Energy PLC Group	6.6
LATAM	0.4
Increase in segment liabilities:	
UK & Norway	120.9
Other Cairn Energy PLC Group	7.5
LATAM	0.4

Section 2 – Oil and Gas Assets and Operations

This section contains analysis of the gross profit generated from the Group's producing assets in the UK North Sea and details of the Group's capital expenditure on exploration/appraisal and development/producing activities across the Group's wider portfolio. Details and sensitivities performed on the impairment tests on development/producing assets and goodwill can also be found here.

Significant Accounting Judgements in This Section:

Impairment Testing of Oil and Gas Assets and Related Goodwill

At the year end, revised production profile estimates and additional reserve volumes booked have increased the fair value less cost of disposal of the Kraken cash-generating unit significantly above its previously recorded net book value. As the increase in the production profile is an indicator that the impairment charge recorded in 2018 may have reversed or decreased, impairment tests were performed and the charge has been reversed in full after adjusting for the depletion charge that would have resulted from the increased carrying value of the asset.

Goodwill relating to the UK & Norway segment has been tested for impairment firstly on the goodwill allocated to the Capricorn Norge AS assets held-for-sale (see section 6.2), with the remaining balance tested for impairment at the year end after recording the Kraken cash-generating unit impairment reversal. The result of the impairment testing in the year is that goodwill has now been impaired in full.

Impairment Testing of UK Laverda Exploration/Appraisal Asset Prior to Transfer to Development/Producing Assets

Prior to transfer to development, the UK Laverda asset, a satellite field to the Catcher producing asset, was tested for impairment in accordance with the Group's accounting policy. While no impairment was identified, Cairn has not reversed impairments recorded in earlier years and have transferred the net book value to development assets on approval of the field development plan.

On approving the field development plan, Cairn simultaneously completed a farm-down to align working interest shares among partners across the Greater Catcher Area, receiving nominal consideration for the share of the Laverda asset surrendered. While the remaining carrying value of Laverda is supported by headroom on the Catcher producing asset impairment test, there are no indications that the value of the Laverda exploration/appraisal assets has itself increased significantly that would have allowed for a reversal of impairments recorded in earlier years.

Key Estimates and Assumptions in This Section:

Transfer of Senegal Costs to Property, Plant & Equipment – Development/Producing Assets and Impairment Testing

At 31 December 2019, Cairn has promoted a proportion of contingent resources relating to Senegal to reserves as they are now deemed to be commercially mature under the Petroleum Resources Management System ("PRMS") framework approved by the Society of Petroleum Engineers as per the reserves table disclosed in the Annual Report on page 194.

The volumes promoted have been classified as reserves on the basis that they are now 'justified for development' following approval of the development plan by the joint operator partners. In January 2020, FID approval was formally received from the Government of Senegal and reserves will be reclassified as 'available for development' in 2020. Both 'justified for development' and 'available for development' are sub-classes of commercial reserves defined under the PRMS.

Under Cairn's accounting policy, costs are transferred from intangible exploration/appraisal assets to property, plant & equipment – development/producing assets once commerciality has been confirmed and technical feasibility established through an approved development plan. With the development plan approved by joint operator partners at the year end, costs of US$378.8m have been transferred from exploration/appraisal assets into development/producing assets.

A formal impairment test was performed on Senegal exploration/appraisal asset prior to transfer to development assets at the year end, as required under IFRS, but no impairment arose. Cairn's impairment test assumes that full funding is in place to meet its net share of the development expenditure through to project completion. At the date of this report the Company is well progressed in agreeing terms for an expanded senior debt facility and is in discussions regarding additional sources of funding to support its Senegal development costs; however if these were to fail to conclude and the Group could not fully fund its share of the expenditure through to completion then the value of its investment in the project and/or its rights to participate in the project at its current equity levels may be affected which could trigger an impairment.

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. At the year end, the significantly improved production performance on the Kraken asset and more regular well testing performed by the Operator, improving reservoir monitoring, have resulted in an upward revision to production profile estimates. Forecast production volumes on satellite fields on both Catcher and Kraken were also promoted to reserves at the year end.

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$70 to US$65 per bbl which it believes reflects current market conditions. The Group's three-year short-term assumption remains linked to the forward curve.

Section 2 – Oil and Gas Assets and Operations continued

Key Estimates and Assumptions in This Section Continued:

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

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 three-month average forward curve for three years from the balance sheet date;
- Long-term oil price of US$65 per bbl (2018: US$70 per bbl) escalated at 2.0% (2018: 2.0%) per annum;
- 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 Operator and escalated at 2.0% (2018: 2.0%) per annum; and
- Post-tax discount rates of 10% (2018: 10%).

Goodwill is allocated to the UK & Norway operating segment and tested for impairment by comparing the fair value less cost of disposal of all assets in the segment against their combined carrying values, including the carrying value of goodwill itself.

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 2.0% per annum (2018: 2.0%) and discounted at a risk-free rate of 2.0% (2018: 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 when the customer takes delivery of a cargo of oil from the FPSO as this is the point in time that the consideration due is unconditional as 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 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

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.

Section 2 – Oil and Gas Assets and Operations continued

2.1 Gross Profit: Revenue and Cost of Sales Continued

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Oil sales	501.6	393.2
Gas sales	2.6	2.5
Gain/(Loss) on hedge options	10.9	(7.8)
Release of deferred revenue (see note 3.7)	17.2	21.2
Revenue from oil and gas sales	532.3	409.1
Royalty income	1.1	1.2
Total revenue	533.4	410.3
Production costs	(68.1)	(64.2)
Oil inventory and underlift adjustment	20.6	(7.7)
Variable and operating lease charges	(25.6)	(59.5)
Cost of sales	(73.1)	(131.4)
Depletion and amortisation (see note 2.3)	(217.2)	(171.2)
Gross profit	243.1	107.7

Revenue
Cairn receives revenue from its producing assets in the UK North Sea, Kraken and Catcher. On Kraken, where only oil is sold, Cairn takes a full lifting of crude on a scheduled basis to reflect the Group's working interest, whereas on Catcher, Cairn receives its working interest percentage share of each lifting of crude and the Group's working interest share of gas sales. Payment terms are within 30 days.

Net sales volumes during the year averaged ~21,400 boepd (2018: ~16,000 boepd) for the two assets combined, realising an average sales price of US$64.52/boe (2018: US$67.99/boe).

Commodity Price Hedging
During 2019, Cairn realised gains on hedge options of US$10.9m (2018: loss of US$7.8m) as the oil price fell below the floor on several hedge contracts. Hedging gains and losses are recycled to the Income Statement from Other Comprehensive Income when the option matures.

Details on the Group's hedging position at 31 December 2019 can be found in note 3.5.

Cost of Sales
Inventory of oil held at the year end is recorded at a market value of US$13.8m (2018: US$8.2m). Underlift adjustments on Kraken production volumes were US$15.1m (2018: US$0.1m) at 31 December 2019. The total inventory and underlift increase in the year was US$20.6m (2018: decrease of US$7.7m).

Variable lease costs on the Kraken FPSO of US$10.5m (2018: variable finance lease costs of US$22.7m) and on the Catcher FPSO of US$15.1m (2018: operating lease charge of US$36.8m) are charged to the Income Statement. Details on leases can be found in note 3.3.

Section 2 – Oil and Gas Assets and Operations continued

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$m	UK & Norway US$m	LATAM US$m	East Atlantic US$m	Total US$m
Cost					
At 1 January 2018	434.5	210.2	13.1	24.3	682.1
Foreign exchange	–	(0.6)	–	–	(0.6)
Additions	28.5	102.2	19.6	(1.9)	148.4
Disposals	–	(8.2)	–	–	(8.2)
Transfer to development/producing assets	–	(115.7)	–	–	(115.7)
Unsuccessful exploration costs	-	(19.9)	-	14.4	(5.5)
Unsuccessful exploration costs – discontinued operations	–	(42.7)	–	-	(42.7)
At 31 December 2018	463.0	125.3	32.7	36.8	657.8
Foreign exchange	–	(0.4)	–	–	**(0.4)**
Additions	58.9	37.3	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	–	(30.1)	–	–	**(30.1)**
At 31 December 2019	**143.1**	**57.2**	**56.3**	**25.3**	**281.9**
Impairment					
At 1 January 2018 and 31 December 2018	–	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	**–**	**36.0**	**–**	**–**	**36.0**
Net book value					
At 31 December 2017	434.5	162.1	13.1	9.7	619.4
At 31 December 2018	463.0	77.2	32.7	22.2	595.1
At 31 December 2019	**143.1**	**21.2**	**56.3**	**25.3**	**245.9**

All additions to exploration/appraisal assets have been funded through cash and working capital.

Senegal

Additions in the year of US$58.9m were predominantly on pre-development activities as the joint operation partners worked towards submission of the exploitation plan and FID approval.

At the year end costs relating to the Sangomar Phase 1 development area of US$378.8m were transferred to development/producing assets following joint operator approval of the development plan. Formal Government of Senegal approval of the development plan was received early in January 2020. Impairment tests were performed on the asset prior to transfer, with no impairment arising.

Remaining costs capitalised at the year end relate to costs incurred outside the current development area and include drilling costs associated with the SNE North and FAN exploration and appraisal wells.

UK & Norway

During the year, four unsuccessful exploration wells were drilled in the UK & Norway. In Norway additions of US$25.1m relate to the drilling of the operated PL758 Lynghaug and PL842 Godalen wells and the non-operated PL885 Presto well. In the UK additions of US$3.0m were incurred on the operated P2312 Chimera well, with Cairn agreeing a farm-down prior to drilling reducing the Group's capital exposure. Other exploration additions of US$9.2m were incurred across the portfolio of licences in both countries. Additions relating to drilling in the year include US$7.7m of rig costs incurred under short-term lease contracts.

US$44.6m charged to the Income Statement as unsuccessful costs in the year include the costs of the four wells drilled in 2019 which were all unsuccessful and the write-off of costs on other licences where no further exploration activity is planned.

In July 2019, Cairn completed a farm-down on the UK Laverda licence, equalising the working interest shares of partners in the Catcher development and allowing the proposed development of the Laverda and Catcher North satellite fields to proceed. Costs of US$18.2m, net of impairment recorded in previous years, have been transferred to development/producing assets after testing for impairment (see Key Estimates and Assumptions in this section).

Section 2 – Oil and Gas Assets and Operations continued

2.2 Intangible Exploration/Appraisal Assets Continued

In December 2019, Cairn announced the proposed sale of its Norwegian subsidiary, Capricorn Norge AS, to Sval Energi AS. The deal completed in February 2020. At 31 December 2019, the Group's exploration assets in Norway were reclassified as assets held-for-sale (see note 6.2). Remaining costs capitalised in the UK at 31 December 2019 of US$21.2m include US$18.8m relating to the 2018 Agar-Plantain discovery where Cairn is assessing farm-down opportunities ahead of proceeding with the development of the asset.

Additions in 2018 of US$102.2m included US$25.9m incurred on pre-development costs in Nova prior to transfer into development/producing assets. Well cost additions were US$58.2m as the Group completed exploration wells on PL1863 Agar-Plantain and P2184 Ekland in the UK North Sea and on PL582 Tethys and PL790 Raudåsen in the Norwegian North Sea. Remaining additions of US$18.1m were incurred across remaining licences in the portfolio. Unsuccessful exploration costs in 2018 included the costs of the Ekland, Tethys and Raudåsen wells which did not result in the discovery of commercial hydrocarbons.

LATAM

Additions of US$108.3m, include US$70.3m in Mexico, where Cairn commenced a planned six-well exploration programme during the year, US$30.5m in Nicaragua following a farm-in to four non-operated blocks and US$7.5m in Suriname.

Mexico

Additions of US$70.3m predominantly relate to Block 9, in the Gulf of Mexico, where US$61.6m was incurred as Cairn completed its first operated wells in the country. The Alom-1 well was completed during the year while the Bitol-1 well was operating over the year end. Both wells were ultimately declared unsuccessful and costs of US$54.2m were written off as unsuccessful during the year. Additions in the year in Mexico include US$15.8m incurred under short-term lease contracts.

The carrying value of assets in Mexico at the year end of US$47.0m included US$31.1m of costs on Block 9 and US$11.4m on Block 7, where exploration drilling is planned in 2020, with the remaining balance relating to Block 15.

Cairn has agreed 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. At the year end the agreements were subject to final completion of the signature process of the revised Production Sharing Contracts to give effect to the change in the joint operators' working interests and therefore are not reflected in the Financial Statements.

