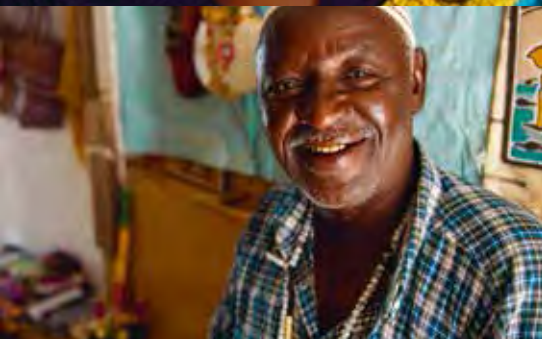
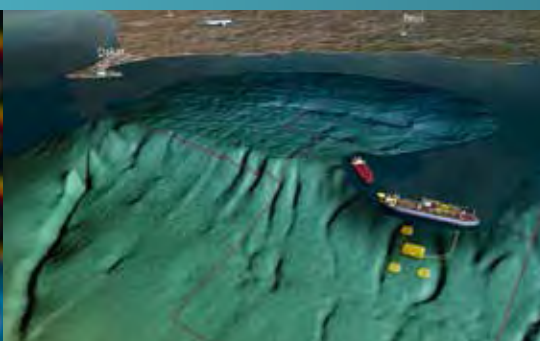


BUILDING ON SUCCESS

CAIRN ENERGY PLC

Annual Report and Accounts 2015



DELIVERING VALUE FROM DISCOVERY AND DEVELOPMENT

About Cairn Energy PLC

Cairn Energy PLC is an independent oil and gas exploration and development company listed on the London Stock Exchange. Cairn has its headquarters in Edinburgh, Scotland, with additional offices in London, Norway and Senegal.

Cairn has discovered oil and gas in a variety of locations throughout the world. Today the business holds a balanced portfolio of exploration, appraisal and development assets and is organised in three core groups: Senegal, UK and Norway and International.

STRATEGIC REPORT	01
Overview of 2015	02
Chairman's statement	04
Highlights	05
Industry overview	06
CEO's review	08
Strategy and business model	10
Senegal – Building on success	12
Focus on North Sea	18
2015 Key Performance Indicators (KPIs)	20
2016 Key Performance Indicators	24
Operational review	26
Financial review	32
How we manage risk	36
Viability statement	43
Working responsibly	44
– CEO's introduction	44
– Creating value	46
– People	48
– Mapping CR priorities	50

LEADERSHIP AND GOVERNANCE	62
Board of Directors	62
Directors' report	64
Corporate Governance statement	67
Audit Committee report	76
Directors' Remuneration report	81

FINANCIAL STATEMENTS	105
Independent Auditors' Report	105
Group Income Statement	112
Group Statement of Comprehensive Income	112
Group Balance Sheet	113
Group Statement of Cash Flows	114
Group Statement of Changes in Equity	115
Section 1 – Basis of Preparation	116
Section 2 – Oil and Gas Assets, Decommissioning Provisions and Related Goodwill	118
Section 3 – Financial Assets and Working Capital	125
Section 4 – Results for the Year	131
Section 5 – Taxation	139
Section 6 – Capital Structure and Other Disclosures	144

Company Balance Sheet	147
Company Statement of Cash Flows	148
Company Statement of Changes in Equity	149
Section 7 – Notes to the Company Financial Statements	150

ADDITIONAL INFORMATION	155
Group booked reserves and resources	155
Licence list	156
Glossary	158
Company information	Inside back cover
Corporate offices	Back cover

HIGHLIGHTS OF 2015



SENEGAL
BUILDING ON SUCCESS

In 2015, Cairn built on the basin opening exploration success of 2014, with the positive start to its appraisal programme.

26 Read more: *Operational review* on P26-31



NORTH SEA
A SUSTAINABLE BUSINESS

Kraken and Catcher, two of the largest developments ongoing in the UK North Sea, are the Group's core development projects and will provide free cash flow from 2017.

18 Read more: *Focus on North Sea* on P18-19



STRATEGY
PROGRESS

Cairn's exploration and appraisal assets in Senegal, UK and Norway and internationally are underpinned by its core development assets in the North Sea.

10 Read more: *Strategy and business model* on P10-11

OVERVIEW OF 2015

POSITIONED TO DELIVER VALUE

“We are delighted with the results to date of our multi-well evaluation programme offshore Senegal, which has confirmed the scale and extent of the significant resource base in this world class asset.

Cairn’s 2C current resource estimate for the SNE field has gone up by 20 percent and the positive results of the latest appraisal well provide the potential to further increase the size of the SNE field.

A combination of financial strength and continued exposure to material growth opportunities leaves Cairn well-placed to deliver additional value for shareholders from its balanced portfolio.”

SIMON THOMSON
Chief Executive

Our strategy



To deliver value for shareholders from the discovery and development of hydrocarbons within a sustainable, self-funding business model.

10

Read more: *Strategy and business model* on P10-11

Our business model



To create, add and realise value from a balanced portfolio, offering material upside potential from exploration and appraisal activity, supported by established development and production assets with a strong balance sheet behind them.

10

Read more: *Strategy and business model* on P10-11

Working responsibly

44

Read more: *Working responsibly* on P44-61

Corporate Governance

62

Read more: *Leadership and governance* on P62-104

How we did in 2015


Key Performance Indicators

- Exploration and appraisal success: Senegal; West of Kraken
- Mature exploration prospects: prospects identified in Senegal and licence awards received in Norway
- Portfolio optimisation and acreage protection: three year extension to Senegal PSC; relinquishment of non-material assets in portfolio
- Complete 2015 work programme: 3D seismic acquired in Senegal, exploration and appraisal drilling programme commenced in Q4
- Focus on safety of people and environment: no lost time injuries and no reportable injuries
- Continue to enhance HSE culture: revised Corporate Responsibility Management System rolled out to organisation
- Retain balance sheet strength: Group net funds at year end of US\$603 million; debt facilities undrawn

20
Read more: 2015 Key Performance Indicators (KPIs) on P20-23

Our objectives for 2016


Key Performance Indicators

- Maximise value of Senegal discovery through work programme
- Achieve exploration success through discovery or addition of commercial hydrocarbons
- Further enhance HSE culture, behaviours and approach
- Focus on safety of people and the environment
- Portfolio optimisation and replenishment for longer-term exploration opportunities
- Manage balance sheet strength
- Successfully complete operated and non-operated 2016 work programme

24
Read more: 2016 Key Performance Indicators on P24-25

Our risks


The principal risks we are managing:

- Sustained low oil price
- Restriction on ability to sell Cairn India Limited shareholding
- Kraken and Catcher development activities and production start-up not executed on schedule and budget
- Lack of exploration or appraisal success

36
Read more: How we manage risk on P36-42

Core Values - Building Respect - Nurturing Relationships - Acting Responsibly	Corporate Responsibility priorities - Supply chain and contractors - Preventing major accidents - Preventing major spills - Operational environmental footprint	- Non-operated joint ventures and international investments - Sustainable project funding - Transparency 
--	---	--

Board of Directors Audit committee	Remuneration committee Nomination committee	Governance committee Risk management committee
---------------------------------------	--	---



CHAIRMAN'S STATEMENT

Ian Tyler

STRONGLY
POSITIONED
FOR GROWTH



"We are well positioned to deliver on our exploration success and we continue to pursue appraisal offshore Senegal. With a strong balance sheet and funding in place through to free cash flow from our North Sea development assets, our sustainable model is in a robust position."

A handwritten signature in black ink, appearing to be 'I. Tyler'.

IAN TYLER
Chairman
14 March 2016

Cairn's strategy is to deliver value for shareholders from the discovery and development of hydrocarbons within a sustainable, self-funding business model.

We are well positioned to deliver on our exploration success and we continue to pursue appraisal offshore Senegal. With a strong balance sheet and funding in place through to free cash flow from our North Sea development assets, our sustainable model is in a robust position. Our level of resource is appropriate to our existing scale of operations; the Company is operating effectively and is well positioned to endure the impact of the current oil price environment.

The prevailing environment presents challenges to the industry, but it also presents opportunities. From a position of relative financial strength, Cairn can allocate capital to value enhancing projects while benefitting from reduced operational costs. By assessing the appropriate balance of political, technical and commercial risks across our asset portfolio, we target assets that remain robust at low oil prices.

Senegal provides a material opportunity for Cairn to create substantial shareholder value from a world class asset. Our significant acreage position offers an exciting opportunity which has the potential to be transformational to the business, our partners and our shareholders. Senegal is an important regional hub and provides a firm economic base for a large West African population.

With a vision for sustainable and steady economic growth, the government has maintained stable legal and fiscal frameworks which encourage investment in the region and which support the future development of the Cairn project.

The Board of Directors met in Dakar in 2015 and visited the rig, port and local office; meeting the in-country Cairn team along with the shore base operation. Dakar is an attractive and exciting place to operate as we focus on achieving commerciality from our two back-to-back discoveries.

Our approach in Senegal is consistent with Cairn's strategic delivery in recent years; we are a highly experienced operator with a focus on health and safety and providing benefit to the communities in which we operate. Central to this are the strong partnerships we form with industry and government alike. The Board saw first hand not only the size and scale of opportunity in Senegal, but also the strength and depth of the team managing the project. The Joint Venture (JV) in Senegal brings many capabilities that are being applied to the existing exploration and appraisal programme and will also benefit future development. Importantly, the JV shares a common and universal commitment to health, safety, security, environment and sustainable development. Cairn is very familiar with operating at this stage of an emerging hydrocarbon province where there is a national desire to move steadily forward to hydrocarbon production whilst safeguarding the interests of local communities and the environment.

We welcomed two new independent non-executive Directors to the Board in 2015 – Keith Lough and Peter Kallos – who both have a wealth of experience in the oil and gas industry and in the wider energy and resources sector. During the year, we undertook an external evaluation of board performance and effectiveness with a number of improvements identified. I would like to recognise and thank all our employees and contractors for their effort, commitment and hard work in 2015 in what has been a very busy year, as we look forward to an exciting year ahead.

HIGHLIGHTS

Financial

- US\$603 million (m) Group net cash at 31 December 2015.
- Reserve Based Lending bank facility remains undrawn; debt availability to fund UK development assets increasing with project progress, with availability expected to reach US\$335m at peak and US\$260m by 2017; additional US\$175m available in the form of Letters of Credit.
- A total of 49.5 mmboe booked as 2P reserves and 196.5 mmboe booked as 2C Contingent Resources on a net working interest basis at 31 December 2015.

Exploration – Senegal

- Cairn resource estimates of the SNE-1 discovery in the Sangomar Deep Offshore block upgraded following the incorporation of SNE-2 well results to:
 - P90 (1C) increased by 30% to 200 mmbbls;
 - P50 (2C) increased by 20% to 385 mmbbls;
 - P10 (3C) increased to 690 mmbbls.
- Successful testing of SNE-2, the first appraisal well with positive results, announced in January 2016.
- Successful testing of SNE-3, the second appraisal well, announced in March 2016.
- BEL-1 exploration well commenced operations in March 2016.
- Resource upgrade does not include results of the SNE-3 appraisal well where data analysis is ongoing. Any further resource revisions following full analysis of the results of SNE-3 and BEL-1 will be announced in due course.

North Sea

- Catcher and Kraken developments in the UK North Sea on track for first oil from 2017.
- Additional 4.5% interest in Kraken acquired, after the year end, from First Oil bringing Cairn's total working interest to 29.5%.
- Peak net targeted production to Cairn for North Sea interests of ~25,000 boepd.
- Five new licences awarded in Norway in Q1 2016, including one as Operator.
- Kraken West, UK North Sea (EnQuest Operator, Cairn 29.5% WI) appraisal well confirmed the presence of oil with potential for upside. Further evaluation is ongoing.
- Crossbill, Norwegian North Sea (Wintershall Operator, Cairn 20% WI) was a dry well. Operations were completed in Q2 and the well was permanently plugged and abandoned.

India Tax Dispute

- International arbitration proceedings have commenced to settle the Indian tax dispute, with Cairn claiming full compensation for the ~US\$1 billion value of which its shareholders have been deprived.
- The total assets of the Cairn subsidiary against which the Indian Tax Authorities are seeking to pursue a tax claim are US\$477m (including principally the group's ~10% shareholding in Cairn India Limited) and any recovery by the Indian authorities would be limited to such assets.

INDUSTRY OVERVIEW

Dr Julian Fennema & Erkal Ersoy
Heriot-Watt University

THE INDUSTRY CONTEXT IN WHICH CAIRN OPERATES

PRICE ROUT CONTINUES

With supply outstripping demand to the order of 2 million barrels per day, the downwards tumble of prices continued in 2015 and crude oil, which began the year at US\$55 per barrel (Brent), declined to US\$37 per barrel by December, the lowest level since May 2004, with natural gas prices experiencing a similar dynamic.