Nicaragua

Additions in the year of US$30.5m relate to the farm-in to four non-operated blocks offshore Nicaragua. Cairn has subsequently decided to withdraw from the licences and therefore all additions in the year were written off as unsuccessful exploration costs.

Suriname

Additions in the year of US$7.5m include US$3.8m of seismic acquisitions and all costs remain capitalised at the year end.

East Atlantic

East Atlantic additions of US$19.5m primarily relate to Côte d'Ivoire. In 2018, the credit to additions resulted from the release of remaining accruals of US$15.4m in Western Sahara following the close out of licences, which offset spend across other assets. The release of accruals also resulted in the reversal of prior year charges to the Income Statement through unsuccessful exploration costs.

Côte d'Ivoire

Cairn completed the farm-in to seven adjacent blocks offshore Côte d'Ivoire following an agreement with the operator Tullow, with total costs incurred in the year of US$15.2m.

Mauritania

Costs capitalised at the year end of US$9.8m relate to Block 7. Additions in the year were minimal. Subsequent to the year end Cairn has exercised its option to convert the licence option into a full exploration licence.

Ireland

Cairn has chosen to withdraw from its interests offshore Ireland and the remaining net costs of US$16.7m have been charged as unsuccessful, reducing the net book value to nil at the year end.

Impairment Review

Impairment tests were conducted on assets that were reclassified from intangible exploration/appraisal assets to property, plant & equipment – development/producing assets during the year. Refer to "Significant accounting judgements" and "key estimates and assumptions" in this section. for full details.

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

Section 2 – Oil and Gas Assets and Operations continued

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$m	UK & Norway US$m	UK & Norway right-of-use leased assets US$m	**Total US$m**
Cost				
At 1 January 2018	–	1,050.2	177.4	1,227.6
Foreign exchange	–	(6.8)	–	(6.8)
Additions	–	51.2	–	51.2
Increase in decommissioning asset	–	5.3	–	5.3
Transfer from exploration/appraisal assets	–	115.7	–	115.7
Remeasurement of right-of-use leased asset	–	–	(11.5)	(11.5)
At 31 December 2018	–	1,215.6	165.9	1,381.5
Right-of-use leased asset – IFRS 16 opening balance adjustment (see note 1.3)	–	–	147.5	**147.5**
At 1 January 2019	–	1,215.6	313.4	**1,529.0**
Foreign exchange	–	(5.8)	–	**(5.8)**
Additions	–	66.5	–	**66.5**
Increase in decommissioning asset	–	15.3	2.9	**18.2**
Transfer from exploration/appraisal assets	378.8	18.2	–	**397.0**
Disposals	–	(82.1)	–	**(82.1)**
Transfer to assets held-for-sale (see note 6.2)	–	(89.0)	–	**(89.0)**
At 31 December 2019	**378.8**	**1,138.7**	**316.3**	**1,833.8**
Depletion, amortisation and impairment				
At 1 January 2018	–	17.6	3.5	21.1
Depletion and amortisation charges	–	153.0	18.2	171.2
Impairment charge	–	166.3	–	166.3
At 31 December 2018	–	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**
Net book value				
At 31 December 2017	–	1,032.6	173.9	1,206.5
At 31 December 2018	–	878.7	144.2	1,022.9
At 31 December 2019	**378.8**	**788.4**	**238.1**	**1,405.3**

All current year additions of US$66.5m were funded through cash and working capital and include US$3.8m of costs under short-term lease contracts.

Nova exploration/appraisal costs were transferred to development assets during 2018, with a further US$13.6m of additions in 2018 incurred in relation to the field. In 2019, additions were US$50.2m as development activity continued prior to the asset being transferred to assets held-for-sale (see note 6.2).

Kraken producing asset additions of US$12.1m include the completion of the final sub surface drill centre, DC-4. 2018 additions of US$31.8m were offset by a US$23.0m reversal of accruals following the successful renegotiation of the development drilling rig contract. Remaining additions of US$4.2m (2018: US$28.8m) were incurred on the Catcher producing asset.

The increase in the decommissioning asset in the current year of US$18.2m primarily relates to a change in estimates for Kraken and Nova. The 2018 increase was due to a revision to the Catcher decommissioning cost estimate.

Disposals in the year relate to the sale of a 10% working interest in the Nova asset. See note 6.1.

Combined depletion and amortisation charges for the year of US$217.2m (2018: US$171.2m) were charged to the Income Statement based on production during the year and total reserves over the life of the asset.

Section 2 – Oil and Gas Assets and Operations continued

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

Leased Assets

At 1 January 2019, US$147.5m, the net present value of future fixed lease payments was recorded on the Balance Sheet for the Catcher FPSO, as a right-of-use producing asset following adoption of IFRS 16. There were no changes to the Kraken FPSO right-of-use asset on adoption.

In the second half of 2018, the Kraken FPSO lease agreement was amended resulting in a reduction of the lease liability and right-of-use asset by US$11.5m – see note 3.3. There were no such revisions to either the Catcher or Kraken lease agreements during 2019.

Impairment Review

At 31 December 2018, impairment tests were conducted on the Group's UK & Norway development/producing assets, resulting in an impairment charge of US$166.3m on the UK Kraken producing asset. No impairment arose on either Catcher or Nova. The Kraken impairment followed a reserves downgrade arising from poor performance of the asset from inception to the previous balance sheet date.

During 2019, production performance on Kraken has improved significantly and in addition the Operator has conducted more regular well testing to improve reservoir monitoring. Consequently Cairn have revised production profile estimates upward to reflect this improvement while also incorporating new volumes associated with the Worcester satellite field to be developed in 2020. The changes to the production profile resulting from improved performance is an indicator that the impairment charge recorded in 2018 may no longer exist or may have decreased. The resultant impairment test, incorporating the revised fair value of the Kraken cash-generating unit, indicated that a full reversal of the 2018 impairment charge should be recorded, despite the reduction to the Group's long-term oil price assumption. The reversal is capped to US$147.3m, being the original impairment adjusted for the depletion that would have been charged in 2019 had no impairment been recorded.

Sensitivity analysis on the Group's impairment tests can be found in note 2.7.

2.4 Provisions – Decommissioning

	Exploration well abandonment US$m	Development/ Producing assets US$m	**Total US$m**
At 1 January 2018	4.2	116.9	121.1
Foreign exchange	(0.2)	(6.7)	(6.9)
Unwinding of discount	–	2.3	2.3
(Released)/Provided in the year	(2.7)	5.3	2.6
At 31 December 2018	1.3	117.8	119.1
Foreign exchange	0.1	5.7	**5.8**
Unwinding of discount (note 4.6)	–	2.6	**2.6**
Provided in the year	–	18.2	**18.2**
Released on disposal (note 6.1)	–	(1.8)	**(1.8)**
Transferred to liabilities held-for-sale (see note 6.2)	–	(2.7)	**(2.7)**
At 31 December 2019	**1.4**	**139.8**	**141.2**

The decommissioning provisions at 31 December 2019 represent the present value of decommissioning costs related to the Kraken and Catcher development/producing assets. The provisions are based on operator cost estimates, subject to internal 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 2.0% per annum (2018: 2.0%). The reasonableness of these assumptions is reviewed at each reporting date to take into account any material changes required.

A provision of US$4.5m was introduced in 2019 for development activities undertaken on Nova, which has been partially released through disposal with the balance transferred to liabilities held-for-sale. Further provisions during the year relate to revised decommissioning estimates for Kraken including the incorporation of provision for work undertaken during the year.

During 2018, the decommissioning estimate for Catcher increased by US$5.3m. The Kraken decommissioning estimate remained unchanged.

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 2043.

Section 2 – Oil and Gas Assets and Operations continued

2.5 Capital Commitments

	At 31 December 2019 US$m	At 31 December 2018 US$m
Oil and gas expenditure:		
Intangible exploration/appraisal assets	**96.7**	146.1
Property, plant & equipment – development/producing assets	**460.0**	80.1
Contracted for	**556.7**	226.2

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

The capital commitments for intangible exploration/appraisal assets include US$40.4m for operations in the UK. The remaining US$56.3m includes US$37.9m of commitments in LATAM, predominantly Mexico.

The capital commitments for property, plant & equipment – development/producing assets relate principally to Senegal.

As at 31 December 2019, Cairn had the following commitments relating to short-term leases and leases yet to commence. 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 2019	9.5	10.6	**20.1**

2.6 Intangible Assets – Goodwill

Accounting Policy

Cairn allocates the purchase consideration on the acquisition of a subsidiary to the assets and liabilities acquired on the basis of fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value of the assets and liabilities is recognised as goodwill. Any goodwill arising is recognised as an asset and is subject to annual review for impairment. Goodwill is written off where circumstances indicate that the recoverable amount of the underlying CGU including the asset may no longer support the carrying value of goodwill. Any such impairment loss arising is recognised in the Income Statement for the year. Impairment losses relating to goodwill cannot be reversed in future years.

In testing for impairment, goodwill arising on business combinations is allocated from the date of acquisition to the group of CGUs representing the lowest level at which it will be monitored. Cairn's policy is to monitor goodwill at operating segment level. Currently, no operating segments containing goodwill are combined into segments for reporting.

The recoverable amount of a CGU, or group of CGUs, within the segment is based on its fair value less costs of disposal, using estimated cash flow projections over the licence period of the exploration assets risk-weighted for future exploration success. The key assumptions are sensitive to market fluctuations and the success of future exploration drilling programmes. The most likely factor which will result in a material change to the recoverable amount of the CGU is the result of future exploration drilling, which will determine the licence area's future economic potential.

Section 2 – Oil and Gas Assets and Operations continued

2.6 Intangible Assets – Goodwill Continued

	UK & Norway US$m	Total US$m
Cost		
At 1 January 2018	388.9	388.9
Foreign exchange	(4.3)	(4.3)
At 31 December 2018	384.6	384.6
Foreign exchange	(1.4)	**(1.4)**
Transferred to assets held-for-sale (see note 6.2)	(82.1)	**(82.1)**
At 31 December 2019	**301.1**	**301.1**
Impairment		
At 1 January 2018	260.7	260.7
Foreign exchange	(1.9)	(1.9)
At 31 December 2018	258.8	258.8
Foreign exchange	(0.6)	**(0.6)**
Transferred to assets held-for-sale (see note 6.2)	(36.1)	**(36.1)**
Impairment charge	79.0	**79.0**
At 31 December 2019	**301.1**	**301.1**
Net book value		
At 31 December 2017	128.2	128.2
At 31 December 2018	125.8	125.8
At 31 December 2019	**–**	**–**

Goodwill, net of impairment, allocated to Capricorn Norge AS has been transferred to assets held-for-sale and tested for impairment as part of the disposal group. The subsequent impairment charged is detailed in note 6.2 and recorded in Discontinued Operations.

The remaining goodwill was tested for impairment at the year end. With the Group's reduced long-term oil price assumption and the lack of exploration success in the year, and the impairment reversal recorded on the Kraken development asset, the fair value of assets within the UK & Norway operating segment (including assets and liabilities held-for-sale which are recorded at fair value following the impairment of assets held-for-sale as per note 6.2) can no longer support the carrying value of goodwill. An impairment charge of US$79.0m has been recorded in the year through continuing operations.

2.7 Impairment Testing Sensitivity Analysis

UK & Norway

At 31 December 2019, impairment tests were conducted on the Group's development/producing assets.

The recoverable amount for all assets is based on fair value less costs of disposal estimated using discounted cash flow modelling. The key assumptions used in determining the fair value are often subjective, such as the future long-term oil price assumption and estimates of recoverable hydrocarbon reserves. In 2018, Cairn downgraded Kraken reserves estimates on the back of disappointing performance of the asset and facilities reducing future production estimates, resulting in an impairment charge. 2019 has seen much improved performance on Kraken, which together with more regular well testing, has led to an upward revision of production profile estimates, indicating a possible reversal or decrease of impairment, and the subsequent impairment test results in the 2018 impairment being reversed in full in the 2019 profit for the year, even though the Group's long-term price assumption has reduced to US$65/bbl.

Cairn has run sensitivities on its long-term oil price assumption of US$65/bbl, using alternate long-term price assumptions of US$60/bbl, US$55/bbl and US$50/bbl. These are considered to be reasonably possible 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:	**US$60/bbl US$m**	**US$55/bbl US$m**	**US$50/bbl US$m**
Reduction in carrying value of development/producing assets	**36.0**	**95.1**	**213.6**

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 reserve estimates are incorporated into production profiles which include assumptions on the performance of the asset. Cairn's current assumptions imply a maximum uptime for producing assets of 85%-90%. Given the improvement and stability of the performance of the assets over 2019, Cairn does not believe reducing this assumption would provide a reasonable estimate of fair value at the year end.