The absence of an unambiguous sign when the market will rebalance is fuelling the consensus that there will be no rapid recovery in prices and that, for company decision making, a transition to relative resource abundance has occurred. The expectation remains that the market will return to covering full cycle marginal cost, albeit not in the most complex areas, but that this will take longer than envisaged 12 months ago.

FALTERING DEMAND GROWTH

The pace of world economic growth eased off into 2015, falling from 3.4% in 2014 to 3.1% in 2015¹. Under the headline, there were highly divergent performances, with the advanced economies of the OECD continuing their slow but steady recovery from the financial crisis, but the key driver of the fall in global performance being the slowdown in emerging markets.

The largest of these, China, continued the structural transformation commenced in 2014, dampening overall growth to 6.9% in 2015 (7.3% in 2014). This can be attributed to a long-term adjustment away from energy-intensive sectors, such as steel and cement, but also to short-term uncertainties about the economic environment as illustrated by the turmoil on Chinese stock markets and the frequent use of trading halts.

Elsewhere in the big emerging markets, the slowdowns can be partially explained by the combination of energy prices and political issues. For energy exporters such as the Russian Federation, Brazil, Nigeria and many Middle Eastern countries, tumbling crude prices put pressure on government and private budgets. Coupled with the sanctions imposed on Russia pushing it into a deep economic contraction, political uncertainty and possible impeachment of the president in Brazil, and elections in Nigeria, 2015 was a complex year for emerging markets generally. Growth overall slowed to 4.0% in these countries from the previous year rate of 4.6%, with Latin America and the Commonwealth of Independent States (CIS) both entering recession.

The effect on the demand for oil and gas was mixed, where on the one side consumers were taking advantage of relatively cheap energy, but on the other weak macroeconomic fundamentals restrained demand growth. The first effect dominated through the first three quarters of the year, but the second effect caught up by the end, reducing, but not eliminating, the growth to 1.7 mmbopd (1.8%) over the year².

BUOYANT SUPPLY

On the other side of the market, the supply continued to grow apace, rising by 2.6 mmbopd above the 2014 level to 96.3 mmbopd. In contrast to 2014, where growth was driven principally by non-OPEC sources, OPEC contributed equally to the 2015 expansion. Following the decision in November 2014 not to cut production levels in order to maintain market share, OPEC has increased supply by 1.2 mmbopd with almost all of this increase provided by the largest producers, Saudi Arabia and Iraq². The addition of Iranian oil production to the OPEC fold after the suspension of sanctions is expected to provide the main source of OPEC growth in 2016, particularly if Iran seeks to regain its spot as the second largest producer within the organisation.

Non-OPEC production remained resilient in the face of declining oil prices, with the largest contributor to the overall gain of 1.3 mmbopd being the US, which added 0.92 mmbopd to 2014 production levels. The steep drop in rig utilisation rates over 2015 suggests that this will go into reverse in 2016 as fewer wells are drilled and completed in response to the price signals. Elsewhere outside of OPEC, production remained broadly stable, with gains booked in the North Sea environment by both Norway and the UK and production growth in the Russian Federation reaching record levels.

CAUTIOUS EXPLORATION AND APPRAISAL ACTIVITY

The squeezing of margins and pressure on cash flows that started in 2014 worsened in 2015. As a result, only the most robust and strategic investments were given the green light. This meant aggressive reductions in capital expenditure across the board leading to a US\$147 billion fall in upstream capex³. 2015 displayed a complex economic environment with considerable uncertainty and volatility. There was a consensus on lowering price expectations, which led to further portfolio management and capital discipline by all participants, especially the majors. The one clear exception to this was the continued interest by Chinese NOCs in high-cost domestic shale plays.

Despite a greater than 30% decline in exploration expenditure in 2015, discovered volumes declined by an estimated 25% and still saw a number of significant discoveries. Gas plays continued to dominate and represented approximately 75% of discovered volume, the largest of these being in Egypt's Nile Delta basin and in deepwater off Mauritania (in the same basin as Cairn Energy's 2014 Senegalese oil discovery).

The shift from high to low-risk areas for exploration activity that started in 2014 picked up pace in 2015. Activity in more speculative frontiers, such as the Arctic, was deferred despite extensive acreage held by majors in the region. This led to a move towards more mature basins, but this posed challenges for some there too. Decommissioning liabilities became a priority for North Sea operators given the current and short-term economic climate. Further afield from the Canadian and UK markets, late 2015 saw RD Shell walk away from an Abu Dhabi sour gas project, and Chevron suspend two development plans in the Gulf of Mexico.

LITTLE AND LARGE

Mergers and acquisitions activity in 2015 was marked by two extremes. Despite ample M&A opportunities, 2015 saw the lowest upstream M&A transaction value in the past five years as players chose to preserve precious cash and approve key strategic investments.

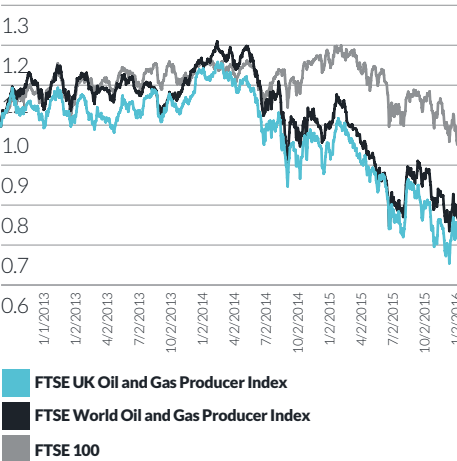
However, the year also saw the largest upstream acquisition in over five years: Royal Dutch Shell's acquisition of BG Group accounted for 54% of the 2015 total of \$153 billion³. This total implies a 17.3% fall in announced deal value from last year, but excluding RD Shell's acquisition reveals the real extent of the year-on-year fall in transaction activity at over 60%.

Global deal volume fell by 38% from 1,467 in 2014 to 910 in 2015 and this slowdown was observed in all regions and in upstream, midstream and downstream sectors as well as oilfield services. Operators in the North American market, particularly the US, focused spending on unconventional and, in 2015, approximately 55% of US upstream deals were accounted for by this type of transaction, having exceeded the 50% mark in 2014 following a five-year upward trend. Despite this continuing trend, however, reported deal value in the US shrunk considerably through 2015 while keeping its share of the global total stable near 37-38%.

E & P vs OTHER SECTORS ON FTSE

Throughout 2015, the oil and gas sector continued to underperform against the stock market, as shown below. Many of the other sectors in a composite index reap windfalls due to falling energy prices and, in the short to medium-term, this trend will persist as the current price and medium term expectations favour consumers of oil relative to producers.

Relative Price Performance



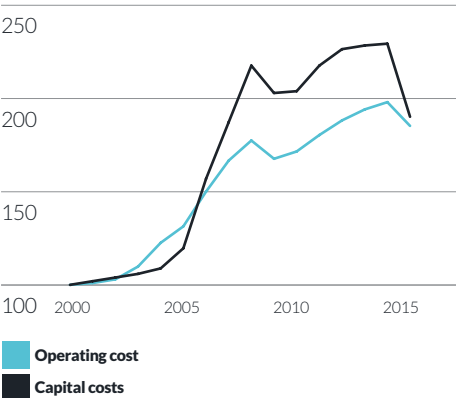
The downturn of the crude price at the end of 2014 had already manifested itself in flattening off of capital and operating costs for service sector clients with little or no crude production, as the upward pressure from high crude prices receded. This downturn was reinforced into 2015 as the upstream capital cost index dropped by 17% in 2015. Due to cost frictions, the operating cost index followed suit, but to a lesser extent, with a decline of 7%.

Whilst the degree to which costs have fallen is less than the fall in prices, it remains a welcome relief for operators active in exploration and appraisal. Due to supply and demand interactions, service and drilling rig rates have fallen in 2015 and indications are that these rates will remain low through 2016 as low crude prices are likely to persist.

WHAT TO EXPECT IN 2016

Oil price volatility has long been a key part of the oil and gas industry, but the uncertainty about low prices at the end of 2014 has dissipated. Excess supply, and therefore a low price, is now more widely expected over the medium term and companies are updating their portfolios for the new environment. Most players are making strategic decisions and keeping exploration active under strict capital discipline as they reap the benefits of depressed costs for projects in the appraisal and development stages.

IHS CERA Cost Indices



Source: IHS CERA.

ABOUT THE AUTHORS

*Dr Julian Fennema, Honorary Associate Professor at Heriot-Watt University.
Erkal Ersoy, Associate 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 and has a reputation for innovative education, enterprise, and leading-edge research. Energy research is a core activity within Heriot-Watt University, and the Centre for Energy Economics Research and Policy (CEERP) is the latest evidence of the University's commitment to research in energy, economics and policy. CEERP is based within the Institute of Petroleum Engineering at Heriot-Watt University, but forms a key point of support and collaboration among the University's Schools with affiliates from the School of Energy, Geoscience, Infrastructure, and Society; School of Management and Languages; School of Life Sciences; and the Energy Academy as well as honorary academics out with the University.

This industry overview provides an independent view of the industry context in which Cairn operates.

(1) IMF World Economic Outlook (Update), January 2016.
(2) IEA Oil Market Report, January 2016.
(3) EY Global Oil and Gas Transactions Review 2015.

CEO'S REVIEW

Simon Thomson

A STRONG POSITION TO DELIVER



A handwritten signature in black ink, appearing to read 'S. Thomson', written over a white background.

SIMON THOMSON

Chief Executive
14 March 2016

Our business model is to create, add and realise shareholder value from a balanced portfolio – we aim to offer material growth potential from exploration and appraisal activity, supported by established development and production assets with a strong balance sheet behind them.

Cairn is in a strong position: we have a robust financial base, our North Sea development projects are on track, but perhaps most importantly, we are in the midst of an extremely promising appraisal and further exploration programme in Senegal, which we believe can create significant value for all our stakeholders by proving additional resource on the acreage.

Following the two world class discoveries in Senegal in 2014, our focus in 2015 was on evaluating the discoveries and drawing up work plans to take advantage of this exceptionally attractive opportunity. We are proud to have opened up a new oil province in Senegal and to have done so with two consecutive exploration well successes within such a large acreage position.

The ongoing drilling programme in Senegal aims to optimise our understanding of the resource base by gathering further data; and to do so as safely, more efficiently and at a lower cost than the initial exploration phase. We are building on the knowledge we have gained since 2014 which has enabled us to improve our logistics, approvals and clearances and overall drilling performance. We have also built on our excellent onshore HSE record and extended that into the offshore environment, working closely with the drilling contractor and service companies. Drilling time on the campaign to date is ahead of expectations.

Whilst the low oil price environment clearly presents challenges to our industry, it also creates a time of opportunity for Cairn with the oil field services market having been reshaped following the dramatic fall in the oil price. This has allowed us not only to secure markedly better pricing but also improved and more dependable levels of service as the supply constraints on oilfield service firms' human resources and equipment have been sharply reduced.

Cairn is a focused operator; we move quickly and will continue to bring pace to the Senegal investment where we have been operational for three years. In 2014, we drilled two successful exploration wells and farmed down to improve our risk and equity profile. In 2015, we submitted an ambitious plan to the government, secured a Presidential Decree extending the Petroleum Sharing Contract by the requested three years from Q1 2016, completed a 3D seismic programme and commenced a firm three-well appraisal programme. In Q1 2016, we announced results from two of those follow up appraisal wells which completed operations in January and March.

Following the first appraisal well (SNE-2), Cairn's 2C resource estimate for the SNE field has now increased by 20 percent to 385 million barrels. The positive results of the recent SNE-3 appraisal well are being evaluated and, in combination with ongoing activity, provide the potential for further revisions to resource estimates for the SNE field. The third well (BEL-1) commenced operations in March.

The current programme will increase our understanding of existing discoveries, as well as evaluate prospects and help to plan the longer-term development of the field.

Alongside our activities in Senegal, Cairn has built an attractive mature basin position in the North Sea where our two key UK development projects are supported by a strong balance sheet to take them through to first oil and deliver the cashflows that will sustain our balanced portfolio over the longer term. Catcher remains on schedule and under budget to date and Kraken is also on schedule and under budget with forward capex costs reduced by more than ten percent. We continue to build our North Sea portfolio and we were pleased to be awarded five new Norwegian licences in Q1 2016, including our first as Operator.

We are taking full advantage of the lower industry cost environment as we shape the business for the future. We continue to actively assess new ventures within the context of our balanced offering whether they be potential additions to our portfolio of future exploration opportunities or cash flow generating assets where we believe the current oil price environment gives us the potential to add material value.

In reviewing new investment opportunities we maintain strict economic assessment parameters to ensure that we continue to optimise our capital allocation in a lower oil price environment.

Finally, international arbitration proceedings have commenced with the Government of India to seek resolution of the ongoing retrospective tax dispute. Our claim also seeks to recoup in full the value of which we have been deprived, approximately US\$1 billion. The total assets of the Cairn subsidiary against which the Indian Tax Authorities are seeking to pursue a tax claim are US\$477m, including primarily the group's ~10% shareholding in CIL and any recovery by the authorities would be limited to these assets.

“Following the two world class discoveries in Senegal in 2014, our focus in 2015 was on evaluating the discoveries and drawing up work plans to take advantage of this exceptionally attractive opportunity.”

STRATEGY AND BUSINESS MODEL

DELIVERING VALUE



OUR STRATEGY

Cairn's strategy is to deliver value for shareholders from the discovery and development of hydrocarbons within a sustainable, self-funding business model.



MAINTAINING A
BALANCED
PORTFOLIO



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

HOW WE DELIVERED IN 2015

- Commenced appraisal programme offshore Senegal with successful testing of SNE-2
- Participated in non-operated exploration drilling offshore Western Sahara and in the UK and Norwegian North Sea
- Progressed the Kraken and Catcher developments in the UK to provide cash flow from 2017
- Matured prospects in Senegal for potential future drilling
- Relinquished non-core assets in Morocco, Greenland and the UK
- Applied for licences in the Norwegian 2015 APA and 23rd Licensing Rounds

SEEKING
OPERATIONAL
EXCELLENCE



Deliver operational excellence in all activities and maintain licence to operate.

HOW WE DELIVERED IN 2015

- No lost time injuries and no reportable injuries
- Operated drilling programme commenced in Senegal with successful drilling and testing of the SNE-2 appraisal well
- Completed one operated 3D seismic campaign offshore Senegal
- Two minor spills to the environment, each of less than one litre in volume, occurred during the Senegal campaign

DELIVERING A
SUSTAINABLE BUSINESS



Maintaining a self-funding business plan.

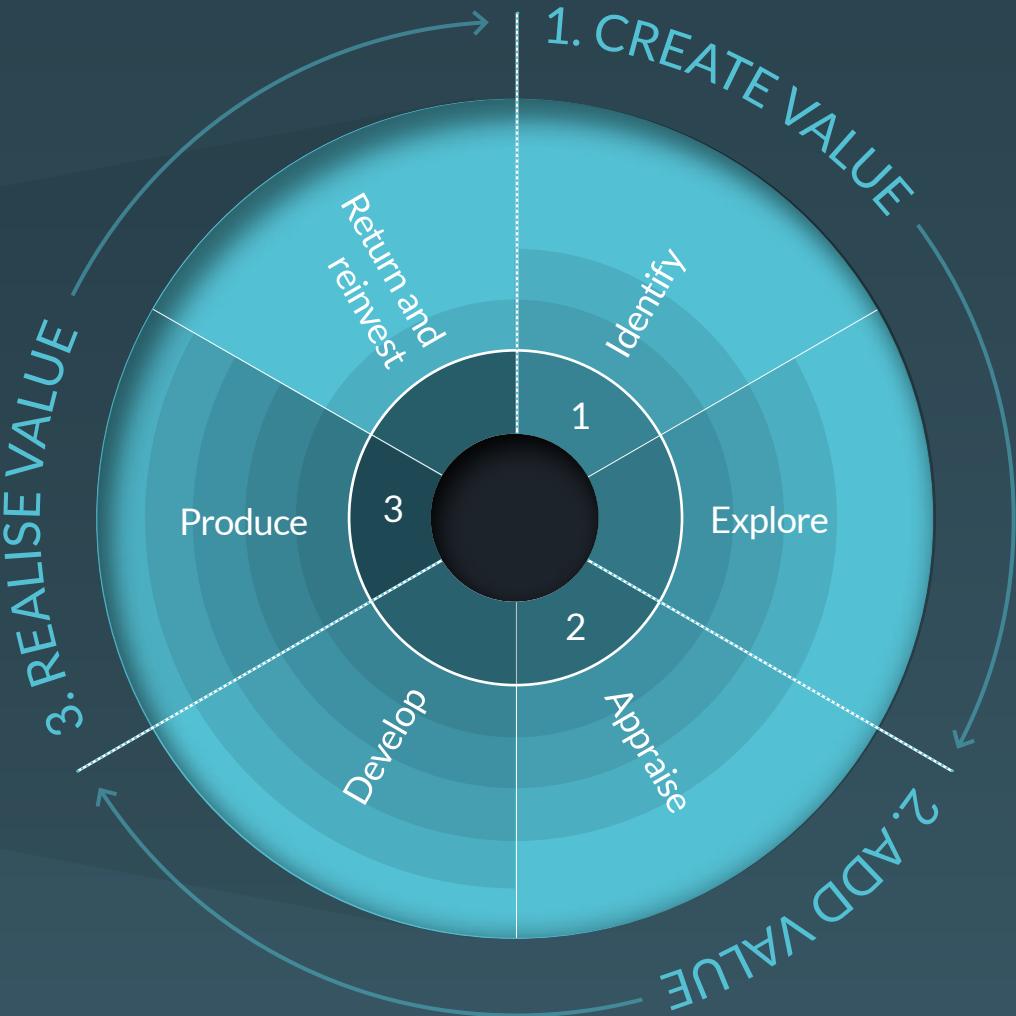
HOW WE DELIVERED IN 2015

- Seven year Reserve Based Lending bank facility remains undrawn
- Cash balance of US\$603m at year end
- Forecast capex for two development projects is under budget. Free cash flow from 2017
- Continued to protect our position in India through international arbitration



OUR BUSINESS MODEL

Cairn’s business model is to create, add and realise value from a balanced portfolio, offering material upside potential from exploration and appraisal activity, supported by established development and production assets with a strong balance sheet behind them. Throughout this process, the portfolio is actively managed to ensure assets are delivering optimum value.



1. CREATE VALUE

Cairn seeks to create value from discovery and development of hydrocarbon resources. Opportunities are advanced from the existing portfolio, from government licensing rounds and through acquisition.

2. ADD VALUE

Cairn looks to add value through optimising existing assets, seeing hidden value in assets that others may have overlooked and through asset swaps and exchanges.

3. REALISE VALUE

Cairn has a proven track record of realising value for shareholders, reinvesting in the business and returning cash to shareholders. Cairn is careful to maintain a strong balance sheet which can fund the Group’s exploration and appraisal programmes, offering growth opportunities.

In 2015, following the success in Senegal and focus of the business on ensuring an appropriately balanced portfolio, Cairn moved towards an organisational structure based around the three groups of: Senegal; UK and Norway; and International. This structure formally came into effect on 1 January 2016 and our operational review is based on these groupings. For accounting purposes, the segmental reporting groupings noted in the 2015 accounts on pages 105 to 154 remain in the previous regional groups of: North-West Europe; Atlantic Margin; and Mediterranean.

BUILDING ON SUCCESS

SENEGAL

BUILDING ON SUCCESS



OPENING A NEW ATLANTIC MARGIN BASIN

Cairn's exploration strategy is focused along the multiple play types formed from the break-up of the supercontinent Pangaea. Our exploration approach is to take large acreage positions with follow-on potential in the event of success. Sensing the size and scale of the opportunity and the value proposition, Cairn's acreage position was created along the underexplored coast of North West Africa, in the deeper water areas adjacent to the shelf edge, where a number of wells were drilled during the 1960s and 1970s.

Cairn has been in Senegal since 2013, and along with its joint venture partners and a supportive government, continues to bring momentum and pace to this investment and operation. Senegal is an exciting place to be, being relatively underexplored territory in which we saw hydrocarbon potential. Oil and gas exploration in Senegal started in the 1950s and only 35 offshore wells have been drilled to date. This compares to 128 wells drilled offshore Ghana since the 1920s and 140 offshore Ivory Coast. Cairn was the first to drill in the deepwater offshore Senegal.

In less than three years, Cairn has taken over the operatorship; drilled two exploration wells, both resulting in oil discoveries; submitted an ambitious and robust block-wide evaluation work programme; acquired further seismic; commenced operations on a further drilling programme; and been awarded a three year extension of the Production Sharing Contract (PSC) up to February 2019.

In March 2013, Cairn farmed-in to three blocks held by joint venture (JV) partners, FAR Limited and PETROSEN, the Senegal national oil company. ConocoPhillips subsequently farmed-in to the blocks three months later, broadening the JV's technical capability, as an international major.

In 2014, Cairn and its JV partners drilled two wells offshore Senegal, discovering oil in both and opening a new basin on the Atlantic Margin. Cairn's operated exploration drilling programme targeted various Mesozoic age passive margin play types at a number of locations. These were the first wells drilled offshore Senegal in 20 years and the first ever deep water wells. The two consecutive discoveries demonstrated an active petroleum system and world class source rocks in FAN-1, early on in the evaluation.

In November 2014, Cairn issued Notices of Discovery for FAN-1 and SNE-1 to the Government of Senegal on behalf of the JV. Cairn estimated that the two discoveries and the identified prospects and leads within the licence area had gross mean risked resource base of more than a billion barrels.

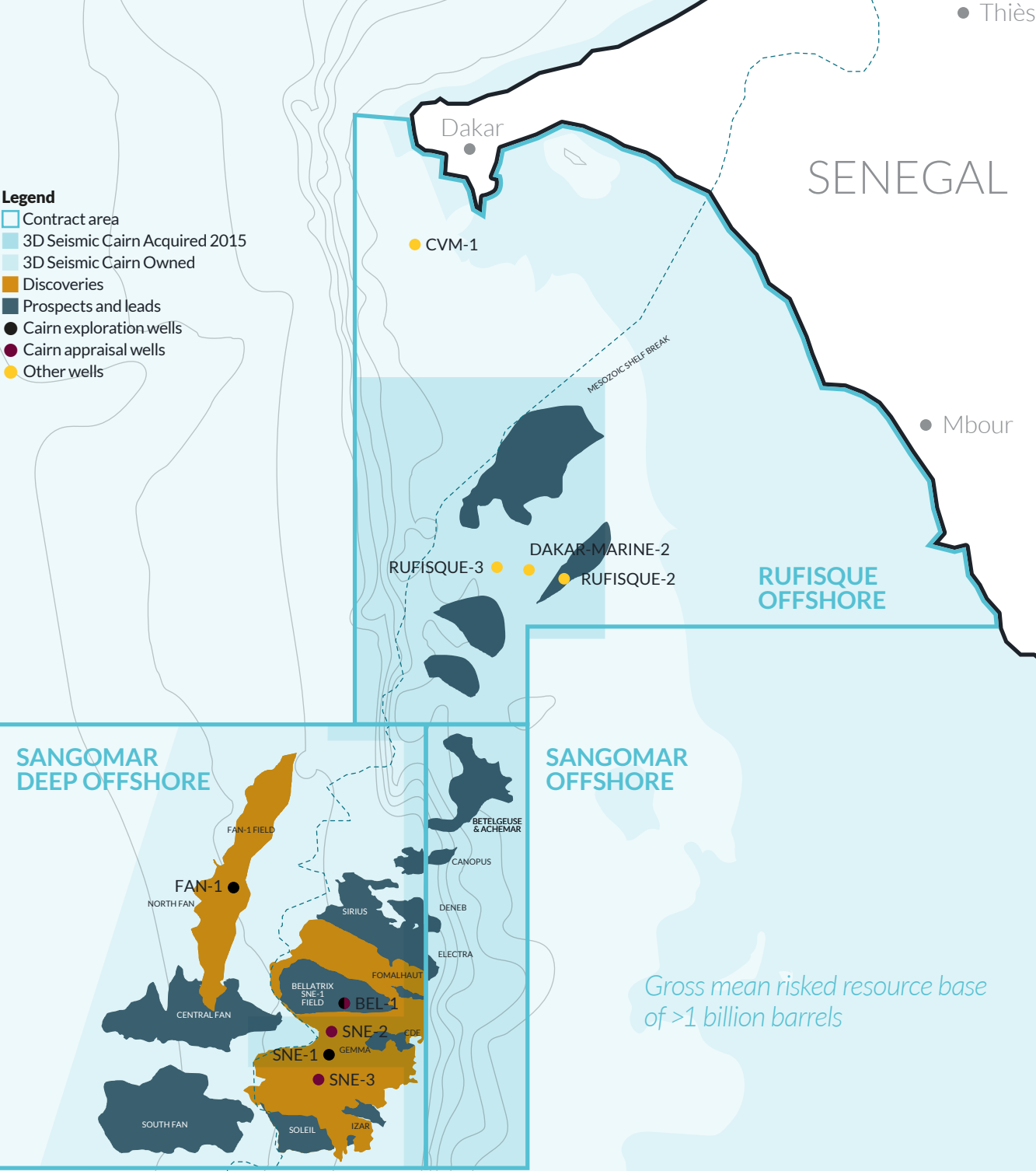
Seeing significant further potential in the acreage, in May 2015, Cairn and its JV partners submitted a three year evaluation work plan to the Government of Senegal. This was the first offshore evaluation programme of its nature in the country. The plan included an initial programme of three firm and three optional exploration and appraisal wells, together with the acquisition of a further 3D seismic and a number of geo-scientific and engineering studies.

With the foundations laid for a multi-phase evaluation plan and focus on maximising value in Senegal and achieving commerciality, Cairn moved into a phase of extensive activity and investment.