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

This section provides analysis of the movements in the Group's short- and long-term liabilities including the Reserve-Based Lending facility, which was fully repaid in the year, and the Group's lease liabilities including those recognised on adoption of IFRS 16. Details of the Group's hedging programme, showing volumes hedged at the year end, can also be found.

Significant Accounting Judgements in This Section:

Lease Classification of Kraken and Catcher FPSO Lease Agreements

The new accounting standard, IFRS 16 'Leases', was effective for Cairn's financial year beginning 1 January 2019 and resulted in the Catcher FPSO leased asset being recognised on the Balance Sheet as a right-of-use asset. Further details are provided in note 1.3.

Prior to IFRS 16 adoption, Cairn assessed whether leases for the Group's producing asset FPSOs should be classified as operating or finance leases. Cairn concluded that the lease agreement for the Kraken FPSO, where it is considered reasonably certain that the FPSO will be purchased by the joint operation towards the end of the initial term, should be classified as a finance lease. By contrast, the Catcher FPSO, with a shorter initial lease term and with no current expectation that the joint operation shall purchase the FPSO at the end of that lease term, was determined to be an operating lease, with substantially all risks and rewards of ownership remaining with the lessor.

As a result of this judgement, the Catcher lease right-of-use asset and liability is measured at the date of adoption of IFRS 16 on 1 January 2019, using interest rates applicable at that date, rather than on commencement of the lease itself, in June 2017. There is no change to the measurement of the Kraken right-of-use lease asset and liability.

Key Estimates and Assumptions in This Section:

Measurement of Catcher FPSO Lease Liability and Right-Of-Use Asset

The key assumptions used in the calculation of the Catcher FPSO lease asset and liability can be found in note 1.3.

3.1 Cash and Cash Equivalents

	At 31 December 2019 US$m	At 31 December 2018 US$m
Cash at bank	7.0	9.1
Money market funds	139.5	57.2
	146.5	66.3

Closing cash and cash equivalents disclosed in the Cash Flow Statement of US$153.7m include cash and cash equivalents shown above together with US$7.2m of cash balances held by Capricorn Norge AS included in assets held-for-sale (see note 6.2).

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

At 31 December 2018 and 2019 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.

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

3.2 Loans and Borrowings

Cairn has two loan facilities at the year end: the Reserve-Based Lending ("RBL") facility available to several Group companies and the Norwegian Exploration Finance Facility ("EFF").

Reconciliation of opening and closing liabilities to cash flow movements:	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Opening liabilities	**101.7**	29.8
Loan advances disclosed in the Cash Flow Statement:		
RBL advances in the year	**20.0**	85.0
EFF advances in the year	**27.4**	32.4
	47.4	117.4
Loan repayments disclosed in the Cash Flow Statement:		
RBL repayments in the year	**(105.0)**	–
EFF repayments in the year	**(29.0)**	(31.2)
	(134.0)	(31.2)
Other movements in Cash Flow Statement:		
Debt arrangement fees paid	**–**	(10.4)
Non-cash movements:		
Amortisation of debt arrangement fees	**1.9**	–
Foreign exchange	**(1.6)**	(3.9)
Transfer of unamortised arrangement fees to prepayments	**8.5**	–
Transferred to liabilities held-for-sale (see note 6.2)	**(23.9)**	–
Closing liabilities	**–**	101.7
Amounts due less than one year:		
EFF	**–**	26.2
Amounts due greater than one year:		
RBL facility	**–**	75.5
	–	101.7

Debt arrangement fees of US$10.4m paid in 2018 (2019: US$nil) relate to both the RBL (US$9.5m) and the EFF (US$0.9m). Foreign exchange differences also relate to both facilities. Unamortised fees relating to the RBL at 31 December 2019 have been reclassified as prepayments pending further drawdowns on the facility that are currently forecast.

Details of guarantees granted under these facilities can be found in note 7.3.

RBL

The Group's RBL facility was undrawn at 31 December 2019 with the opening balance of cash drawings of US$85.0m, advanced during 2018, fully repaid in the year.

Cairn signed an extension to its existing RBL facility with a syndicate of international banks, effective on 20 December 2018. Interest on outstanding debt 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. Debt 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.

Under IFRS 9, the extension of the facility to December 2025 constituted substantially different terms from the original and as such the financial liability relating to the original facility was extinguished on the date of the extension and replaced with a new liability based on the revised terms. This resulted in the acceleration of the amortisation of borrowing costs relating to the previous facility, resulting in a charge of US$15.1m to the Income Statement in 2018.

Total commitments remain unchanged at US$575.0m under the revised facility, but an accordion feature permits additional future commitments of up to US$425.0m. The maximum available drawdown at 31 December 2019 was US$317.0m. 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.

EFF

As at 31 December 2019, US$24.4m (NOK 214.2m) (2018: US$27.1m (NOK 233.8m)) was drawn under the Norwegian EFF, before offsetting capitalised fees. The liability outstanding at 31 December 2019 has been reclassified as a liability held-for-sale (see note 6.2).

During the year, US$27.4m was drawn under the facility and US$29.0m repaid following receipt of the tax refund.

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 in to 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 2019 US$m	Year ended 31 December 2018 US$m
Opening finance lease liability brought forward	165.4	169.7
IFRS 16 opening balance adjustment (note 1.3)	157.5	–
Revised opening lease liabilities	322.9	169.7
Leases commenced and revisions to leases in year:		
Revisions to lease liabilities	0.4	(11.5)
	0.4	(11.5)
Lease payments disclosed in the Cash Flow Statement as financing cash flows:		
Total lease payments	(85.1)	(30.1)
Variable lease payments (note 2.1)	25.6	22.7
	(59.5)	(7.4)
Other movements in the Cash Flow Statement:		
Reimbursements received from lessors	7.0	4.7
Non-Cash Movements:		
Reimbursements due transferred (from)/to other receivables	(3.0)	2.1
Lease interest charges	15.3	7.8
Foreign exchange	0.4	–
Transferred to liabilities held-for-sale (note 6.2)	(0.6)	–
	12.1	9.9
Closing liabilities	282.9	165.4
Amounts due less than one year:		
Tangible development/producing assets – right-of-use assets	41.0	18.5
Other property, plant & equipment – right-of-use assets	2.1	–
	43.1	18.5
Amounts due greater than one year:		
Tangible development/producing assets – right-of-use assets	234.0	146.9
Other property, plant & equipment – right-of-use assets	5.8	–
	239.8	146.9
Total lease liabilities	282.9	165.4

Comparative information has not been restated on adoption of IFRS 16.

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. Depreciation 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. Maturity analysis for lease liability is disclosed in note 3.8. The carrying value of right-of-use development/producing assets at 31 December 2019 is US$238.1m (see note 2.3) and the carrying value of right-of-use assets included in other property, plant & equipment is US$7.0m.

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

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 2019 US$m	At 31 December 2018 US$m
Trade receivables	22.3	39.0
Other receivables	9.0	12.7
Accrued income – underlift (see note 2.1)	15.1	0.1
Prepayments	14.0	4.4
Joint operation receivables	50.8	35.0
	111.2	91.2

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.

Following the repayment of borrowings under the RBL facility in 2019, facility fees of US$8.5m have been transferred to prepayments at 31 December 2019, to be amortised over future forecast drawdowns. See note 3.2.

Where material Cairn has assessed the recoverability of trade and other receivables and no further loss allowance is recognised for expected credit losses on all financial assets held at the balance sheet date.

Reconciliation of opening and closing receivables to operating cash flow movements:	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Opening trade and other receivables	91.2	83.1
Closing trade and other receivables	(111.2)	(91.2)
Increase in trade and other receivables	(20.0)	(8.1)
Movements in joint operation receivables relating to investing activities	17.7	(20.8)
Movements in prepayments and other receivables relating to other non-operating activities	10.5	(12.4)
Other receivables transferred to assets held-for-sale (see note 6.2)	(7.3)	–
Foreign exchange	1.3	(0.3)
Trade and other receivables movement recorded in operating cash flows	2.2	(41.6)

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 the year include amounts for Norway 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.

In 2018, other non-operating cash flow movements primarily related to the release of prepaid facility fees. The increase in trade and other receivables movements through operating cash flows primarily reflects the increase in trade receivables held as at 31 December 2018.

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

3.5 Derivative Financial Instruments

	At 31 December 2019 US$m	At 31 December 2018 US$m
Non-current assets		
Financial assets – hedge options maturing after one year	–	7.7
Current assets		
Financial assets – hedge options maturing within one year	4.1	36.7
Current liabilities		
Financial liabilities – hedge options maturing within one year	(1.6)	–
	2.5	44.4

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 2019.

At 31 December 2019 the Group had hedged ~2.8m barrels of 2020 forecast Kraken and Catcher oil production, using collar and swap structures. ~1.9m barrels of production have been hedged through collars, with a weighted average floor and ceiling price of US$62.09/bbl and US$74.89/bbl respectively (all prices quoted relate to dated Brent). ~0.9m barrels of production have been hedged through swap options with a weighted average strike price of US$61.85/bbl. At 31 December 2019, no production forecast beyond 31 December 2020 had been hedged.

The 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$66.00/bbl (2018: US$50.70/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$40.6m being offset by fair value gains on options that matured in the year of US$10.9m. The gain on matured options has been recycled to the Income Statement. In 2018 fair value gains of US$43.9m were offset by a loss of US$7.8m on options that matured in the year. The loss on matured options was recycled to the Income Statement.

Hedge options outstanding at the year end	At 31 December 2019	At 31 December 2018
Volume of oil production hedged	2.8mmbbls	3.2mmbbls
Weighted average floor price of options	US$62.09	US$67.14
Weighted average ceiling price of options	US$74.89	US$83.81
Weighted average strike price of swaps	US$61.85	–
Maturity dates	January 2020 – December 2020	January 2019 – March 2020

Effects of hedge accounting on financial position and profit/(loss) for the year	2019 US$m	2018 US$m
Financial assets	4.1	44.4
Financial liabilities	(1.6)	–
Accruals and other payables – accrued option costs	(2.1)	(3.4)
Hedging (loss)/gain recorded in Other Comprehensive Income	(29.7)	36.1
Hedging (gain)/loss recycled to Income Statement	(10.9)	7.8
Hedging gain/(loss) recorded in Income Statement against revenue (note 2.1)	10.9	(7.8)

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 2019 US$m	At 31 December 2018 US$m
Change in year end oil price forward curve		
Decrease of 10%	12.4	15.3
Decrease of 20%	26.6	31.5
Increase of 10%	(12.6)	(13.5)
Increase of 20%	(25.5)	(25.4)

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

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 2019 US$m	At 31 December 2018 US$m
Trade payables	0.9	9.7
Other taxation and social security	0.9	1.4
Accruals and other payables	25.4	30.9
Joint operation payables	107.4	61.1
	134.6	103.1

Joint operation payables include US$71.4m (2018: US$16.4m), US$5.5m (2018: US$24.3m) and US$30.5m (2018: US$20.4m) relating to exploration/appraisal assets, development/producing assets and production costs respectively.

The increase in payables for exploration/appraisal assets in 2019 includes US$49.2m to be settled for the Mexican drilling campaign. Joint operation payables on development/producing assets at 31 December 2019 continue to reduce for Kraken and Catcher. Last year's closing balance included US$9.8m relating to Nova, which was transferred to held-for-sale in 2019. Production costs have increased as oil production has improved during 2019.

Reconciliation of opening and closing payables to operating cash flow movements:	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Opening trade and other payables	(103.1)	(197.8)
Closing trade and other payables	134.6	103.1
Increase/(Decrease) in trade and other payables	31.5	(94.7)
Movement in joint operation payables relating to investing activities	(40.4)	111.7
Movement in trade payables relating to investing activities	1.1	4.3
Movements in accruals and other payables relating to non-operating activities	3.4	(0.9)
Trade and other payables transferred to liabilities held-for-sale (see note 6.2)	10.4	–
Foreign exchange	(1.1)	2.3
Trade and other payables movement recorded in operating cash flows	**4.9**	**22.7**

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 arise 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	Note	2019 US$m	2018 US$m
At 1 January		**52.8**	74.0
Released during the year	2.1	**(17.2)**	(21.2)
At 31 December		**35.6**	52.8
Amounts expected to be released within one year		**16.9**	22.0
Amounts expected to be released after one year		**18.7**	30.8
		35.6	52.8

Deferred revenue relates to the stream agreement with FlowStream entered into in 2017.