Senegal is a great example of Cairn's business model delivering. We had a strong technical belief in the potential of this acreage, which was realised through the two basin opening discoveries made in 2014.

BUILDING ON SUCCESS
CONTINUED

- Legend**
- Contract area
 - 3D Seismic Cairn Acquired 2015
 - 3D Seismic Cairn Owned
 - Discoveries
 - Prospects and leads
 - Cairn exploration wells
 - Cairn appraisal wells
 - Other wells



EXPLORATION AND APPRAISAL PHASE

Cairn commenced operations in September 2015 offshore Senegal with the start of an extensive 3D seismic survey using the Polarcus Adira vessel. The seismic activity, intended to help further define the full potential of the significant acreage position in the eastern point of the licence, covered an area of approximately 2,400km² and lasted three months.

In October 2015, drilling restarted using the Ocean Rig Athena, a 7th generation dual activity drillship under contract from ConocoPhillips, to evaluate the SNE-1 discovery. Cairn's objectives of the programme were to optimise our understanding of the resource base by gathering further data; and to do so as safely, more efficiently and at a lower cost than the initial exploration phase.

In November 2015, Cairn received a three-year extension to the PSC. The extension, until 6 February 2019, will give the joint venture appropriate time to appraise the two discoveries and evaluate the further exploration potential of the remaining area within the PSC.

At the beginning of 2016, the positive results of the first appraisal well offshore Senegal, SNE-2, were announced. Successful flow testing from two different reservoir sections, one at a constrained rate of ~8,000 bopd from high quality lower reservoir and the other at ~1,000 bopd from a relatively low quality upper reservoir unit, confirmed that both are able to produce at viable rates and thus make a material contribution to resource volumes.

Cairn plans to have completed a minimum of three wells by the second half of 2016.

SUPPORTING THE GOVERNMENT'S OBJECTIVE OF DEVELOPING ENERGY RESOURCES

Cairn's objective is to build a resource base that can be developed to maximise the value which could be created for Senegal and improve energy security for the country. This supports the Government of Senegal's objective of developing energy resources to address the imbalance between energy supply and demand.

Senegal has a long history of stable democracy. Since gaining independence from France in 1960, Senegal has been successful in exercising political participation and peaceful leadership, providing an ideal base for diversified economic growth. Its US\$15bn economy is one of the larger economies in West Africa. The country's social and economic development however, has been constrained by limited access to energy. Its economy presently relies on oil imports. Finding a sustainable source of oil and gas offshore Senegal would benefit the national economy, local communities, businesses and the Government of Senegal, providing valuable taxation revenues whilst also creating longer term national energy security and potential export revenues.

Politics in Senegal takes place within the framework of a democratic republic, being part of one of the most successful democratic transitions in Africa. The President of Senegal is the head of state and the Prime Minister of Senegal, the head of government.

Elected in 2012, President Macky Sall's vision is to accelerate economic growth through attracting foreign investment, thereby reducing the country's dependence on fishing, agriculture and tourism. President Macky Sall is a geoscientist and former Director General of national oil company, PETROSEN.

The Government of Senegal established a petroleum code in 1998, which fixes the terms for exploration and exploitation of hydrocarbons in Senegal. This code provides the framework for the PSC which Cairn, as Operator, is party to with the Government of Senegal.

PETROSEN is a vital partner to Cairn, both through the JV, and as regulator and advocate to the Ministry of Energy. PETROSEN has an option to increase its equity position up to 18% on commencement of development of the SNE field.

The Government of Senegal announced its decision to join the Extractive Industries Transparency Initiative (EITI), of which Cairn is a member, in 2012. This voluntary initiative is a global standard to ensure transparency of payments from natural resources. Countries implementing the EITI must disclose information on tax payments, licences, contracts, production and other key elements around resource extraction.

DAKAR AS A PLACE TO DO BUSINESS

Senegal's capital, Dakar, is compact with an estimated population of more than one million people and is the hub for French-speaking West Africa. Located on the Cap-Vert Peninsula on the Atlantic coast, Dakar's position, on the western edge of Africa, is an advantageous departure point for trans-Atlantic and European trade; a fact that has aided its growth into a major regional port.

Dakar is an excellent transport hub: as well as being one of the biggest ports in West Africa, with all the assets necessary to accommodate the newest generation of ships, it has a well-positioned airport. Dakar port, at the northern tip of our acreage, is being used by Cairn as the primary supply base for offshore support, vessel crew change and waste handling for the evaluation campaign. Dakar airport is used for crew changes for helicopters serving the operations offshore.

Dakar has excellent diplomatic and consular representation. The US's largest embassy in West Africa is based there, as is a regional British embassy and embassies of most European countries. The International Finance Corporation (IFC) and the World Bank are well represented in Senegal too.

BUILDING ON SUCCESS
CONTINUED

Picture:
'The Hunger Project'
by Johannes Odé.



Cairn and the JV are committed to ensuring that its activities deliver positive, lasting social and economic benefits in Senegal.



Picture: The Great Entrepreneur
British Council competition.





LONG-TERM LEGACY

Cairn and the JV are committed to business activities that deliver positive, lasting social and economic benefits in Senegal.

Through targeted social investment, we work to help develop community assets and support educational and enterprise opportunities. We seek to work with credible and effective local partners in programmes to maximise the value of our activities in the areas where we operate.

Throughout 2015, we carried out a range of investments focused on developing the capacity of institutions and businesses in Senegal, some of which support both our current and potential future operations and some the wider community. Our stakeholder engagement programme featured opportunities to encourage entrepreneurial spirit and assist local businesses to expand, highlights of which were:

GREAT ENTREPRENEUR AND ECOBAG

In our second year of operations in Senegal, we supported the British Council’s ‘Great Entrepreneur’ competition: an initiative of the British Council aimed at encouraging young local entrepreneurship.

We also provided investment in ECOBAG, last year’s winner of the inaugural event.

ECOBAG collects plastic waste from neighbourhoods for conversion to recycled plastic pellets for sale on to producers of plastic products. The project promotes waste recycling and a community rubbish collection system. Our support enabled the purchase of improved equipment to grow the business and promote HSE standards on site.

LANGUAGE TRAINING FOR KEY STAKEHOLDERS AND STUDENTS

Cairn approved a rolling programme of English language training for officers of the ministries and departments involved in the energy sector. Candidate selection was done by the ministry departments and courses facilitated by the British Council.

With the aim to provide future geology and engineering students with English language skills and other relevant business skills, English language training and basic presentation skills classes were given to 29 students of the Institute of Earth Sciences (IST). These were, again, facilitated by the British Council.

MICROFINANCE PROJECT (THE HUNGER PROJECT)

We provided finance to The Hunger Project to support a women-led microfinance programme in Senegal.

Senegal was the first country of intervention for The Hunger Project in Africa, where it has been working since 1991. The Hunger Project now has 10 ‘epicentres’ in Senegal that cumulatively serve a population of over 178,000 across 211 villages. Through the epicentre strategy, approximately 15,000-25,000 people are brought together in a cluster of rural villages and giving these villages more influence with local government and better access to basic services, and increasing a community’s ability to collectively utilise resources.

The microfinance project encompasses financial management training and seed funds for a micro loans and savings facility for rural communities within the epicentres. It supports women in building their leadership capacities and income-generating and business skills, and empowers them to play a stronger role in their community.

Picture: Cairn funds English language training, facilitated by the British Council.

FOCUS ON NORTH SEA

Picture: Loadout of a drilling template for the Catcher development.



Cairn has an experienced team dedicated to the UK and Norway with offices in London and Stavanger. In 2015, the Kraken and Catcher developments were progressed, and are on-track for first oil from 2017.

DEVELOPING
ASSETS
NORTH SEA

Cairn has built a strong position in the UK and Norway by acquiring exploration, appraisal and development assets and participating in licence rounds.

Here Brita Holstad, Regional Director – UK and Norway, answers some key questions.

Tell us about your experience in the oil and gas industry. I have worked over 25 years in the sector, primarily on the Norwegian Continental Shelf, but I also spent three years early in my career in France where I worked on fields offshore Congo. I hold an MSc in Petroleum Geology from the Norwegian Institute of Technology and through most of my career I have worked technically. Prior to joining Cairn in 2013, I worked for Elf, Aker Kvaerner, Revus Energy ASA, Wintershall Norge AS and Hess. I joined Cairn from Hess Norge AS where I served as Managing Director.

What is your role as UK/Norway Regional Director? I lead the UK and Norway team to maintain and grow a strong prospect inventory capable of increasing our resources and reserves, participating in material exploration and bringing discoveries into production. We also look to identify new venture opportunities, actively manage the portfolio in the region and ensure we deliver safe and cost-effective work programmes. As is the case across the Cairn Group, HSE and corporate responsibility are obviously at the forefront of our business.



How many years' experience in UK /Norway does the Cairn team have and over what variety of geologies?

I am pleased to have a very experienced team working the UK/Norway region with worldwide experience from all relevant depositional systems within our region. With an average of 22 years in the industry between them and specialities within exploration, appraisal, development and production, we are in charge of Cairn's exploration and development activity in the region. This includes the Kraken and Catcher development projects in the UK and the Skarfjell discovery in Norway, as well as our exploration activity both in the UK and on the Norwegian Continental Shelf including the Barents Sea. The UK and Norway region is a key focus of the Group and during 2015 we have grown the Norwegian team and moved into larger offices at Hinna Park in Stavanger.

What is Cairn's role as non-operator on the Kraken and Catcher projects? Our role as non-operator involves oversight, challenge and assurance within the joint venture. The Cairn Operating Standards are reflected in our Management System that describes how we assure our non-operated interests, considering matters such as work programme, legal and regulatory matters, HSE and corporate responsibility. We work closely with the operators of the projects to maximise potential of the fields, ensure efficiency of the developments and progress towards the projects becoming producing assets in our portfolios.

What is the attraction to Cairn of Catcher and Kraken? Cairn entered these assets through corporate acquisitions undertaken to expand and rebalance the Group's portfolio. At that time, they were both pre-sanction fields, so we have been involved throughout the development

process and today they represent a core part of the Group's strategy to build steady future cash flows to sustain the business model and fund future global exploration.

How important are these developments to the UKCS? Kraken and Catcher are two of the largest ongoing development projects in the UK North Sea. The assets will provide peak net production to Cairn of 25,000 boepd. At this peak of production in 2017-2018, it is anticipated that Kraken and Catcher combined could account for around 7% of UK total daily boe production (Oil and Gas UK Activity Survey 2014).

How are the developments progressing?

Catcher is progressing on schedule and under budget to date to deliver first oil in the second half of 2017. Key milestones achieved during the year include the planned subsea installation work and the 60km gas export pipeline being successfully laid and tied in. Fabrication of the subsea equipment is on schedule and drilling activities which started in July using the Ensco 100 rig progressed well, with excellent operational performance. Fabrication of the FPSO hull and topsides is ongoing in Asia, following mitigating actions put in place by the FPSO provider BW Offshore to address initial scheduling issues. The first major FPSO hull section was successfully delivered in December to the yard in Japan from South Korea. The Kraken project continued on schedule and overall forward capex reductions of US\$300m were implemented compared to the capital expenditure at the sanction of the project. In 2016, the development continues to make strong progress, in particular the critical path conversion programme for the Kraken FPSO vessel is on schedule for commissioning and hook up, with production in H1 2017. The drilling programme

is focused on drill centres one and two and is currently ahead of schedule.

How are the developments impacted by the current low oil price? The developments are both taking advantage of the lower cost environment to reduce costs. Kraken, for example, is currently expected to reach first oil at a cost of 10% less than the project sanction estimate. With production from these assets anticipated from 2017, current low oil prices are not impacting cash flows, and each project is robust in a lower price environment.

In addition to the developments and current exploration prospects in the region, what new venture activity took place in 2015 and what is in store for 2016? We were delighted to pre-qualify as operator in Norway in 2015. In January 2016, we were awarded our first operated licence in Norway in addition to non-operated interests in four exploration licences through the APA (Awards in Pre-defined Areas) 2015 Licensing Round.

In December 2015, we filed applications in the 23rd Licensing Round in Norway where awards are expected in Q2 2016. We have through the year continued to review a large number of farm-in opportunities that arose throughout the year.

With new seismic being acquired both in the UK and in Norway, we will continue to mature our exploration acreage towards drillable prospects in 2016, in addition to evaluating opportunities in the APA 2016 Licensing Round in Norway and reviewing farm-in opportunities.

In the current low oil price environment there are investment opportunities; but we are rigorous and disciplined in looking for the right ones.

KEY PERFORMANCE INDICATORS (KPIs)
2015

MEASURING PROGRESS
IN 2015



Cairn has in place both financial and non-financial KPIs which are used to monitor progress in delivering the Group’s strategy. The 2015 KPIs, which were set out on page 20 of the Annual Report and Accounts 2014, related to delivering exploration and appraisal success, portfolio management, seeking operational excellence, maintaining licence to operate and delivering a sustainable business.

The final decision on the overall achievement of the 2015 KPIs was made at the Remuneration Committee meeting in February 2016.

DELIVER EXPLORATION AND APPRAISAL SUCCESS

PURPOSE GROW THE RESERVES AND RESOURCES BASE TO PROVIDE A BASIS FOR FUTURE GROWTH

2015 KPI	MEASUREMENT	2015 PERFORMANCE	KPI REMUNERATION COMMITTEE DECISION
Invest in exploration and appraisal activities which add net 2C resources in excess of 20 mmboe	– Evidence of commercial discoveries based on 2C resources. – Net volumes discovered or added versus the 20 mmboe target. – The finding efficiency expressed in US\$/boe.	– Five exploration and appraisal wells were drilled in 2015. – 35.9 mmboe net 2C were added to the resource base from the SNE-2 Senegal appraisal well (which was appraising the P50 330 mmbbls gross discovery) and the West of Kraken well, enabling the Company to achieve a reserves/resources replacement ratio in excess of 100%. – The Atlas and Crossbill wells in the Norwegian North Sea and Al Khayr well in Western Sahara were unsuccessful at the primary exploration target. – Overall finding efficiency was ranked in the second quartile.	Substantially achieved
26 Read more: <i>Operational review</i> P26-31			

PORTFOLIO MANAGEMENT

PURPOSE ACTIVE PORTFOLIO MANAGEMENT AND ACREAGE PROTECTION

2015 KPI	MEASUREMENT	2015 PERFORMANCE	KPI REMUNERATION COMMITTEE DECISION
Mature high impact exploration prospects ready for drilling in 2016 or 2017	– Mature a minimum of four new independent ‘drill-ready’ prospects which meet investment criteria and which could be considered for drilling in 2016 or 2017.	– A Group prospects review was held in Q4 2015 and one independent and two partially dependent prospects were identified in Senegal. – In Norway, the Group participated in the 2015 APA Licensing Round and was successful in all five applications. The Group also participated in the 23rd Barents Sea Licensing Round where licence awards are expected in Q2 2016. – Prospectivity in Mauritania and the Republic of Ireland continues to be assessed.	Partially achieved
26 Read more: <i>Operational review</i> P26-31			

2015 KPI	MEASUREMENT	2015 PERFORMANCE	KPI REMUNERATION COMMITTEE DECISION
Maximise acreage retention for the Sangomar, Sangomar Deep and Rufisque blocks in Senegal	- Submission of evaluation plan. - Extension of PSC.	Following the SNE-1 well discovery in 2014, a full field long-term evaluation programme was submitted to and approved by the Senegalese authorities in 2015. Subsequently, the authorities granted a three year extension to the PSC for the Sangomar, Sangomar Deep and Rufisque blocks.	Fully achieved
26 Read more: <i>Operational review</i> P26-31			

DELIVER OPERATIONAL EXCELLENCE

PURPOSE DELIVER OPERATIONAL EXCELLENCE IN ALL 2015 ACTIVITIES AND MAINTAIN LICENCE TO OPERATE

2015 KPI	MEASUREMENT	2015 PERFORMANCE	KPI REMUNERATION COMMITTEE DECISION
Deliver all operated and non-operated asset projects (technical studies, surveys, seismic and drilling programmes) on schedule and budget (including manpower costs), with full data recovery	Projects delivered within expected timeframe and within budget.	- Senegal Rufisque-Sangomar 3D seismic acquisition, which was the Group's primary operated seismic project in 2015, was successfully completed in Q4 2015. The data was acquired safely and without major incident on schedule and under budget. - Seismic delivery for non-operated projects, principally in Norway and Morocco, was behind schedule.	Partially achieved
26 Read more: <i>Operational review</i> P26-31 and <i>Financial review</i> P32-35			
Progress North Sea development projects, remaining within 10% of capital guidance and first oil dates scheduled within six months of Final Investment Decision (FID) base case estimates	Reference should be made to the original FID cases reflected in the Investment Proposals for Kraken and Catcher versus the YE 2015 status of the projects.	- The Catcher and Kraken projects are progressing well. The Catcher project remains within 10% of capital guidance whilst capex on the Kraken project has been reduced by more than 10%. - Catcher and Kraken remain on schedule to deliver first oil in 2017.	Fully achieved
26 Read more: <i>Operational review</i> P26-31 and <i>Financial review</i> P32-35			
Secure a suitable rig for further exploration and appraisal in Senegal	Contract terms acceptable to the Board, with firm slots allocated to mature opportunities.	- Following a rig selection process in Q1 2015, the JV secured the Ocean Rig Athena for drilling in Q4 2015. - The costs for both the rig and associated support services were significantly lower than the previous drilling campaign in 2013/14.	Fully achieved
26 Read more: <i>Operational review</i> P26-31 and <i>Financial review</i> P32-35			

KEY PERFORMANCE INDICATORS CONTINUED
2015

MAINTAIN LICENCE TO OPERATE

PURPOSE DELIVER ACTIVITIES WITH A FOCUS ON THE SAFETY OF PEOPLE AND THE ENVIRONMENT

			KPI REMUNERATION COMMITTEE DECISION
2015 KPI	MEASUREMENT	2015 PERFORMANCE	
Minimise injuries and environmental incidents in 2015 operated activities: – Total Recordable Injury Rate (TRIR) target of less than 2.0 TRI/million hours – No oil spills to the environment	– TRIR. – Number of oil spills to the environment.	– The TRIR for 2015 was zero per million hours. – Two minor spills to the environment, each of less than one litre in volume, occurred during the Senegal campaign. 44 Read more: <i>Working responsibly</i> P44-61	Substantially achieved
Achieve targets for HSE leading performance indicators (LPIs) linked to elements of the HSE culture framework	– Progress against HSE LPIs.	– CRMS was substantially revised in line with latest IOGP guidance. – Extensive contractor management programme completed including acceptance and readiness audits for Senegal project. – Worked closely with JV partners in Western Sahara to monitor and track human rights issues through to completion of the drilling programme. Ongoing engagement post completion of drilling programme. – Stakeholder engagement strategy and investment programme developed and is being implemented in Senegal. – Enhanced the risk assessment process for travellers to 'high risk' countries. 44 Read more: <i>Working responsibly</i> P44-61	Substantially achieved

DELIVER A SUSTAINABLE BUSINESS

PURPOSE MAINTAIN A SELF-FUNDING BUSINESS PLAN

			KPI REMUNERATION COMMITTEE DECISION
2015 KPI	MEASUREMENT	2015 PERFORMANCE	
Maintain liquid reserves including undrawn committed banking facilities to meet planned funding commitments plus a cushion at all times	Development of a funding strategy to optimise deployment of risked capital whilst maintaining adequate financial downside protection.	32 Read more: <i>Financial review</i> P32-35 The Group remains funded to deliver its firm exploration, appraisal and development programme through to free cash flow from 2017.	Substantially achieved
2015 KPI	MEASUREMENT	2015 PERFORMANCE	KPI REMUNERATION COMMITTEE DECISION
Make tangible progress on Cairn India Limited (CIL) shares freeze	Release of CIL shares or significant advancement on process to release CIL shares.	32 Read more: <i>Financial review</i> P32-35 - Proceedings against the Government of India under the UK-India Investment Treaty seeking resolution of the retroactive tax dispute have now formally commenced following agreement with the Government of India on the appointment of the arbitration panel. - Cairn has a high level of confidence in its case under the UK-India Investment Treaty and, in addition to resolution of the retroactive tax dispute, its statement of claim to the arbitration panel will seek damages equal to the value of Cairn's residual shareholding in CIL at the time it was attached (approximately US\$1 billion).	Partially achieved

KEY PERFORMANCE INDICATORS CONTINUED
2016

SETTING GOALS
FOR 2016 AND BEYOND



The 2016 Group KPIs in the table below were set by the Board in December 2015 and are based on the Group’s current portfolio, prospects and objectives set out in the 2016 Business Plan.

DELIVERING EXPLORATION AND APPRAISAL SUCCESS

PURPOSE GROW THE RESERVES AND RESOURCES BASE TO PROVIDE A BASIS FOR FUTURE GROWTH

OBJECTIVE	2016 KPI	RISKS TO THE ACHIEVEMENT OF KPI
Maximise value in Senegal	Progress the SNE discovery through the prudent investment of capital funds, de-risking the path to commerciality in a cost-effective and timely manner. This will be assessed on the 2C valuation, the 3C/1C ratio and the total cumulative E&A investment divided by the 2C resources.	– Lack of exploration or appraisal success. 36 Read more: <i>How we manage risk</i> P36-42
Achieve exploration success through discovery or addition of commercial hydrocarbons in 2016	Invest in exploration opportunities with due consideration to finding efficiency, calculated at the estimated cost to take a project to FID divided by the discovered 2C resource.	– Lack of exploration or appraisal success. – Reliance on JV operators for asset performance. 36 Read more: <i>How we manage risk</i> P36-42

PORTFOLIO MANAGEMENT

PURPOSE ACTIVE PORTFOLIO MANAGEMENT AND ACREAGE PROTECTION

OBJECTIVE	2016 KPI	RISKS TO THE ACHIEVEMENT OF KPI
Portfolio optimisation and replenishment	Develop an inventory of exploration and appraisal opportunities, including prospects and leads which meet Cairn’s technical and commercial criteria and can provide drilling opportunities for the period 2017 onwards.	– Inability to identify or secure prospective acreage at prices which can generate reasonable returns. 36 Read more: <i>How we manage risk</i> P36-42

DELIVER OPERATIONAL EXCELLENCE

PURPOSE DELIVER OPERATIONAL EXCELLENCE IN ALL 2016 ACTIVITIES

OBJECTIVE	2016 KPI	RISKS TO THE ACHIEVEMENT OF KPI
Successfully complete operated and non-operated 2016 work programme	Deliver all operated and non-operated E&A projects (technical studies, surveys and seismic) on schedule and budget, with full data recovery.	– Operational and project performance. – Reliance on JV operators for asset performance. – Staff recruitment and retention. 36 Read more: <i>How we manage risk</i> P36-42
	Progress North Sea development projects, on time and budget.	– Kraken and Catcher development activities and production start-up not executed on schedule and budget. – Reliance on JV operators for asset performance. 36 Read more: <i>How we manage risk</i> P36-42

MAINTAIN LICENCE TO OPERATE

PURPOSE DELIVER VALUE IN A SAFE, SECURE AND ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE MANNER

OBJECTIVE	2016 KPI	RISKS TO THE ACHIEVEMENT OF KPI
Deliver activities with a focus on the safety of people and the environment	Minimise injuries and environmental incidents in 2016 operated activities: – TRIR target of less than 2.0 TRIR/million hours. – No oil spills to the environment.	– Health, safety, environmental and security incidents. 36 Read more: <i>How we manage risk</i> P36-42
Continue to enhance the Group’s HSE culture, behaviours and approach	Achieve targets for HSE LPIs linked to elements of the HSE Culture Framework.	– Health, safety, environmental and security incidents. 36 Read more: <i>How we manage risk</i> P36-42

DELIVER A SUSTAINABLE BUSINESS

PURPOSE MAINTAIN A SELF-FUNDING BUSINESS PLAN

OBJECTIVE	2016 KPI	RISKS TO THE ACHIEVEMENT OF KPI
Manage balance sheet strength	Maintain liquid reserves including undrawn committed banking facilities to meet planned funding commitments plus a cushion at all times. 36 Read more: <i>How we manage risk</i> P36-42	– Operational and project performance. – Kraken and Catcher development activities and production start-up not executed on schedule and budget. – Inability to access internal or external funding. – Restriction on ability to sell CIL shareholding. – Uncertainty in fiscal regimes.
	Make tangible progress on Cairn India Limited (CIL) shares freeze by progress of action under the UK-India Investment Treaty.	

OPERATIONAL REVIEW

Richard Heaton, Director of Exploration

A BALANCED PORTFOLIO



Across the portfolio Cairn seeks to acquire significant acreage positions, at appropriate equity levels, in areas we believe have high technical and commercial potential and where, in the case of initial success, we have the financial capability to leverage our knowledge and create value.

A handwritten signature in black ink, reading 'R Heaton'.

RICHARD HEATON

Director of Exploration
14 March 2016

We continually evaluate the entire portfolio to ensure that our equity is at appropriate levels to offer potential growth opportunities.

SENEGAL PROGRAMME CONTINUES SNE-3 APPRAISAL WELL

The SNE-3 appraisal well offshore Senegal was successfully tested in Q1 2016. The flow rates validated the scale and growth potential of the SNE field and demonstrated the ability of the upper reservoirs to flow at commercially viable rates.

Two drill stem tests were conducted within the Upper Reservoirs, confirming the deliverability of these units: multiple samples of oil and gas were recovered to surface from wireline logs and drill stem tests, giving confirmation of similar reservoir quality and correlation of the principal reservoir units between SNE-1, SNE-2 and SNE-3.

Initial indications confirm the same 32 degree API oil quality as seen in SNE-1 and SNE-2.