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 2019 US$m	At 31 December 2018 US$m
Financial assets at amortised cost		
Cash and cash equivalents	**146.5**	66.3
Trade receivables	**22.3**	39.0
Other receivables	**9.0**	12.7
Joint operation receivables	**50.8**	35.0
Accrued underlift	**15.1**	0.1
Financial assets at fair value through profit or loss		
Listed equity shares	**5.1**	6.9
Derivative financial instruments		
Financial assets – hedge options	**4.1**	44.4
	252.9	204.4

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 2018 or 2019.

All the Group's financial assets are expected to mature within one year. (2018: all less than one year, other than hedge options which extended into 2020).

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

3.8 Financial Instruments Continued

Financial Liabilities

Carrying amount and fair value	**At 31 December 2019 US$m**	At 31 December 2018 US$m
Financial liabilities at amortised cost		
Trade payables	**0.9**	9.7
Joint operation payables	**107.4**	61.1
Accruals and other payables	**25.4**	30.9
Loans and borrowings	**–**	101.7
Lease liabilities	**282.9**	–
Derivative financial instruments		
Financial liabilities – hedge options	**1.6**	–
	418.2	203.4

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.

Comparative information has not been restated on adoption of IFRS 16.

Maturity analysis of financial liabilities

The expected financial maturity of the Group's financial liabilities at 31 December 2019 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	**0.9**	**–**	**–**	**–**
Joint operation payables	**107.4**	**–**	**–**	**–**
Accruals and other payables	**25.4**	**–**	**–**	**–**
Lease liabilities	**43.1**	**43.1**	**123.0**	**73.7**
Financial liabilities – hedge options	**1.6**	**–**	**–**	**–**
	178.4	**43.1**	**123.0**	**73.7**

The expected financial maturity of the Group's financial liabilities at 31 December 2018 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	9.7	–	–	–
Joint operation payables	61.1	–	–	–
Accruals and other payables	30.9	–	–	–
Loans and borrowings	26.2	–	–	75.5
	127.9	–	–	75.5

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

3.8 Financial Instruments Continued

Fair Value

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.

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

The Group held the following financial instruments measured at fair value:

	At 31 December 2019 US$m	At 31 December 2018 US$m
Assets measured at fair value – Level 1		
Financial assets at fair value through profit or loss		
Listed equity shares	5.0	6.9
Assets measured at fair value – Level 2		
Derivative financial instruments		
Financial assets – hedge options	4.1	44.4
Liabilities measured at fair value – Level 2		
Derivative financial instruments		
Financial liabilities – hedge options	(1.6)	–
	7.5	51.3

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 2019 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.

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

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.

At the date of this report the Group is well progressed in agreeing terms for an expanded senior debt facility and is in discussions regarding additional sources of funding to support its Senegal development costs; however if these were to fail to conclude and the Group could not fully fund its share of the expenditure through to completion then the value of its investment in the project and/or its rights to participate in the project at its current equity levels may be affected. The Group runs various sensitivities on its liquidity position on a quarterly basis throughout the year. Further details are noted in the Viability Statement provided on page 37.

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 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 2019 the Group had investments with nine counterparties (2018: seven) 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 2019 and at 31 December 2018 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$:GBP and US$:NOK exchange rates, 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 2019		At 31 December 2018	
	Effect on profit before tax US$m	**Effect on equity US$m**	Effect on loss before tax US$m	Effect on equity US$m
10% increase in GBP to US$	**(31.6)**	**(16.3)**	(55.1)	(14.2)
10% decrease in GBP to US$	**31.6**	**16.3**	55.1	14.2
10% increase in NOK to US$	**–**	**0.6**	0.1	13.2
10% decrease in NOK to US$	**–**	**(0.6)**	(0.1)	(13.2)

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 income and costs. Comparative information has been restated where applicable following the reclassification of the results from the Group's Norwegian subsidiary as discontinued operations.

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. Cairn's sale of Capricorn Norge AS to Sval Energi AS was announced in November 2019 and completed on 28 February 2020. As the Cairn Board continued to review the results of the UK & Norway segment (including the results of Capricorn Norge AS) throughout the period under review, Cairn has presented segmental disclosures inclusive of the results of the discontinued operation.

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.

During 2019, Cairn had four reportable operating segments: Senegal, UK & Norway, LATAM (Latin America) and East Atlantic. The Senegal operating segment is focused on the development of the Sangomar discovery. The UK & Norway segment includes exploration activity in the North Sea, Norwegian Sea and Barents Sea and includes the Nova development asset and Kraken and Catcher producing assets. With effect from 1 January 2019, the International business unit has been separated into two: the LATAM segment includes costs of the Mexican exploration drilling programme and exploration activity in Nicaragua and Suriname, while East Atlantic includes costs associated with interests in Ireland, Côte d'Ivoire and Mauritania.

Effective 1 January 2020, the UK & Norway segment has been separated into UK and Norway segments. Norwegian assets and liabilities were classified as held-for-sale at 31 December 2019 (see note 6.2).

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; intangible assets – goodwill; and other property, plant & equipment and intangible assets.

Geographical information: non-current assets	At 31 December 2019 US$m	At 31 December 2018 US$m
Senegal	**521.9**	463.0
UK	**1,047.7**	941.9
Norway	**–**	160.3
Goodwill	**–**	125.8
UK & Norway	**1,047.7**	1,228.0
Mexico	**49.0**	31.0
Suriname	**9.2**	1.7
LATAM	**58.2**	32.7
Côte d'Ivoire	**15.2**	–
Ireland	**–**	14.8
Mauritania	**9.8**	7.4
Israel	**0.3**	–
East Atlantic	**25.3**	22.2
Other UK	**11.7**	5.8
Total non-current assets	**1,664.8**	1,751.7

Section 4 – Income Statement Analysis continued

4.1 Segmental Analysis Continued

The segment results for the year ended 31 December 2019 are as follows:

	Senegal US$m	UK & Norway US$m	LATAM US$m	East Atlantic US$m	Other Cairn Energy Group US$m	Group adjustment for segments US$m	**Total US$m**
Revenue	–	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	–	(4.8)	(5.0)	(2.3)	(9.1)	4.0	**(17.2)**
Unsuccessful exploration costs	–	(44.6)	(84.7)	(16.4)	–	38.7	**(107.0)**
Depreciation – purchased assets	–	(0.2)	(0.2)	–	(0.2)	0.2	**(0.4)**
Amortisation – right-of-use assets	–	(0.4)	(0.1)	–	(1.8)	0.4	**(1.9)**
Amortisation of other intangible assets	–	(0.7)	–	–	(2.4)	0.7	**(2.4)**
Other administrative expenses/income	–	(0.8)	(0.1)	–	(26.9)	0.2	**(27.6)**
Reversal of impairment of property, plant & equipment – development/producing assets	–	147.3	–	–	–	–	**147.3**
Impairment of goodwill	–	(79.0)	–	–	–	–	**(79.0)**
Profit on disposal of development assets (note 6.2)	–	0.7	–	–	–	(0.7)	**–**
Impairment of disposal group (note 6.2)	–	(65.7)	–	–	–	65.7	**–**
Operating profit/(loss)	**–**	**193.8**	**(90.1)**	**(18.7)**	**(39.3)**	**109.2**	**154.9**
Loss on fair value of financial assets	–	–	–	–	(1.8)	–	**(1.8)**
Interest income	–	0.8	–	–	2.6	(0.4)	**3.0**
Finance costs	–	(20.8)	(0.4)	–	(22.2)	6.8	**(36.6)**
Profit/(Loss) before taxation from continuing operations	**–**	**173.8**	**(90.5)**	**(18.7)**	**(60.7)**	**115.6**	**119.5**
Tax credit/(charge)	–	90.0	(0.3)	–	–	(90.0)	**(0.3)**
Profit/(Loss) for the year from continuing operations	**–**	**263.8**	**(90.8)**	**(18.7)**	**(60.7)**	**25.6**	**119.2**
Loss from discontinued operations	–	–	–	–	–	(25.6)	**(25.6)**
Profit/(Loss) attributable to equity holders of the Parent	**–**	**263.8**	**(90.8)**	**(18.7)**	**(60.7)**	**–**	**93.6**
Balances as at 31 December 2019:							
Capital expenditure	**58.9**	**123.1**	**109.9**	**19.5**	**1.6**	**–**	**313.0**
Total assets	**522.1**	**1,391.7**	**91.1**	**30.7**	**174.3**	**(120.9)**	**2,089.0**
Total liabilities	**9.9**	**541.9**	**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 & Norway segment is attributable to the sale of oil and gas in the UK. 38% of the Group's sales of oil and gas are to a single customer that markets the crude on Cairn's behalf and delivers it to the ultimate buyers.

Cairn has a cash pooling arrangement which is used to offset overdrafts in some subsidiaries with cash balances in other subsidiaries. For segmental disclosure, the overdraft in each segment is shown as a liability and the offset is shown in the Group adjustment column.

All transactions between the segments are carried out on an arm's length basis, other than where inter-group loans are made interest-free or at interest rates below market value.

Section 4 – Income Statement Analysis continued

4.1 Segmental Analysis Continued

The segment results for the year ended 31 December 2018 were as follows:

	Senegal US$m	UK & Norway US$m	LATAM* (restated) US$m	East Atlantic* (restated) US$m	Other Cairn Energy Group US$m	Group adjustment for segments (restated) US$m	Total (restated) US$m
Revenue	–	409.1	–	–	1.2	–	410.3
Cost of sales	–	(131.4)	–	–	–	–	(131.4)
Depletion and amortisation charges	–	(171.2)	–	–	–	–	(171.2)
Gross profit	–	106.5	–	–	1.2	–	107.7
Pre-award costs	–	(6.8)	(5.2)	(6.2)	(7.2)	3.9	(21.5)
Unsuccessful exploration costs	–	(62.6)	–	14.4	–	42.7	(5.5)
Other operating income	–	–	–	5.0	–	–	5.0
Loss on disposal of intangible exploration/appraisal assets	–	(4.5)	–	–	–	4.5	–
Depreciation	–	(0.4)	–	–	(0.6)	0.4	(0.6)
Amortisation of other intangible assets	–	(0.4)	–	–	(2.3)	0.4	(2.3)
Other administrative expenses	–	(1.7)	(0.3)	(0.3)	(44.4)	1.2	(45.5)
Impairment of property, plant & equipment – development/ producing assets	–	(166.3)	–	–	–	–	(166.3)
Operating (loss)/profit	–	(136.2)	(5.5)	12.9	(53.3)	53.1	(129.0)
Loss on derecognition of financial assets	–	–	–	–	(713.1)	–	(713.1)
Loss on fair value of financial assets	–	–	–	–	(352.2)	–	(352.2)
Interest income	0.1	0.1	–	–	1.5	–	1.7
Other finance income and costs	–	(21.9)	–	–	1.6	1.3	(19.0)
Profit/(Loss) before taxation from continuing operations	0.1	(158.0)	(5.5)	12.9	(1,115.5)	54.4	(1,211.6)
Tax credit	–	41.1	–	–	89.4	(41.1)	89.4
Profit/(Loss) for the year from continuing operations	0.1	(116.9)	(5.5)	12.9	(1,026.1)	13.3	(1,122.2)
Loss for the year from discontinued operations	–	–	–	–	–	(13.3)	(13.3)
Profit/(Loss) attributable to equity holders of the Parent	0.1	(116.9)	(5.5)	12.9	(1,026.1)	–	(1,135.5)
Balances as at 31 December 2018:							
Capital expenditure	28.5	147.7	19.7	(1.9)	0.8	–	194.8
Total assets	470.5	1,532.7	42.0	40.4	82.2	(166.3)	2,001.5
Total liabilities	16.9	585.6	2.4	2.2	170.6	(166.3)	611.4
Non-current assets	463.0	1,228.0	32.7	22.2	5.8	–	1,751.7

* Previously combined as International

All revenue in the UK & Norway segment was attributable to the sale of oil and gas in the UK. 48.7% 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 2019 US$m	Year ended 31 December 2018 (restated) US$m
UK	**0.8**	2.9
LATAM and East Atlantic (previously International)	**7.3**	11.4
Other	**9.1**	7.2
	17.2	21.5

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.

Section 4 – Income Statement Analysis continued

4.3 Administrative Expenses

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 (restated) US$m
Administrative expenses – recurring departmental expenses and corporate projects	29.3	25.5
Administrative expenses – Indian tax arbitration costs (see note 5.5)	3.0	22.9
	32.3	48.4

Operating Lease Commitments

Administration costs during 2018 included operating lease charges for land and buildings representing the costs of Cairn's head office in Edinburgh and subsidiary offices globally. Operating lease commitments are disclosed prior to recovery of costs through the Group's timewriting recharges.

	At 31 December 2019 US$m	At 31 December 2018 (restated) US$m
Administrative costs – land and buildings		
Not later than one year	–	2.4
After one year but no more than five years	–	8.4
	–	10.8

Following adoption of IFRS 16, Cairn no longer classifies any lease agreements as operating leases. See note 1.3.

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

a) Staff Costs

	Year ended 31 December 2019			Year ended 31 December 2018		
	Continuing operations US$m	Discontinued operations US$m	Total US$m	Continuing operations US$m	Discontinued operations US$m	Total US$m
Wages and salaries	27.5	8.6	36.1	28.5	7.4	35.9
Social security costs	4.7	1.5	6.2	2.3	1.2	3.5
Other pension costs	2.3	0.7	3.0	1.5	0.7	2.2
Share-based payments	9.6	2.3	11.9	11.8	2.9	14.7
	44.1	13.1	57.2	44.1	12.2	56.3

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

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

	Number of employees	
	Monthly average 2019	Monthly average 2018
Continuing operations:		
UK	154	148
Mexico	5	3
Senegal	3	5
	162	156
Discontinued operations:		
Norway	41	32
	203	188

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 2019 US$m	Year ended 31 December 2018 US$m
Included within gross staff costs (continuing operations):		
SIP	0.6	0.7
Share Options – Unapproved Plan	–	0.1
LTIP	7.7	9.4
Employee Share Scheme	1.3	1.6
	9.6	11.8

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.

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 2019			Year ended 31 December 2018		
	WAFV £	WAGP/ WAEP £	Number of shares	WAFV £	WAGP/ WAEP £	Number of shares
SIP – free shares	1.64	1.64	331,445	2.16	2.16	251,415
SIP – matching shares	1.67	1.67	246,112	2.23	2.23	183,664
LTIP	0.81	1.68	9,662,172	0.98	2.11	7,828,845
Employee Share Scheme	1.01	1.70	1,607,911	1.26	2.09	1,131,222
			11,847,640			9,395,146

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

	2019		2018	
	Number of shares	WAGP £	Number of shares	WAGP £
At 1 January	27,336,846	2.03	28,567,535	1.95
Granted during the year	9,662,172	1.68	7,828,845	2.11
Exercised during the year	(1,834,262)	1.89	(5,005,033)	1.82
Lapsed during the year	(8,978,291)	1.94	(4,054,501)	1.88
At 31 December	26,186,465	1.94	27,336,846	2.03

The weighted average remaining contractual life of outstanding awards under the LTIP at 31 December 2019 was 1.3 years (2018: 1.0 years)

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:

	2019		2018	
	Number of shares	WAGP/WAEP £	Number of shares	WAGP/WAEP £
At 1 January	9,595,198	1.99	9,550,872	1.99
Granted during the year	2,185,468	1.68	1,566,301	2.12
Exercised during the year	(300,284)	1.96	(1,270,878)	1.96
Lapsed during the year	(1,350,614)	1.94	(251,097)	2.85
At 31 December	10,129,768	1.93	9,595,198	1.99

The weighted average remaining contractual life of outstanding awards under all other schemes at 31 December 2019 was 7.0 years (2018: 7.3 years).

Section 4 – Income Statement Analysis continued

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 was calculated using a Monte Carlo model. The primary inputs to the model are consistent with those of the other share award schemes, though 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 116.

The other Cairn Energy PLC share awards during 2019 were also valued using a Monte Carlo model. Awards in prior years were valued similarly. Cairn Energy PLC share options 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 £1.76 (2018: £2.14).

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

- 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 2019: 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 a peer group of similar companies selected from the FTSE, as disclosed in the Directors' Remuneration Report on page 119, over a three-year period to the date of award.

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	31% – 37%	0.25% – 1.41%	0%
Employee Share Scheme	31% – 37%	0.18% – 1.30%	5%

Employee exercise trigger point assumptions

For 2019 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 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 123. Directors' remuneration, their pension entitlements and any share awards vested during the year are provided in aggregate in note 8.7.

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 2019 US$m	Year ended 31 December 2018 US$m
Short-term employee benefits	6.7	6.9
Post-employment benefits	0.4	0.4
Share-based payments	3.2	4.0
	10.3	11.3

In addition, employer's national insurance contributions for key management personnel in respect of short-term employee benefits were US$0.9m (2018: 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 2019, no shares awarded to key management personnel vested under the LTIP (2018: 1,460,908).

Section 4 – Income Statement Analysis continued

4.5 Finance Income

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 (restated) US$m
Bank and other interest receivable	3.0	1.5
Gain on mark-to-market financial instruments	–	0.3
Exchange gain	–	17.0
	3.0	18.8

4.6 Finance Costs

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 (restated) US$m
Loan interest and facility fee amortisation	10.3	23.2
Other finance charges	3.7	2.8
Unwinding of discount – provisions	2.6	2.3
Lease interest	15.3	7.8
Exchange loss	4.7	–
	36.6	36.1

Loan interest and facility fee amortisation includes US$1.6m (2018: US$15.1m) of facility fees relating to the RBL facilities, which are amortised over the expected useful life of the facility. Following the extension to the facility in 2018, accounted for as a replacement of the original facility under IFRS 9, all costs of the initial facility (US$15.1m) were amortised in the preceding year.

The increase in lease interest charges results from the adoption of IFRS 16. See note 3.3.

4.7 Earnings per Ordinary Share

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

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Profit/(Loss) and diluted profit/(loss) after taxation from continuing operations	119.2	(1,122.2)
Profit/(Loss) and diluted profit/(loss) attributable to equity holders of the Parent	93.6	(1,135.5)

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

	Number of shares 2019 '000	Number of shares 2018 '000
Weighted average number of shares	589,524	588,032
Less weighted average shares held by ESOP and SIP Trusts	(7,728)	(7,502)
Basic weighted average number of shares	581,796	580,530
Potential dilutive effect of shares issuable under employee share plans:		
LTIP awards	4,055	–
Approved and unapproved plans	43	–
Employee share awards	1,886	–
Diluted weighted average number of shares	587,780	580,530
Potentially issuable shares not included above:		
LTIP awards	20,877	27,337
Approved and unapproved plans	2,734	3,341
Employee share awards	1,679	4,174
Number of potentially issuable shares	25,290	34,852*

* 2018 potentially issuable shares were all anti-dilutive due to the loss for the year.

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 unrecognised deferred tax assets existing at the year end.

This section also includes details of the contingent liability relating to the Indian tax dispute where the award from the arbitration is expected in 2020.

Significant Accounting Judgements in This Section:

Deferred Taxation

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 2018 and 2019, Cairn concluded that no deferred tax asset should be recognised. At 31 December 2019, the goodwill impairment test, performed over the UK & Norway operating segment, identified an impairment with the subsequent charge reducing the carrying value of assets in the segment to their fair 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. At 31 December 2018, though no impairment of goodwill was identified, the carrying value of assets in the UK & Norway segment did not materially differ from their fair value, again preventing the recognition of any deferred tax asset for similar reasons.

Contingent Liability – Indian Tax

Cairn continues to resolutely defend the Group's position in India following the tax assessment order and demand notice issued by the Indian Income Tax Department. Final hearings in the international arbitration proceedings were held in 2018 with the award of the arbitration panel expected in 2020. Cairn remains confident that the Group will be successful in the arbitration and therefore no provision is made in the Financial Statements for any amount demanded by the Indian Income Tax Department. Full details on the contingent liability are given in note 5.5.

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. In Norway, tax refunds may be claimed on qualifying exploration activities and related overhead costs; the tax refundable is included as a tax credit in the period in which the qualifying expenditure is incurred. 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.

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 2018 or 2019 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 cash payments of corporation taxes made only in Mexico totalling US$0.5m (of which US$0.2m was an overpayment) during the year (2018: US$nil).

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/(Credit) on Profit/(Loss) for the Year

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

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 (restated) US$m
Current tax charge:		
Overseas corporation taxes	0.3	–
	0.3	–
Deferred tax credit:		
Deferred tax on valuation of financial assets at fair value through profit or loss	–	(89.4)
	–	(89.4)
Total tax charge/(credit) on profit/(loss) from continuing operations	0.3	(89.4)

Factors Affecting Tax Charge/(Credit) for the Year

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

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 (restated) US$m
Profit/(Loss) before taxation from continuing operations	119.5	(1,211.6)
Profit/(Loss) before tax multiplied by the UK statutory rate of corporation tax of 19% (2018: 19%)	22.7	(230.2)
Effect of:		
Special tax rates and reliefs applying to oil and gas activities	64.4	(33.7)
Impact on deferred tax of adjustments in respect of prior years	(3.3)	–
Temporary differences not recognised	(100.2)	46.8
Disposal of financial assets held at fair value through profit or loss	–	135.5
Permanent items (non-taxable)/non-deductible	16.6	3.6
Other	0.1	(11.4)
Total tax charge/(credit) on profit/(loss) from continuing operations	0.3	(89.4)

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2019 of 19% (2018: 19%).

The UK main rate of corporation tax is currently 19% (2018: 19%).

The applicable UK statutory tax rate applying to North Sea oil and gas activities is 40% (2018: 40%).

The effect of special tax rates and reliefs applying to oil and gas activities of US$64.4m (2018: US$(33.7)m) comprises US$68.2m (2018: US$(24.2)m) 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$(3.8)m (2018: US$(9.5)m) in respect of the UK ring fence expenditure supplement ("RFES") claimed in the year.

Section 5 – Taxation continued

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

Factors Affecting Tax Charge/(Credit) for the Year Continued

The effect of temporary differences not recognised of US$(100.2)m (2018: US$46.8m) includes:

- a US$(125.9)m (2018: US$58.7m) movement in the year in respect of the unrecognised deferred tax asset on UK supplementary charge losses and the deferred tax liability on UK ring fence temporary differences in respect of non-current assets;
- US$8.9m (2018: US$(2.7)m) unsuccessful exploration costs on which future tax relief is available but the expenditure has been expensed through the Income Statement;
- US$6.7m (2018: US$2.4m) in respect of the carry forward of UK tax losses on which no deferred tax asset was recognised;
- US$10.1m (2018: US$nil) on overseas tax losses and other temporary differences arising in the period on which no deferred tax was recognised; and
- in 2018 a US$(11.6)m (2019: US$nil) movement in the unrecognised deferred tax asset brought forward at the start of the year in respect of the shares that the Group held in Vedanta Limited (previously Cairn India Limited).

5.3 Income Tax Asset

The income tax asset of US$27.4m (2018: US$32.8m) relates to cash tax refunds due from the Norwegian authorities on the tax value of exploration and other qualifying expenses incurred in Norway during the year. Refunds due at 31 December 2019 of US$27.4m have been transferred to assets held-for-sale, see note 6.2.

During 2019, a cash tax refund of US$30.9m (2018: US$36.8m) was received on prior year qualifying expenditure on exploration activities, new venture costs and administrative expenses. US$2.3m (2018: US$20.4m) 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 (2018: US$16.4m) included as a refund in investing activities where it relates to costs initially capitalised within intangible exploration/appraisal assets.

5.4 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 2018	(349.0)	349.0	–	–
Deferred tax credit/(charge) through the Income Statement	105.9	(105.9)	–	–
At 31 December 2018	(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 liabilities				
At 1 January 2018	(179.9)	15.3	0.2	(164.4)
Exchange difference arising	5.1	(1.9)	(0.3)	2.9
Deferred tax credit through the Income Statement	89.4	–	–	89.4
Deferred tax (charge)/credit from discontinued operations	(4.4)	8.5	1.5	5.6
At 31 December 2018	(89.8)	21.9	1.4	(66.5)
Exchange differences arising	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	**–**	**–**	**–**	**–**

	At 31 December 2019 US$m	At 31 December 2018 US$m
Deferred tax liabilities analysed by country		
Norway	**–**	(66.5)
Total deferred tax liability	**–**	(66.5)

At 31 December 2019, there is an unrecognised deferred tax asset of US$6.6m (2018: US$4.7m) in respect of the shares the Group holds in Vedanta Limited.