The SNE-3 well was the second in a multi-well evaluation programme that included comprehensive coring (360m of core has now been collected across SNE-2 and SNE-3) and testing to help delineate the shape of the structure and define the aerial extension to the south, establishing deliverability and the full potential of the field.

The well, located in 1,186m water depth and approximately 95 kilometres offshore in the Sangomar Offshore block, reached the planned total depth of 2,782m below sea level and appraised the southern extent of the field containing the 2014 discovery of high quality oil in the SNE-1 well, some 3km to the north-east.

Cairn's analysis of the extensive dataset collected is continuing. This comprehensive information will allow the JV to determine the further oil potential of the SNE-1 discovery and underpin the longer term field development plan.

WHERE WE ARE FOCUSED

SENEGAL

Along the underexplored coast of Senegal, North West Africa, Cairn's acreage position is in the deep water areas adjacent to the shelf edge where a number of early wells were drilled during the 1960s and 1970s. In 2014, Cairn drilled two wells discovering oil in both and opening up a new basin on the Atlantic Margin. Cairn's operated exploration drilling programme is targeting various Mesozoic age passive margin play types at a number of locations. These were the first wells drilled offshore Senegal in 20 years and the first ever deep water wells.

In November 2015, Cairn received a three year extension to the Production Sharing Contract, up to February 2019. This will allow Cairn time to appraise the two discoveries and evaluate the further exploration potential of the area.

UK AND NORWAY

Cairn has built a strong position in the UK and Norway with interests in two major UK North Sea developments, Catcher and Kraken, and in the discovery, Skarvfjell, in the earlier stage of planning in Norway. Cairn has continued to build an exploration portfolio to leverage its subsurface knowledge and operational synergies to access the maximum commercial value of each area.

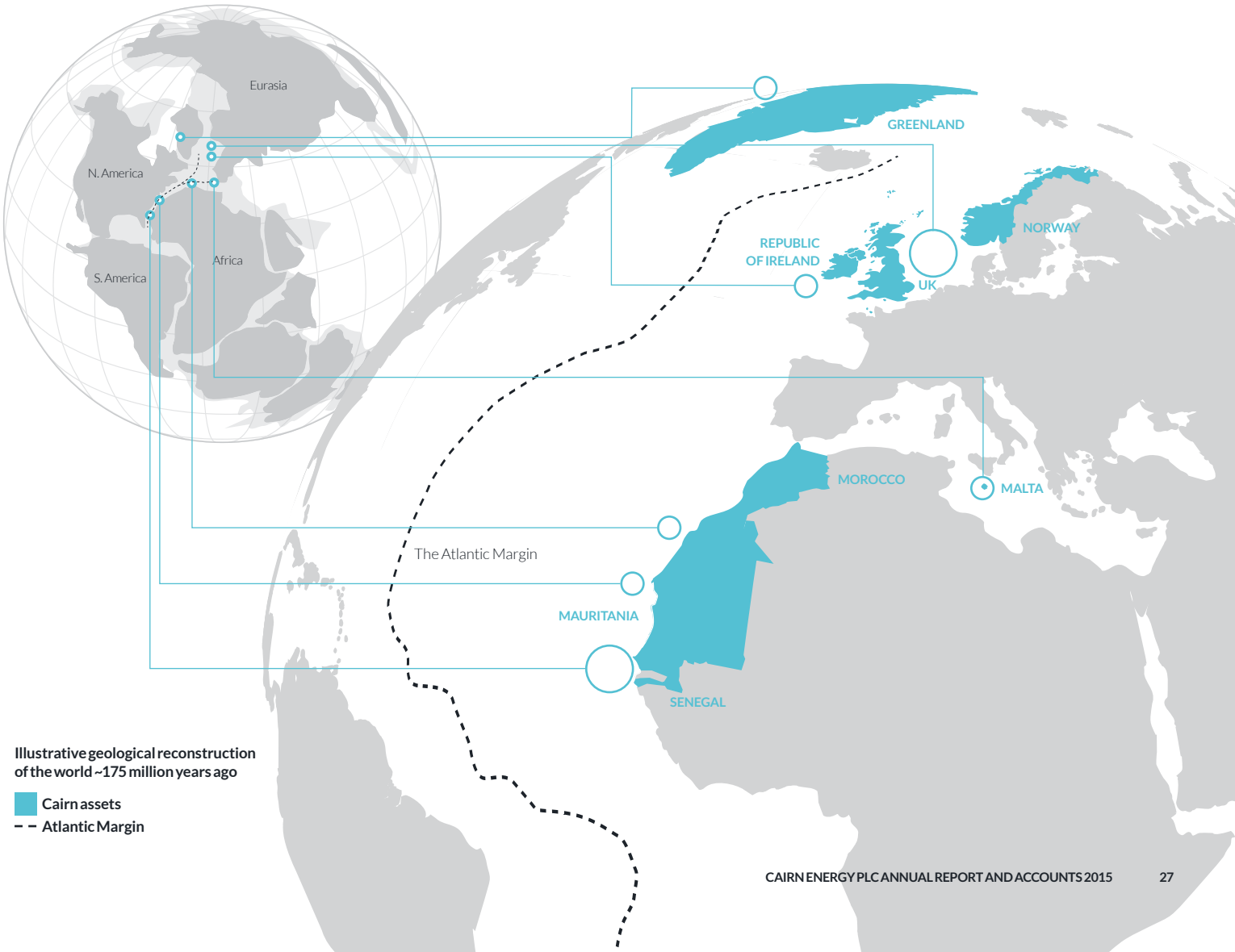
The UK and Norwegian continental shelves offer the potential for a balanced portfolio of opportunities involving a mixture of mature and emerging basins which themselves offer the potential for growth.

INTERNATIONAL

As part of our longer term frontier exploration programme, Cairn has a number of additional opportunities including offshore Morocco's Atlantic coast; offshore Republic of Ireland's west coast; and a non-operated interest offshore Mauritania in West Africa.

OUTLOOK

As a result of its significant value potential, Senegal will be the key focus for Cairn in 2016. Our attention is on confirming the scale of our Senegal discovery, expanding the resource base and moving it towards commercialisation. Our two developments in the UK North Sea remain on schedule and on budget with first oil from 2017. This activity is set against a backdrop of a balanced, well-funded company with a continued focus on allocation of capital and resources. We are well placed to take advantage of this exciting opportunity.



Illustrative geological reconstruction of the world ~175 million years ago

■ Cairn assets
--- Atlantic Margin

OPERATIONAL REVIEW
CONTINUED

SENEGAL

Cairn has been active in Senegal since 2013 and drilled two successful exploration wells in 2014.

2015 activity

- 1 operated appraisal well (further wells in 2016)
- 1 operated 3D seismic acquisition
- 3 year extension to PSC

 Discover more: *Our assets*
www.cairnenergy.com/operations



SENEGAL

Cairn has been active in Senegal since 2013 and drilled two wells in 2014, discovering oil in both and opening a new hydrocarbon basin on the Atlantic Margin, with the SNE-1 discovery recognised as the largest global oil discovery in 2014.

These were the first wells to be drilled offshore Senegal in more than 20 years and the first deep-water wells. The success of the programme and the discoveries have attracted the attention of the global oil industry.

Cairn and its JV partners submitted a three year evaluation work plan to the Government of Senegal in Q2 2015. The programme was designed to lay the foundation for a long term, multi-field, multi-phase exploitation plan. The approved current programme has three firm and three optional exploration and appraisal wells and drilling started in Q4 2015 focused on the acreage around the SNE-1 discovery well. Cairn estimates that the existing two discoveries and the currently identified prospects and leads have an estimated mean risked resource base of more than one billion barrels.

The key objectives of this second phase of drilling are to derisk the resource base to demonstrate the commerciality of the SNE field, to optimise our understanding of the reservoir characteristics and begin development planning, and to test further prospectivity around the existing discoveries.

The first appraisal well, SNE-2, completed testing in January 2016 with positive results. Operations were safely and successfully completed following drilling, coring, logging and drill stem testing (DST). The well tests were significant in demonstrating the ability of the reservoirs to flow at commercially viable rates. SNE-2 was a crestal well in a central location on the field, located in 1,200 metres (m) water depth, approximately 100 kilometres (km) offshore in the Sangomar Offshore block. The well reached planned total depth (TD) of 2,800m below sea level (TVDSS) and appraised the 2014 discovery of high quality oil in the SNE-1 well, 3km to the south. Drill stem testing over a 12m interval of high quality pay flowed at a maximum stabilised, but constrained rate of ~8,000bopd on a 48/64" choke, confirming the high deliverability of the principal reservoir unit in the SNE-2 well.

The second appraisal well, SNE-3, commenced operations in January 2016 on the Southern Flank to test the southern extent of the field and to help delineate the shape of the structure and define the aerial extension to the south. The SNE-3 well was located in 1,186m water depth, approximately 95km offshore in the Sangomar Offshore block, and reached the planned TD of 2,782m below sea level TVDSS. In early March 2016, it was announced that operations were safely and successfully completed following drilling, coring, logging and DST. Two drill stem tests were conducted within the Upper Reservoirs, confirming the deliverability of these units and multiple samples of oil and gas were recovered to the surface from wireline logs and drill stem tests. The results demonstrated the ability of the upper reservoir to flow at commercially viable rates and confirmed similar reservoir quality and correlation of the principal reservoir units between SNE-1, SNE-2 and SNE-3 and initial indications confirm the same 32 degree API oil quality as seen in SNE-1 and SNE-2.

Cairn has a 40% WI as Operator in three blocks offshore Senegal.



The rig has moved to drill the third committed well, exploration well BEL-1, which will test the Bellatrix prospect and then be deepened as an appraisal well to evaluate the northern extent of the SNE field.

A 3D seismic acquisition programme of ~2,400km² over the Sangomar Offshore block and south west part of the Rufisque block was completed in December 2015 with the objective of developing additional prospectivity to a drill ready status in 2016.

Cairn has a 40% WI as Operator in three blocks offshore Senegal (Sangomar Deep, Sangomar Offshore and Rufisque); ConocoPhillips has 35% WI, FAR Limited 15% WI and Petrosen, the national oil company of Senegal, 10% WI. The three blocks cover 7,490km².



OPERATIONAL REVIEW

CONTINUED

UK AND NORWAY

Cairn has built a strong position in the UK and Norway by acquiring exploration, appraisal and development assets and participating in licence rounds.

2015 activity

- Kraken and Catcher developments progressed
- 1 non-operated well, UK
- 1 non-operated well, Norway



Discover more: **Our assets**
www.cairnenergy.com/operations



UK AND NORWAY DEVELOPMENTS

Cairn has built a strong position in the UK and Norway by acquiring exploration, appraisal and development assets and participating in licence rounds. The mature basins of the North Sea provide balance to the broader exploration portfolio and will deliver free cash flow to sustain future exploration. The North Sea is an active market for asset transactions enabling Cairn to continually optimise its position within the region as well as its wider capital allocation.

Kraken and Catcher, two of the largest ongoing development projects in the UK North Sea are the Group's core development projects and a third, the Skarfjell discovery in Norway, is in the early stages of development planning. Kraken and Catcher will provide free cash flow from 2017 with peak net production to Cairn of ~25,000 boepd.

CATCHER

Catcher is progressing on schedule and under budget to date to deliver first oil in the second half of 2017. Key milestones have been achieved during the year including the subsea installation work planned for 2015, which was completed with the successful installation of the pipeline end manifold and tow templates at Catcher and Burgman. In addition, the 60km gas export pipeline was successfully laid and tied in during July with minimal weather downtime. Fabrication of the subsea equipment including flowline bundles and associate towheads, the buoy and the mid water arches, which are all due to be installed in the summer of 2016, is on schedule.

Drilling activities which started in July using the Ensco 100 rig progressed well, with excellent operational performance. The three Catcher wells, two injectors (CTI1 and CCI2) and one producer (CCP3), all met or exceeded pre-drill expectations in

terms of reservoir quality and flow rates. In addition, the injection well tests successfully demonstrated that water can be injected into the field.

Fabrication of the FPSO hull and topsides is ongoing in Asia, following mitigating actions put in place by the FPSO provider BW Offshore to address initial scheduling issues. The first major FPSO hull section was successfully delivered in December to the yard in Japan from South Korea. Topsides module and turret construction continues to progress well in Batam and Singapore. The FPSO contractor currently plans the commencement of hull and integration work in Singapore from summer 2016.

KRAKEN

In 2015, the Kraken project continued on schedule and overall forward capex reductions of US\$300m were implemented compared to the capital expenditure at the sanction of the project. In 2016, the development continues to make strong progress, in particular the critical path conversion programme for the Kraken FPSO vessel is on schedule for departure from Singapore for commissioning and hook up, with production in H1 2017. The drilling programme is focused on drill centres one and two and is currently ahead of schedule, despite a particularly harsh North Sea winter. This should ensure that the planned four production and four injection wells will be available for first oil. In February 2016, Cairn announced the acquisition of an additional 4.5% interest in the Kraken development in the UK North Sea from First Oil plc bringing Cairn's total working interest to 29.5%. There was a nominal cash consideration payable in respect of the transaction however Cairn will waive its right to reclaim approximately US\$3m of cash calls paid on behalf of First Oil in January and February 2016.