Section 5 – Taxation continued

5.4 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 (2018: 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.

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 2019 US$m	At 31 December 2018 US$m
UK fixed asset temporary differences	408.4	383.2
UK Ring Fence Corporation Tax trading losses	–	118.0
UK Supplementary Charge Tax trading losses	–	855.9
UK other ring fence temporary differences	105.2	117.8
UK non-ring fence trading losses	3.7	3.7
UK non-ring fence pre-trade losses	3.0	2.9
UK excess management expenses	329.2	318.7
UK non-trade deficits	61.6	52.7
UK temporary differences on share-based payments	11.8	10.6
UK capital losses	151.9	–
UK other temporary differences	–	0.1
Mexico tax losses and temporary differences	55.6	–
Brazil tax losses	0.3	–
Nicaragua fixed asset temporary differences	30.4	–
Senegal fixed asset temporary differences	5.9	5.3
Temporary differences on financial assets held at fair value through profit or loss	6.6	4.7
Greenland tax losses	–	1,088.3

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$601.0m RFCT losses which can be offset against RFCT of 30% on future ring fence trading profits and US$516.7m SCT losses which can be offset against SCT of 10% on future ring fence trading profits.

In 2018 the Group had US$928.3m of RFCT and US$855.9m 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$577.5m and US$34.6m 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$105.2m (2018: US$117.8m) relating to decommissioning liabilities as it is not considered probable that these amounts will be utilised in future periods.

In 2018 a deferred tax asset was recognised in respect of US$810.3m of RFCT losses, offsetting in full the deferred tax liability on ring fence temporary differences in respect of non-current assets. No deferred tax asset was recognised in 2018 on the remaining US$118.0m RFCT losses and SCT losses of US$855.9m.

The deferred tax liability recognised on UK ring fence fixed asset temporary differences in respect of non-current assets of US$303.6m (2018: US$243.1m) includes temporary differences in respect of investment allowances (previously field allowances) of US$20.2m (2018: US$759.5m) on the Laverda and Kraken developments which will reduce future ring fence profits subject to SCT.

Section 5 – Taxation continued

5.5 Contingent Liability – Indian Tax Assessment

In January 2014 Cairn UK Holdings Limited ('CUHL'), a direct subsidiary of Cairn Energy PLC, received notification from the Indian Income Tax Department ("IITD") that it was restricted from selling its shareholding in Cairn India Limited ("CIL"); at that time the shareholding was approximately 10% and had a market valuation of INR 60bn (US$1.0bn). In that notification, the IITD claimed to have identified unassessed taxable income resulting from certain intra-group share transfers undertaken in 2006 (the "2006 Transactions"), such transactions having been undertaken in order to facilitate the IPO of CIL in 2007. The notification made reference to retrospective Indian tax legislation enacted in 2012, which the IITD was seeking to apply to the 2006 Transactions. Following the merger in April 2017 of CIL and Vedanta Limited, CUHL's shareholding in CIL was replaced by a shareholding of approximately 5% in Vedanta Limited issued together with preference shares.

In addition to attaching CUHL's shares in Vedanta Limited, the IITD seized dividends due to CUHL from those shareholdings totalling INR 11.4bn (US$159.8m). The IITD has also notified Cairn that a tax refund of INR 15.9bn (US$222.8m) due to CUHL as a result of overpayment of capital gains tax on a separate matter in 2011 has been applied as partial payment of the tax assessment of the 2006 Transactions. This tax refund was previously classified as a contingent asset as the inflow of economic benefits was considered less than probable.

The IITD holds CUHL as an assessee in default in respect of tax demanded on the 2006 Transactions, and as such has pursued enforcement against CUHL's assets in India. To date these enforcement actions have included attachment of CUHL's shareholding in Vedanta Limited and sale of 181,764,297 shares and seizure of the proceeds, seizure of the proceeds from the redemption of the preference shares, seizure of the US$159.8m dividends due to CUHL as described above, and offset of a US$222.8m tax refund due to CUHL in respect of another matter. To date 99% of CUHL's shareholding has been liquidated by the IITD.

The assessment by the IITD of principal tax due on the 2006 Transactions is INR 102bn (US$1.4bn), plus applicable interest and penalties. Interest is currently being charged on the principal at a rate of 12% per annum from February 2017, although this is potentially subject to the IITD's Indian court appeal that interest should be back-dated to 2007. Penalties are currently assessed as 100% of the principal tax due, although this is subject to appeal by CUHL that penalties should not be charged given the retrospective nature of the tax levied.

The Group has legal advice confirming that the maximum amount that could ultimately be recovered from Cairn by the IITD, in excess of the assets already seized, is limited to the value of CUHL's assets, principally the remaining ordinary shares in Vedanta Limited.

In March 2015 Cairn filed a Notice of Dispute under the UK-India Bilateral Investment Treaty (the "Treaty") in order to protect its legal position and seek restitution of the value effectively seized by the IITD in and since January 2014. Cairn's principal claims are that the assurance of fair and equitable treatment and protections against expropriation afforded by the Treaty have been breached by the actions of the IITD, which is seeking to apply retrospective taxes to historical transactions already closely scrutinised and approved by the Government of India. The IITD has attached and seized assets to try to enforce such taxation. Cairn's plea is therefore that the effects of the tax assessment should be nullified and that Cairn should receive recompense from India for the loss of value resulting from the 2014 attachment of CUHL's shares in CIL and the withholding of the tax refund, which together total approximately US$1.4bn.

The Treaty proceedings formally commenced in January 2016 following agreement between Cairn and the Republic of India on the appointment of a panel of three international arbitrators under the terms of the Treaty. Cairn's statement of claim was submitted to the arbitral tribunal in June 2016 and the Republic of India submitted its statement of defence in February 2017. Further submissions and document production took place in 2017 and 2018. The main evidentiary hearing of Cairn's claim under the Treaty took place in August 2018 in The Hague with a final hearing in December 2018. All formal hearings and submissions have now been made and the tribunal is in the process of drafting its award. The tribunal has indicated that it expects to be in a position to issue the award in the summer of 2020.

Based on detailed legal advice, Cairn remains confident that it will be successful in this arbitration and accordingly no provision has been made for any of the tax or penalties assessed by the IITD.

Section 6 – Discontinued Operations and Assets and Liabilities Held-For-Sale

In November 2019, Cairn announced the sale of the entire share capital of Capricorn Norge AS to Sval Energi AS with the deal completing in February 2020. Consequently, the financial performance of the subsidiary for the year ending 31 December 2019 is presented as discontinued operations (with comparative information restated) and assets and liabilities reclassified as held-for-sale at the balance sheet date. This section provides further details of the results of the subsidiary for the year and its net assets at the year end.

Significant Accounting Judgements in This Section:

Transfer of Goodwill to Assets Held-For-Sale

Goodwill arising on past business combinations is allocated to the UK & Norway operating segment and has been tested for impairment annually at this operating segment level in accordance with IAS 36 'Impairment of Assets'. However, IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires goodwill to be expressed in the functional currency of the foreign operation acquired; therefore the goodwill was allocated between Capricorn Norge AS (NOK functional) and Nautical Petroleum Limited (GBP at the time of acquisition, now USD functional), the two Parent entities acquired through the business combinations.

The carrying value of goodwill allocated to Capricorn Norge AS has been included in the assets reclassified as held-for-sale and subsequently has been fully impaired as part of the disposal group. The resultant impairment is included within the loss for the year from discontinued operations.

Key Estimates and Assumptions in This Section:

There are no key estimates or assumptions in this section.

6.1 Financial Performance

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Gross Profit	–	–
Pre-award costs	(4.0)	(3.9)
Unsuccessful exploration costs	(38.7)	(42.7)
Administrative expenses	(1.5)	(2.0)
Loss on disposal of intangible exploration/appraisal assets	–	(4.5)
Gain on disposal of property, plant & equipment – development assets	0.7	–
Impairment of disposal group (note 6.2)	(65.7)	–
Operating loss	(109.2)	(53.1)
Finance income	0.4	0.4
Finance costs	(6.8)	(1.7)
Loss before taxation	(115.6)	(54.4)
Taxation		
Current tax credit	27.7	35.5
Deferred tax credit	26.9	5.6
Deferred tax credit on disposal of property, plant & equipment – development assets	35.4	–
Loss from discontinued operations	(25.6)	(13.3)

The deferred tax credit of US$26.9m in 2019 represents the release of the remaining deferred tax provisions reflecting recovery of the asset through sale rather than continued use.

Section 6 – Discontinued Operations and Assets and Liabilities Held-For-Sale continued

6.1 Financial Performance Continued

Disposal of 10% Working Interest in Nova to ONE-Dyas Norge AS

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:

	Year ended 31 December 2019 US$m
Proceeds on disposal	80.2
Development assets – disposals	(82.1)
Working capital balances at date of completion	3.9
Decommissioning provision released	1.8
Cost of disposal	(3.1)
Gain on disposal of property, plant & equipment – development assets	**0.7**
Tax credit on disposal	35.4
Post-tax gain on disposal	**36.1**

6.2 Assets and Liabilities Held-For-Sale

	Transferred to held-for-sale US$m	Impairment of disposal group US$m	At 31 December 2019 US$m	At 31 December 2018 US$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	–
	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	–
	37.6	**–**	**37.6**	–

The assets and liabilities of Capricorn Norge AS have been reclassified as held-for-sale, forming a single disposal group.

As the net assets of the subsidiary will now be realised through sale rather than recovered through use, and the gain will not be 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, an impairment was recorded. In accordance with applicable IFRS, this impairment is 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 is US$37.7m. The cumulative foreign exchange loss at the date of completion of the sale in 2020 was recycled to the Income Statement.

Similarly the merger reserve of US$255.9m relating to the acquisition of Capricorn Norge AS was transferred to retained earnings in 2020 on completion of the disposal.

Section 6 – Discontinued Operations and Assets and Liabilities Held-For-Sale continued

6.3 Cash Flow Information for Discontinued Operations

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Net cash flows (used in)/from operating activities	**(3.6)**	15.1
Net cash flows from/(used in) investing activities	**19.2**	(61.8)
Net cash flows used in financing activities	**(4.3)**	(1.1)
Net increase/(decrease) in cash and cash equivalents of Capricorn Norge AS	**11.3**	(47.8)
Opening (bank overdraft)/cash and cash equivalents of Capricorn Norge AS	**(5.1)**	41.5
Foreign exchange differences	**1.0**	1.2
Closing cash and cash equivalents of Capricorn Norge AS	**7.2**	(5.1)

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 2018	583,236	12.5
Issued and allotted to ESOP trust	5,650	0.1
Issued and allotted for employee share options	616	–
At 31 December 2018	589,502	12.6
Issued and allotted for employee share options	**51**	**–**
At 31 December 2019	**589,553**	**12.6**

Share Premium

	2019 US$m	2018 US$m
At 1 January	**489.7**	488.0
Arising on shares issued for employee share options	**0.1**	1.7
At 31 December	**489.8**	489.7

a) Shares held by ESOP Trust
The cost of shares held by the ESOP Trust at 31 December 2019 was US$7.4m (2018: US$11.7m). The number of shares held by the Trust at 31 December 2019 was 4,293,341 (2018: 6,744,138) and the market value of these shares was £8.8m/US$11.7m (2018: £10.1m/US$12.9m).

During 2019 no shares were purchased for or allotted to the ESOP Trust. During 2018, the Group purchased 4,322,325 at a cost of US$13.6m and allotted 5,650,000 shares to the ESOP Trust in anticipation of future vestings forecast under the Group's share-based payment schemes. During 2019, 1,950,797 (2018: 5,532,742) shares vested and 500,000 (2018: 400,000) 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 2019 was US$8.4m (2018: US$7.9m). The number of shares held by the Trust at 31 December 2019 was 2,562,975 (2018: 2,195,930) and the market value of these shares was £5.3m/US$7.0m (2018: £3.3m/US$4.2m).

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.

Section 7 – Capital Structure and Other Disclosures continued

7.1 Issued Capital and Reserves Continued

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 Capricorn Norge AS to Sval Energi AS 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 2019 of US$0.4m (2018: US$41.0m) is a consequence of the Group's commodity price hedging, see note 3.5 for full details. 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 2019.

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

	At 31 December 2019 US$m	At 31 December 2018 US$m
Loans and borrowings	–	101.7
Lease liabilities/Finance lease liability	282.9	165.4
Less cash and cash equivalents	(146.5)	(66.3)
Net debt	136.4	200.8
Equity	1,455.5	1,390.1
Capital and net debt	1,591.9	1,590.9
Gearing ratio	9%	13%

2019 balances relate only to continuing operations. 2018 balances have not been restated for either discontinued operations or the adoption of IFRS 16.

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 2019:

- Various guarantees under the borrowing facility for the Group's operational commitments for the current year of US$52.3m (2018: US$49.5m);
- 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

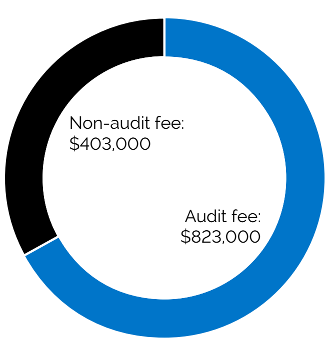
	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Fees payable to the Group's external auditors (including associate firms) for:		
Audit fees:		
Auditing of the Financial Statements of the Group and the Company	**335**	315
Auditing of the Financial Statements of subsidiaries	**488**	232
	823	547
Non-audit fees:		
Audit-related assurance services	**397**	60
Other assurance services relating to corporate finance transactions	**–**	134
Non-audit services not included above	**6**	8
	403	202
Total fees	**1,226**	749

Non-audit fees for 2019 include US$169,000 relating to 2018 joint operations assurance certificates, which were late scope changes agreed during the second half of 2019.

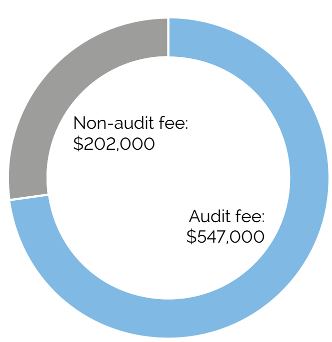
The Group has a policy in place for the award of non-audit work to the auditors which requires Audit Committee approval (see the Audit Committee Report on page 91).

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

2019 Fees to the Auditors



2018 Fees to the Auditors



Company Balance Sheet
As at 31 December 2019

	Note	2019 US$m	2018 US$m
Non-current assets			
Investments in subsidiaries	8.2	**1,994.6**	2,521.8
Derivative financial instruments	8.3	**–**	7.7
Long-term intercompany receivables		**4.6**	–
		1,999.2	2,529.5
Current assets			
Cash and cash equivalents		**2.2**	6.3
Other receivables		**5.7**	7.3
Derivative financial instruments	8.3	**4.1**	36.7
		12.0	50.3
Total assets		**2,011.2**	2,579.8
Current liabilities			
Lease liability		**1.5**	–
Derivative financial instruments	8.3	**4.1**	36.7
Trade and other payables	8.4	**90.2**	88.1
		95.8	124.8
Non-current liabilities			
Lease liability		**4.6**	–
Derivative financial instruments	8.3	**–**	7.7
		4.6	7.7
Total liabilities		**100.4**	132.5
Net assets		**1,910.8**	2,447.3
Equity			
Called-up share capital	7.1	**12.6**	12.6
Share premium	7.1	**489.8**	489.7
Shares held by ESOP/SIP Trusts	7.1a,b	**(15.8)**	(19.6)
Capital reserves	7.1d	**0.7**	0.7
Merger reserve	7.1d	**255.9**	255.9
Retained earnings:			
At 1 January		**1,708.0**	2,016.5
Loss for the year		**(548.5)**	(318.9)
Other movements in retained earnings		**8.1**	10.4
		1,167.6	1,708.0
Total equity		**1,910.8**	2,447.3

The Financial Statements on pages 183 to 192 were approved by the Board of Directors on 9 March 2020 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 2019

	Note	2019 US$m	2018 US$m
Cash flows from operating activities:			
Loss before taxation		**(548.5)**	(318.9)
Share-based payments charge		**4.3**	5.2
Impairment of investment in subsidiary		**534.8**	299.7
Finance income		**(4.5)**	(2.9)
Finance costs		**3.9**	7.2
Other receivables movement		**4.6**	(3.9)
Trade and other payables movement		**1.1**	20.4
Net cash (used in)/from operating activities		**(4.3)**	6.8
Cash flows from investing activities:			
Interest received		**4.6**	2.8
Net cash flows from investing activities		**4.6**	2.8
Cash flows from financing activities:			
Facility fees, arrangement fees and bank charges		**(3.1)**	(7.1)
Facility fees reimbursed by subsidiary undertaking		**–**	15.1
Cost of shares purchased	7.1a	**–**	(13.6)
Proceeds from exercise of share options		**0.1**	1.7
Lease payments		**(1.4)**	–
Net cash flows used in financing activities		**(4.4)**	(3.9)
Net (decrease)/increase in cash and cash equivalents		**(4.1)**	5.7
Opening cash and cash equivalents at beginning of year		**6.3**	0.6
Closing cash and cash equivalents		**2.2**	6.3

Company Statement of Changes in Equity
For the year ended 31 December 2019

	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 2018	500.5	(10.2)	256.6	2,016.5	2,763.4
Loss for the year	–	–	–	(318.9)	(318.9)
Total comprehensive expense	–	–	–	(318.9)	(318.9)
Share-based payments	–	–	–	14.7	14.7
Shares issued for cash	0.1	(0.1)	–	–	–
Cost of shares purchased	–	(13.6)	–	–	(13.6)
Exercise of employee share options	1.7	–	–	–	1.7
Cost of shares vesting	–	4.3	–	(4.3)	–
At 31 December 2018	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**

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 Cairn Energy PLC Group Financial Statements. Refer to note 7.1 of the Group Financial Statements.

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, 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 are calculated using the same assumptions as noted in section 2.

8.1 Basis of Preparation

The Financial Statements have been prepared in accordance with IFRS as adopted by the EU.

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.

The net assets in the Company Balance Sheet remain in excess of the Group's total net assets. At 31 December 2019, the Company continues to carry its investment in Cairn UK Holdings Limited at the historic cost of US$387.7m. This carrying value is supported by the Company's confidence, based on detailed legal advice, that it will be successful in the Indian Tax arbitration (see note 5.5) and the value will ultimately be recovered.

Adoption of IFRS 16 'Leases'

Other Property, Plant & Equipment – Leasehold Property

The Company recognised a lease liability for the Group's head office in Edinburgh. The lease costs are recharged to Capricorn Energy Limited where all head office overhead costs are settled, creating a sub-lease between Cairn Energy PLC and Capricorn Energy Limited for the right to use the asset in its entirety. There is therefore no right-of-use asset recognised in the Balance Sheet of Cairn Energy PLC, rather a receivable from Capricorn Energy Limited over the lease term appropriately recorded as either short or long term.

The key estimates and assumptions applied in measuring the lease liability were as follows:

- The lease term is equal to the current non-cancellable period of the lease with no reasonable plans to extend the lease contract beyond the initial term;
- The interest rate applied is equal to the Group's incremental borrowing rate on the date of adoption of 5.75% rather than a rate implicit in the lease contracts where this could not be readily determined.

Section 8 – Notes to the Company Financial Statements continued

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$65 per bbl (2018: long-term oil price of US$70 per bbl), escalation for prices and costs of 2.0% (2018: 2.0%) and a discount rate of 10% (2018: 10%). Full details on the assumptions used for valuing oil and gas assets can be found in section 2.

	Subsidiary undertakings US$m	**Total US$m**
Cost		
At 1 January 2018	3,676.4	3,676.4
Additions	9.5	9.5
At 31 December 2018	3,685.9	3,685.9
Additions	7.6	**7.6**
At 31 December 2019	**3,693.5**	**3,693.5**
Impairment		
At 1 January 2018	864.4	864.4
Impairment charge	299.7	299.7
At 31 December 2018	1,164.1	1,164.1
Impairment charge	534.8	**534.8**
At 31 December 2019	**1,698.9**	**1,698.9**
Net book value		
At 31 December 2017	2,812.0	2,812.0
At 31 December 2018	2,521.8	2,521.8
At 31 December 2019	**1,994.6**	**1,994.6**

Additions during the year of US$7.6m (2018: US$9.5m) 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$534.8m was made to the Income Statement in 2019 (2018: US$299.7m). The fall in the value of the underlying assets of the Capricorn Oil Group principally reflects a reduction in the recoverable value of the Senegal development asset.

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	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 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	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	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 Norge AS[2]	Exploration and development	Norway	Norway	Jåttåvågveien 7, 4020 Stavanger, Norway
Capricorn Offshore Exploration Limited	Exploration	Scotland	Israel	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Oil and Gas Tunisia GmbH[3]	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 Italia SRL[3]	Non-trading	Italy	Italy	Piazza Pietro Merolli n. 2, 00151 Roma, Italy
Nautical Petroleum AG[3]	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
Transunion Petroleum Italia SRL[3]	Non-trading	Italy	Italy	Piazza Pietro Merolli n. 2, 00151 Roma, Italy
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 The sale of the company completed on 28 February 2020
3 Company is in the process of liquidation

Section 8 – Notes to the Company Financial Statements continued

8.3 Derivative Financial Instruments

	At 31 December 2019 US$m	At 31 December 2018 US$m
Non-current assets		
Financial assets – hedge options maturing after more than one year	–	7.7
Current assets		
Financial assets – hedge options maturing within one year	4.1	36.7
Current liabilities		
Financial liabilities – hedge options maturing within one year	(4.1)	(36.7)
Non-current liabilities		
Financial liabilities – hedge options maturing after more than one year	–	(7.7)
	–	–

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.

8.4 Trade and Other Payables

	At 31 December 2019 US$m	At 31 December 2018 US$m
Trade and other payables	0.4	0.2
Amounts payable to subsidiary undertakings	86.9	83.2
Accruals	2.9	4.7
	90.2	88.1

8.5 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 2019 US$m	At 31 December 2018 US$m
Financial assets at amortised cost		
Cash and cash equivalents	2.2	6.3
Other receivables – amounts receivable from subsidiary undertakings	1.8	2.5
Other receivables – other	3.9	4.5
Long-term intercompany receivables	4.6	–
Derivative financial instruments		
Financial assets – hedge options	4.1	44.4
	16.6	57.7

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

8.5 Financial Instruments Continued

Maturity analysis of financial assets

The expected financial maturity of the Company's financial assets at 31 December 2019 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	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	–

The expected financial maturity of the Company's financial assets at 31 December 2018 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	6.3	–	–	–
Other receivables – amounts receivable from subsidiary undertakings	2.5	–	–	–
Other receivables – other	4.5	–	–	–
Financial assets – hedge options	36.7	7.7	–	–
	50.0	7.7	–	–

Financial liabilities

Carrying amount and fair value	At 31 December 2019 US$m	At 31 December 2018 US$m
Financial liabilities at amortised cost		
Trade and other payables	0.4	0.2
Accruals	2.9	4.7
Amounts payable to subsidiary undertakings	86.9	83.2
Lease liability	6.1	–
Derivative financial instruments		
Financial liabilities – hedge options	4.1	44.4
	100.4	132.5

Comparative information has not been restated on adoption of IFRS 16.

Section 8 – Notes to the Company Financial Statements continued

8.5 Financial Instruments Continued

Maturity analysis of financial liabilities

The expected financial maturity of the Company's financial liabilities at 31 December 2019 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	0.4	–	–	–
Accruals	2.9	–	–	–
Amounts payable to subsidiary undertakings	86.9	–	–	–
Lease liability	1.5	1.6	3.0	–
Derivative financial instruments				
Financial liabilities – hedge options	4.1	–	–	–
	95.8	1.6	3.0	–

The expected financial maturity of the Company's financial liabilities at 31 December 2018 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	0.2	–	–	–
Accruals	4.7	–	–	–
Amounts payable to subsidiary undertakings	83.2	–	–	–
Derivative financial instruments				
Financial liabilities – hedge options	36.7	7.7	–	–
	124.8	7.7	–	–

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.

8.6 Capital Management

Capital and net debt were made up as follows:

	At 31 December 2019 US$m	At 31 December 2018 US$m
Continuing operations		
Amounts payable to subsidiary undertakings	86.9	83.2
Lease liability	6.1	–
Less cash and cash equivalents	(2.2)	(6.3)
Net debt	90.8	76.9
Equity	1,910.8	2,447.3
Capital and net debt	2,001.6	2,524.2
Gearing ratio	5%	3%

Section 8 – Notes to the Company Financial Statements continued

8.7 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 2019 US$m	At 31 December 2018 US$m
Amounts payable to subsidiary undertakings	(86.9)	(83.2)
Amounts receivable from subsidiary undertakings	1.8	2.5
	(85.1)	(80.7)

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 2019 US$m	Year ended 31 December 2018 US$m
Amounts invoiced to subsidiaries	10.4	37.2
Amounts invoiced by subsidiaries	10.6	5.8

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 123.