SKARFJELL

The partners are now investigating the best option for the development of the field and the decision on concept selection is expected to be made in Q4 2016. This reflects the JV's need for more detailed technical studies concerning the concept selection (Cairn 20% WI).

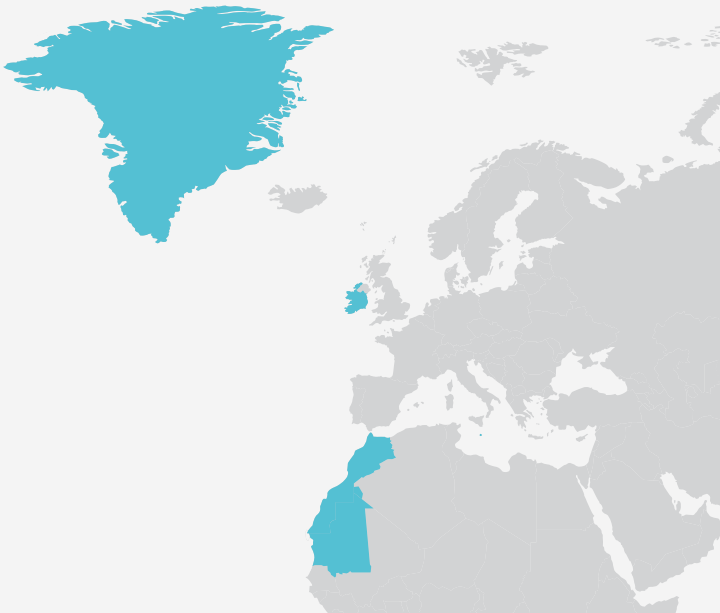
KEDDINGTON

The K-5 onshore well completed drilling in Q1 2016 with elevated gas readings, indicative of the presence of hydrocarbons recorded from a gross interval of 141m, containing 62m of net sand. The borehole was completed for future production (Cairn 10% WI).

UK & NORWAY EXPLORATION

In Q4 2015, Cairn submitted applications for acreage in the 23rd Licensing Round in Norway and in Q1 2016 the company was awarded five new licences in Norway including one as Operator as part of APA 2015. Cairn's first operatorship in the region is on production licence 842 with the Storhaug prospect in the Norwegian North Sea (Cairn 40% WI). The Kraken West appraisal well in the UK North Sea confirmed the presence of oil, with potential for upside and further evaluation is ongoing. The Crossbill well in the Norwegian North Sea (Wintershall Operator, Cairn 20% WI) was dry and operations were completed in Q2 and the well permanently plugged and abandoned. In the Greater Catcher area, the Bonneville satellite oil discovery was relinquished during the year as changes in UK tax allowances no longer meant the field was commercially viable. The Laverda exploration well in the UK North Sea is planned for Q2 2016 (Cairn 36% WI).

INTERNATIONAL



Countries

- Greenland: 1 licence
- Ireland: 3 licences
- Malta: 1 Exploration Study Agreement
- Mauritania: 1 licence
- Morocco: 1 licence

2015 Activity

- 1 non-operated well drilled offshore Western Sahara



Discover more: **Our assets**
www.cairnenergy.com/operations

MOROCCO

The Fom Draa and Juby Maritime Permits offshore Morocco were relinquished in Q3 and Q4 2015. The CB-1 well drilled in Cap Boujdour, encountered hydrocarbons but the discovery was non-commercial and the well was plugged and abandoned in Q1 2015. Discussions are ongoing with Office National des Hydrocarbures et des Mines (ONHYM) for a new Boujdour Maritime contract area offshore Western Sahara (Kosmos Operator 55% WI, ONHYM 25% WI, Cairn 20% WI).

MAURITANIA

In block C-19 offshore Mauritania, additional technical studies are being conducted during an extension period to the first exploration phase, in order to further de-risk the prospects prior to a decision on entering the next phase, which has drilling commitments (Cairn 35% WI, Chariot Oil & Gas Operator 55% WI, Société Mauritanienne des Hydrocarbures et de Patrimoine Minier (SMHPM) 10% WI).

REPUBLIC OF IRELAND

The appraisal/exploration well on FEL 2/04 offshore West of Ireland is now planned for 2017/18, subject to Government of Ireland approval. Further interpretation and mapping will be carried out to finalise the additional prospective resource potential (Cairn Operator 38% WI, Providence 58% WI and Sosina 4%).

FINANCIAL REVIEW

James Smith, Chief Financial Officer

FULLY FUNDED
TO DELIVER



As a result of actively managing its capital programme, reducing administrative expenditure and maintaining strong cash balances and undrawn debt facilities, the Group is in a strong financial position, able to withstand and deliver returns from a lower oil price environment.

NET FUNDS AND CAPITAL EXPENDITURE

At 31 December 2015, the Group held cash balances of US\$603m (2014: US\$869m). The Group's Reserve-Based Lending facility remains undrawn with debt availability to fund UK development assets increasing with project progress and with availability expected to reach US\$335m at peak and US\$260m by 2017. An additional sum of US\$175m is available in the form of Letters of Credit.

Cairn enters 2016 fully funded to complete an active exploration and appraisal drilling campaign focusing on Senegal, as well as to deliver first oil from the Kraken and Catcher development projects in the UK North Sea, which will generate cashflow for the Group from 2017.

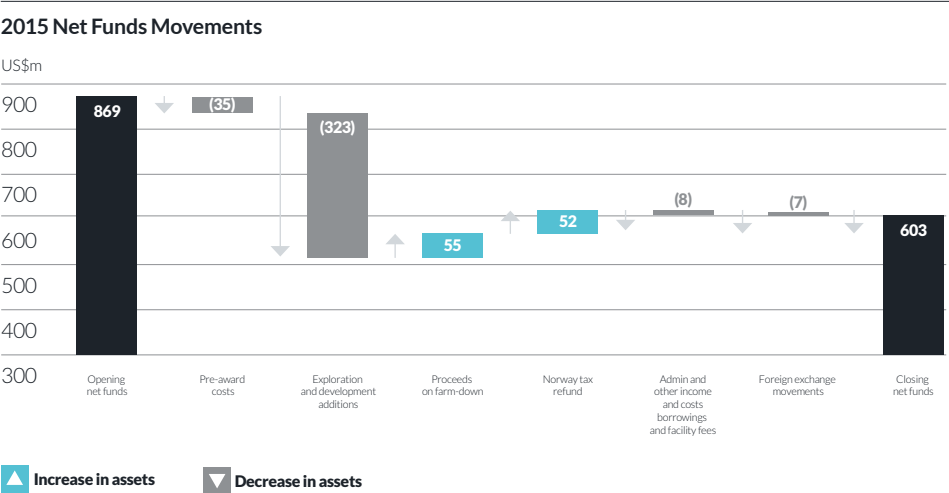
The Group is currently operating a three well exploration and appraisal campaign offshore Senegal with remaining costs forecast of US\$100m. Cash expenditure on the Group's development projects in the year was US\$114m with forecast costs through to end 2017 of US\$465m.

Cairn's cash resources reduced from US\$869m at 31 December 2014 to US\$603m at the year end.

Cairn's net cash outflow is analysed as follows:

James Smith

JAMES SMITH
Chief Financial Officer
14 March 2016

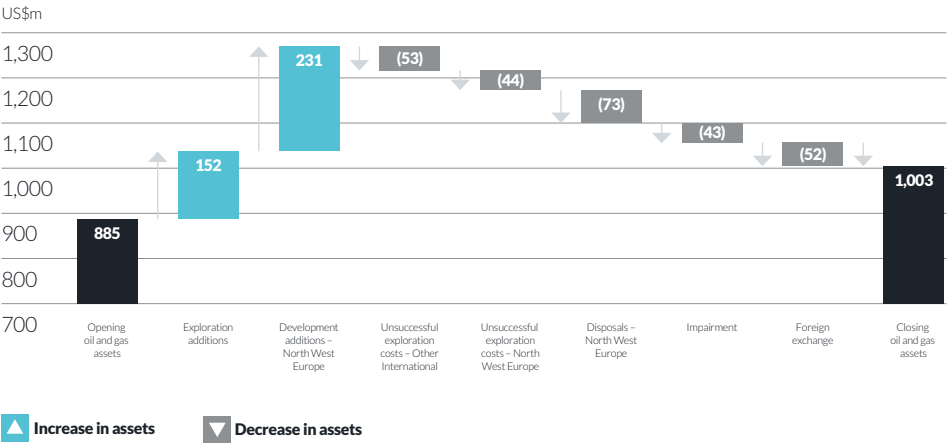


Analysis of the cash flow movements on assets to expenditure in the financial statements is as follows:

	Exploration and pre-award costs			Development	
	Senegal US\$m	North West Europe US\$m	Other US\$m	Total US\$m	North Sea US\$m
Expenditure	61	66	61	188	231
Working capital movements (excluding carry)	53	40	(37)	56	(47)
Dyas Carry (non-cash)	–	–	–	–	(70)
Cash outflow	114	106	24	244	114

OIL AND GAS ASSETS

2015 Movements in Oil and Gas assets



EXPLORATION ASSETS

SENEGAL

Cairn commenced its current exploration and appraisal programme offshore Senegal in September 2015 with the seismic programme across the Sangomar Offshore block and part of the Rufisque block. The first of the current three well exploration and appraisal wells planned, the SNE-2 appraisal well spudded in October 2015 and completed in January 2016.

Following completion of the well, the Ocean Rig Athena moved to the SNE-3 well location which commenced drilling operations in January 2016 and completed in March 2016.

For the year to 31 December 2015, exploration and appraisal additions in Senegal of US\$61m include costs of the seismic campaign of US\$5m and drilling costs associated with the two wells spudded in 2015 of US\$40m. At 31 December 2015, total exploration costs capitalised in Senegal were US\$228m.

OTHER AFRICA

The Group completed one further well in the African region during 2015; the Cap Boujdour well, offshore Morocco. The well, which completed in March 2015 was unsuccessful with total costs relating to the licence of US\$82m charged to the Income Statement, US\$35m in 2015 and US\$47m in 2014. The Cap Boujdour licence is now in the process of relinquishment, though the JV is looking to enter into a new exploration licence on the acreage. Cairn relinquished the Fom Draa and Juby Maritime licences offshore Morocco in the current year.

The Group have agreed a 12 month extension to its offshore exploration licence C-19 in Mauritania. There are no significant commitments under this licence.

FINANCIAL REVIEW

CONTINUED

NORTH WEST EUROPE Exploration

In the North Sea, Cairn completed one exploration well and one appraisal well in 2015, one in Norway and one in the UK.

The Crossbill exploration well in Norway was dry and costs of US\$13m were expensed. The West Kraken appraisal well in the UK completed during the year successfully encountering oil. Work continues to evaluate this discovery.

In the Greater Catcher area, the Bonneville oil discovery was relinquished during the year. Changes in UK tax allowances together with reduced oil price meant the discovery was no longer commercially viable. Related costs of US\$24m were charged to the Income Statement as unsuccessful exploration. The Carnaby satellite field, within the Catcher development area, is sub-commercial under revised economics and related costs of US\$17m have been fully impaired in the year.

The carrying value of exploration assets in North West Europe at 31 December of US\$134m includes US\$64m of costs related to the Skarfjell discovery in Norway where progress continues towards development sanction. Remaining costs of US\$70m are spread across the Group's portfolio of North Sea exploration licences, including US\$35m relating to the Laverda and Sunbeam prospects in the Greater Catcher area where firm exploration wells are planned in 2016 and 2018 respectively.

Cairn continues to pursue new opportunities in the UK-Norway region including the Barents Sea. Seismic acquisition costs in the year in this area were US\$7m and are included in pre-award costs expensed through the Income Statement.

DEVELOPMENT ASSETS CATCHER FARM-DOWN

Cairn completed the farm-down of a 10% working interest in the Catcher Development asset and associated exploration licences to Dyas in January 2015. Proceeds were in the form of a carry of US\$182m back dated to the economic effective date of 1 January 2014. On completion of the deal, Cairn received a refund of costs of US\$55m (US\$36m under the carry) and the remaining carry was recognised as a current asset at its discounted, post-tax fair value.

The transaction resulted in an accounting gain of US\$27m, with a related deferred tax credit of US\$5m. US\$12m of proceeds have been allocated to exploration assets.

ADDITIONS IN THE YEAR

2015 was a year of significant progress on the Group's two UK development projects.

Development drilling in the Kraken project commenced in May 2015 and, by the year end, 13 wells (including top-holes) had spudded. Sub-surface activity has continued as planned and on budget. Total capital expenditure in the year was US\$152m.

Following the Catcher farm-down to Dyas, the costs of Cairn's working interest share in the Catcher development were carried through the period. Additions in the year of US\$80m primarily reflect the carry that has been utilised post completion of the farm-down. It is currently forecast that Cairn will continue to be carried to mid 2016. During the year, development drilling also commenced in Catcher and two wells were drilled by the end of 2015.