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Emoluments	3.3	3.4
Share-based payments	–	2.4
	3.3	5.8

Pension contributions of US$0.2m (2018: US$0.2m) were made on behalf of Directors in 2019.

No LTIP share awards to Directors vested during 2019 (2018: 820,131). Share-based payments disclosed for 2018 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 (2018: US$nil).

Licence List
As at 31 December 2019

Country	Asset name	Licence	Block(s)	Operator	Cairn Energy interest (%)
Cote D'Ivoire	CI-301	CI-301	CI-301	Tullow Cote D'Ivoire Onshore Limited (60%)	30
Cote D'Ivoire	CI-519	CI-519	CI-519	Tullow Cote D'Ivoire Onshore Limited (60%)	30
Cote D'Ivoire	CI-518	CI-518	CI-518	Tullow Cote D'Ivoire Onshore Limited (60%)	30
Cote D'Ivoire	CI-302	CI-302	CI-302	Tullow Cote D'Ivoire Onshore Limited (60%)	30
Cote D'Ivoire	CI-522	CI-522	CI-522	Tullow Cote D'Ivoire Onshore Limited (60%)	30
Cote D'Ivoire	CI-521	CI-521	CI-521	Tullow Cote D'Ivoire Onshore Limited (60%)	30
Cote D'Ivoire	CI-520	CI-520	CI-520	Tullow Cote D'Ivoire Onshore Limited (60%)	30
Israel	BLOCK 39	LICENCE NO. 39	39	Capricorn Offshore Exploration Limited	33.34
Israel	BLOCK 40	LICENCE NO. 40	40	Capricorn Offshore Exploration Limited	33.34
Israel	BLOCK 45	LICENCE NO. 45	45	Capricorn Offshore Exploration Limited	33.34
Israel	BLOCK 46	LICENCE NO. 46	46	Capricorn Offshore Exploration Limited	33.34
Israel	BLOCK 47	LICENCE NO. 47	47	Capricorn Offshore Exploration Limited	33.34
Israel	BLOCK 48	LICENCE NO. 48	48	Capricorn Offshore Exploration Limited	33.34
Israel	BLOCK 52	LICENCE NO. 52	52	Capricorn Offshore Exploration Limited	33.34
Israel	BLOCK 53	LICENCE NO. 53	53	Capricorn Offshore Exploration Limited	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
Nicaragua	C-1	EQUINOR-1	C-1	Equinor Asa (49.9%)	35.1
Nicaragua	C-2	EQUINOR-2	C-2	Equinor Asa (49.9%)	35.1
Nicaragua	C-3	EQUINOR-3	C-3	Equinor Asa (49.9%)	35.1
Nicaragua	C-4	EQUINOR-4	C-4	Equinor Asa (49.9%)	35.1
Norway	DUNCAN UPDIP	PL248J	Part of 35/11	Capricorn Norge AS (60%)	60
Norway	SKARFJELL SOUTH	PL378	35/12	Wintershall Norge AS (75.76%)	12.12
Norway	NOVA	PL418	35/8, 35/9	Wintershall Norge AS (45%)	10
Norway	NOVA EXTENSION	PL418B	35/8, 35/10	Wintershall Norge AS (45%)	10
Norway	INCA	PL722	7322/6, 7323/4	Equinor Energy AS (45%)	15
Norway	LYNGHAUG	PL758	6508/1, 6608/10, 6608/11	Capricorn Norge AS (50%)	50
Norway	GRANNES	PL800	6508/1, 6508/2	Capricorn Norge AS (50%)	50
Norway	HAVHEST	PL828	36/4	Equinor Energy AS (50%)	40
Norway	GODALEN	PL842	6608/10, 6608/11, 6608/12	Capricorn Norge AS (40%)	40
Norway	BYHAUGEN	PL844	6609/5, 6609/6, 6609/8, 6609/9	INEOS E&P Norge AS (40%)	20
Norway	ROSSI	PL853	7322/9	Lundin Norway AS (60%)	40
Norway	FLIPPER	PL854	7322/3, 7323/1	Equinor Energy AS (40%)	40
Norway	DUNCAN	PL880	35/8	Capricorn Norge AS (60%)	60
Norway	AGAT	PL884	35/3	Wellesley Petroleum AS (50%)	30
Norway	PRESTO (STJERNESKUDD)	PL885	35/3, 36/1	Equinor Energy AS (20%)	30
Norway	CARAMEL	PL927	35/7, 35/10	Wintershall Norge AS (50%)	50
Norway	SUNSTONE	PL943	6507/1, 6507/2, 6607/10, 6607/11, 6607/12	Equinor Energy AS (40%)	30
Republic of Ireland	SPANISH POINT	FEL 2/04	35/8, 35/9	Capricorn Ireland	38
Senegal	RUFISQUE OFFSHORE	SANGOMAR-RUFISQUE	N/A	Woodside Pet Ltd (35%)	40
Senegal	SANGOMAR OFFSHORE	SANGOMAR-RUFISQUE	N/A	Woodside Pet Ltd (35%)	40

Licence List continued

Country	Asset name	Licence	Block(s)	Operator	Cairn Energy interest (%)
Senegal	SANGOMAR DEEP OFFSHORE	SANGOMAR-RUFISQUE	N/A	Woodside Pet Ltd (35%)	40
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	100
UK	MANHATTAN	P2381	22/13c, 22/18d	Nautical Petroleum	40
UK	PEPPERMINT	P2393	28/10a	Nautical Petroleum	60
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

Note
Post 2019 year end Cairn no longer holds interests in Norway, Republic of Ireland or Nicaragua.

Group Reserves and Resources
As at 31 December 2019

Group Proven Plus Probable Oil and Gas Reserves 2P

	WI basis mmboe	EI basis mmboe
31 December 2018	56.3	56.3
Additions of reserves in place	101.3	93.8
Revisions of previous estimates	8.4	8.4
Disposals	(7.6)	(7.6)
Production	(8.7)	(8.7)
31 December 2019	**149.7**	**142.2**

2P Reserves by Country at 31 December 2019

	WI basis mmboe	EI basis mmboe
UK	43.1	43.1
Norway	7.6	7.6
Senegal	99.0	91.4
Total	**149.7**	**142.2**

Group Contingent Oil and Gas Resources 2C

	WI basis Mmboe
31 December 2018	188.8
Revisions of previous estimates	22.0
Promotion to Reserves	(101.4)
31 December 2019	**109.4**

All contingent resources at 31 December 2019 relate to Sangomar in Senegal

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
P10	Value with a 10% probability of being equal or exceeded, low degree of certainty
P50	Value with a 50% probability of being equal or exceeded, medium degree of certainty
P90	Value with a 90% probability of being equal or exceeded, high degree of certainty
3Rs	Cairn core values: Respect, Relationships and Responsibility
ABC	anti bribery and corruption
AGM	annual general meeting
ALARP	as low as reasonably practicable
APA	Awards in Predefined Areas
API	American Petroleum Institute
AQI	Audit Quality Inspection
bbl	barrel
bbls	barrels
BIA	biodiversity impact assessment
bn	billion
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
bps	basis points
BRINDEX	the Association of British Independent Oil Exploration Companies
BST	British Standard Time
Capex	capital expenditure
CCO	Corporate Criminal Offence
CDS	credit default swap
CEO	Chief Executive Officer
CERT	Crisis and Emergency Response Team
CFO	Chief Financial Officer
CHA	critical habitat assessment
CIL	Cairn India Limited
CMAPP	Corporate Major Accident Prevention Policy
CO2	carbon dioxide
COO	Chief Operating Officer
COP21	2015 Paris Climate Conference
COS	Cairn Operating Standards
CR	corporate responsibility
CRMS	Corporate Responsibility Management System
CSL	Capricorn Senegal Limited
CSR	corporate social responsibility
CUHL	Cairn UK Holdings Limited
Defra	Department for Environment, Food and Rural Affairs
E&A	exploration and appraisal
EBL	environmental baseline
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ELT	Exploration Leadership Team
ERP	enterprise resource platform
ESG	Environmental, Social and Governance
ESIA	Environmental and Social Impact Assessment
ESOP	employee share option plan
ESOS	Energy Savings Opportunity Scheme
EU	European Union
EU ETS	EU Emissions Trading Scheme
EVF	Employee Voice Forum
EY	Ernst & Young LLP
FAN	FAN oil discovery, Senegal
FDP	field development plan
FEED	front end engineering design
FID	Field Investment Decision
FlowStream	FlowStream Thruer Ltd
FPSO	floating production storage and offloading
FRC	Financial Reporting Council
Ft	foot
G&G	geology and geophysics
GAAP	Generally Accepted Accounting Principles
GBP	Great British Pound
GDPR	General Data Protection Regulation
GHGs	greenhouse gases
GRI	Global Reporting Initiative
GWP	global warming potential
H1/2	first/second half (of a year)
HR	Human Resources
HRIA	human rights impact assessment
HSE	heath, 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
IIP	Investors in People
IITD	Indian Income Tax Department
IMT	Incident Management Team
INDC	intended national determined contribution
INPG	National Institute for Oil and Gas (Senegal)
INR	Indian rupee
IOGP	International Association of Oil and Gas Producers
IP	investment proposal
IPCC	International Panel on Climate Change
IPIECA	International Petroleum Industry Environmental Conservation Association
IPO	initial public offering
IS	Information Systems
ITT	invitation to tender
JV	joint venture
KPI	key performance indicator
LATAM	Latin America
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
LTIF	lost time injury frequency
LTIP	long term incentive plan
m	million
mmbbls	million barrels of oil
mmboe	million barrels of oil equivalent
mmbopd	million barrels of oil per day
MSA	Modern Slavery Act
MSG	multi stakeholder group
MT	Management Team
NDC	National Determined Contributions
NGO	non-governmental organisation
NIBOR	Norwegian Interbank Offered Rate
NOK	Norwegian Krone
NPV	Net Present Value
OGUK	Oil and Gas UK
opex	operating expenditure
OSPAR	Oslo/Paris convention (for the Protection of the Marine Environment of the North-East Atlantic)

Glossary continued

PDMR	person discharging managerial responsibility
PDP	project delivery process
PSC	Production Sharing Contract
PwC	PricewaterhouseCoopers LLP
RBL	reserves based lending
RMC	Risk Management Committee
RWDC	restricted workday case
SASB	Sustainability Accounting Standards Board
SASISOPA	Industrial Safety, Operational Safety and Environmental Protection Administration System
SDGs	United Nations sustainable development goals
SECE	Safety and Environment Critical Element
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
TCFD	Task Force on Climate-Related Financial Disclosure
THP	The Hunger Project
TRIR	total recordable injury rate
TRS	total reward statement
TSR	total shareholder return
UK	United Kingdom
UKCS	United Kingdom continental shelf
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Convention on Climate Change
UNGC	United Nations Global Compact
US$	United States Dollar
WEO	World Energy Outlook
WI	working interest
Woodside	Woodside Energy Ltd.
YE	year end
YTD	year to date

Company Information

Financial Advisers
Rothschild & Co
New Court
St Swithin's Lane
London
EC4N 8AL

Secretary
Duncan Wood LLB

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

MIX
Paper from responsible sources
FSC® C023105
FSC
www.fsc.org

Printed on FSC-recognised paper, produced from sustainably managed forests. This report was printed with vegetable oil-based inks by an FSC-recognised printer that holds an ISO 14001 accreditation.

These materials contain forward-looking statements regarding Cairn, our corporate plans, future financial condition, future results of operations, future business plans and strategies. All such forward-looking statements are based on our management's assumptions and beliefs in the light of information available to them at this time. These forward-looking statements are, by their nature, subject to significant risks and uncertainties and actual results, performance and achievements may be materially different from those expressed in such statements. Factors that may cause actual results, performance or achievements to differ from expectations include, but are not limited to, regulatory changes, future levels of industry product supply, demand and pricing, weather and weather-related impacts, wars and acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions. Cairn undertakes no obligation to revise any such forward-looking statements to reflect any changes in Cairn's expectations with regard thereto or any change in circumstances or events after the date hereof.

Designed and produced by emperor
Visit us at emperor.works

Cairn

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

Senegal
Immeuble Focus One
14 avenue Birago Diop
1er etage, Point E
Dakar, Senegal

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/ar2019