As the developments progress, Cairn has provided US\$31m for the costs of decommissioning based on the number of wells spudded and the subsurface work undertaken to the year end.

IMPAIRMENTS TESTING ON EXPLORATION/ APPRAISAL AND DEVELOPMENT ASSETS AND RELATED GOODWILL

At the year end, Cairn's exploration, appraisal and development assets were tested for impairment. The fair value of the Group's key exploration and development assets used in the impairment test are calculated using discounted cash-flow models. Key inputs into the models include the forecast date of first-oil from the development assets, reserve estimates and production profiles and the directors' long-term oil price assumption.

At the December Board meeting, the directors agreed to reduce the Group's long-term oil price assumption effective for the period commencing 1 January 2019, from US\$90 per barrel to US\$80, per barrel. The Group's short-term assumption, based on the forward curve for the initial three year period, remains unchanged.

As a consequence of the revised oil price assumption, an impairment has arisen on the Group's exploration assets in the Greater Catcher area, with a charge of US\$17m and a further charge of US\$25m on the Catcher development asset. No impairment arose on Kraken. Sensitivity analysis is included in the financial statements, but a reduction in the long-term assumption to US\$70 per barrel would increase the impairment charge on development assets to US\$176m.

The impact of delays to either or both development projects has also been considered in the sensitivity analysis with no material impact at oil price assumptions greater than US\$65. Delays to first oil production will have greater impact on the Group's liquidity position and this has been tested through various scenarios run to allow directors to conclude on both the going concern assumption used to prepare the Group financial statements and in the longer-term viability statement included in the Strategic Report.

The Group's goodwill allocated to the North Sea operating segment was also tested for impairment using the same oil price assumptions; no impairment was identified.

Financial Asset – Investment in Cairn India

Cairn's residual ~10% interest in CIL remains classified as a non-current available for sale financial asset, with a carrying value of US\$384m at the balance sheet date.

The fall in value of the Group's investment over the year of US\$319m, is recorded as an impairment in the Group Income Statement (US\$177m was recorded as an impairment in the Group's 2015 half-year financial statements).

RESULTS FOR THE YEAR

Pre-award costs

Seismic acquisition costs in the Barents Sea and North Sea new ventures activities account for US\$25m of the Group's total pre-award costs of US\$35m.

Unsuccessful exploration costs

Moroccan exploration write offs reflect the Cap Boujdour well, drilled over Q4 2014 and Q1 2015 and final costs from the 2013/14 drilling campaign. The North West Europe charges occur following the unsuccessful Crossbill exploration well and the relinquishment of the Bonneville satellite field in the Catcher area. Other unsuccessful costs are offset by the release of provisions on exit from Nepal.

Administration expenses

Following the Group re-organisation implemented in 2014, Cairn's year-on-year, recurring administration costs have reduced from US\$59m to US\$30m.

Non-recurring administration costs include the cost of defending the Group's position in India which were US\$4m (2014: US\$8m). Costs of the re-organisation itself of US\$8m, including accelerated share-based payment charges, were incurred in 2014; no charges arose in the current year.

Tax credit on operational and administrative expenses

The tax credit in the year primarily relates to refunds receivable in Norway on qualifying pre-award and administrative costs and on the costs of the unsuccessful Crossbill well.

Impairment of financial asset

The decline in the market value of Cairn India Limited results in an impairment charge for the year of US\$319m (2014: US\$194m). There were no disposals of shares in Cairn India Limited in the current period as the restriction on sale imposed on Cairn was in place throughout the year. Sales in 2014 prior to the imposition of the restriction generated gains of US\$4m.

RESULTS FOR THE YEAR

	Year ended 31 December 2015 US\$m	Year ended 31 December 2014 US\$m
Pre-award costs	(35)	(55)
Unsuccessful well costs	(97)	(208)
Administrative expenses and other income/costs	(31)	(65)
Related tax credit	37	122
Operational and administrative expenses	(126)	(206)
Net finance (costs)/income	(1)	4
Impairment of financial asset	(319)	(194)
Gain on sale of financial asset	-	4
Related tax credit	10	41
CIL investment impairment and disposal	(309)	(149)
Gain on disposal of oil and gas assets	27	2
Impairment of oil and gas assets	(43)	(47)
Related tax (charge)/credit	(64)	15
Oil and gas asset sales and impairment	(80)	(30)
Total loss after tax	(516)	(381)

Gain on sale of oil and gas assets

The Catcher farm-down, completed in January 2015, generated a gain on sale of US\$27m. Associated tax credits of US\$5m arose on the transaction.

Impairment of oil and gas assets

The reduction in the Group's long term oil price assumption drove a US\$43m impairment of oil and gas assets. In addition, the Group reversed deferred tax assets previously recognised in respect of UK tax losses available for offset against future production from its UK assets.

Finance Income and Costs

Finance income includes dividends receivable from Cairn India of US\$12m (2014: US\$35m). Cairn India is currently prohibited from remitting the proceeds of the dividends to Cairn. Finance income also includes US\$4m of unwinding of discount on the Catcher carry.

Finance costs include exchange losses of US\$14m and charges on the Group's undrawn facility of US\$6m.

TAXATION

INDIAN TAX ARBITRATION

International arbitration proceedings have commenced to settle the Indian tax dispute with Cairn claiming full compensation for the value of which its shareholders have been deprived. Based on detailed legal advice, no provision is recorded in the financial statements. Details of the assessment order received from the Indian Income Tax Department and the Group's maximum exposure are included within the contingent liability disclosures in Note 5.5 to the financial results on page 143.

PRINCIPAL RISKS AND UNCERTAINTIES

As the Group continue to focus on delivering value for shareholders from the discovery and development of hydrocarbons within a sustainable, self-funding business model, the principal risks and uncertainties facing the Group at the end of 2015 were as follows:

- Sustained low oil price;
- Restriction on ability to sell Cairn India Limited shareholding;
- Kraken and Catcher development activities and production start up not executed on schedule and budget; and
- Lack of exploration or appraisal success.

HOW WE MANAGE RISK

ROBUST RISK MANAGEMENT



Cairn’s KPI objectives, designed to deliver upon Cairn’s strategy, have a number of associated risks and opportunities which may impact on their achievement. Understanding these is critical to ensure they can be appropriately managed or exploited.

MANAGING BUSINESS RISKS

Managing risks and opportunities is essential to Cairn’s long-term success and sustainability. Good risk management does not imply avoiding all risks at all costs. It means making informed choices regarding the risks that the Group wishes to take in the pursuit of objectives. The Group endeavours to pursue

investment opportunities which offer an appropriate level of return whilst ensuring the level of associated political, commercial and technical risk remain within the risk appetite of the Group.

The Group annually sets a number of KPI objectives which are designed to measure delivery of the Group’s strategy. Each KPI will have a number of associated risks and opportunities which may positively or negatively impact on the achievement of that objective. Fully understanding these risks and opportunities is, therefore, important to ensure they can be properly managed or exploited. This management of risk and opportunity plays a key role in the successful delivery of the Group’s strategy.

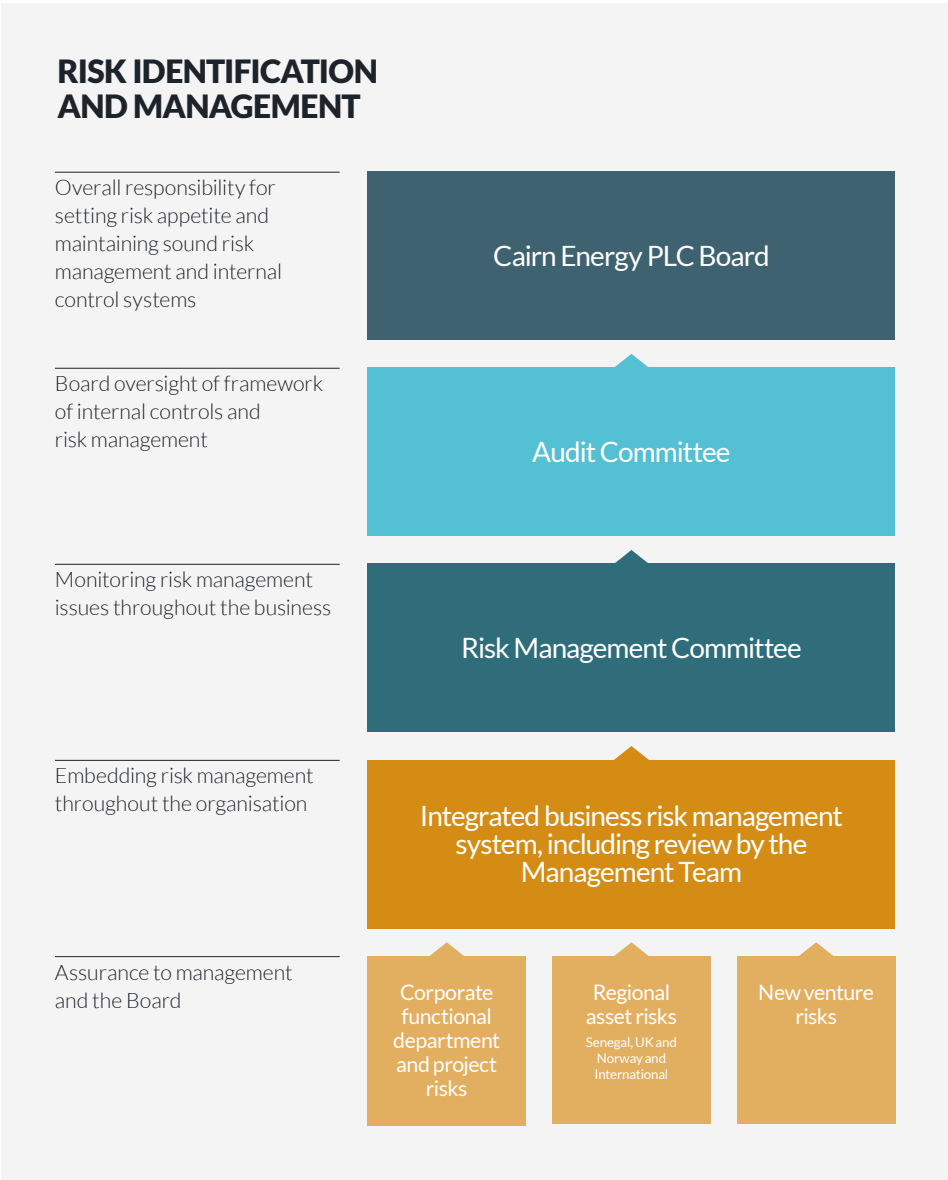
RISK IDENTIFICATION AND MANAGEMENT

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 diagram to the left.

The Board has overall responsibility for ensuring the Group’s risk management and internal control frameworks are appropriate and embedded across the business. Principal risks are reviewed at each Board meeting and, at least once a year, the Board undertakes a risk workshop. The Board is also responsible for setting the tone and influencing the culture of risk management for the Group.

The audit committee, chaired by Iain McLaren, Senior Independent Director, monitors and reviews the scope and effectiveness of the Company’s internal control policies and procedures for the identification, assessment and reporting of risks to the Board. This includes monitoring the output from each Risk Management Committee (RMC) meeting and assessing the status of key risk management and internal control projects.

In 2015, the RMC was chaired by the Chief Financial Officer, James Smith, and also included the Chief Executive, Chief Operating Officer, Director of Exploration, Regional Directors and other senior managers. In 2016, the RMC is chaired by the Chief Executive, Simon Thomson. The RMC is responsible for setting the strategic direction for risk management in the Group and aims to facilitate continual improvement of the risk management system. It does this by ensuring the Group’s risk framework for the identification, assessment, mitigation and reporting on all areas of risk is fit for purpose. The RMC also considers the principal risks to the business.



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, regional, asset, function and project level. Assessment of the potential risks plays a fundamental role in the evaluation of each new investment opportunity and the ongoing management of all projects. The risks and mitigating actions from all of these sources are consolidated into the Group risk matrix and presented at the different meetings and committees outlined in the structure to the left.

RISK APPETITE

Cairn operates across the whole value chain of the upstream exploration and production business, allocating capital and resources proportionally to opportunities which are assessed for the likelihood and impact of their risk and reward. As part of an annual process, alongside the setting of strategic objectives, the Board determines the level of risk the Group is willing to accept in pursuit of objectives and these are documented in the Group Risk Appetite Statement. The purpose of the Group Risk Appetite Statement is to establish a common understanding between the Board and senior management as to the amount, level and type of risk the organisation is willing to seek, accept and tolerate in the pursuit of strategy and value creation.

In the latter half of the year, the Board reviewed the Group's risk appetite and supplementary risk tolerance levels to determine if any changes in the internal or external business environment had impacted on the Group's appetite for risk. The Board assessed the tolerance levels across a number of areas including capital invested, economic thresholds, solvency, health and safety, environmental, political, reputational and technical and concluded the risk appetite statement remained appropriate for the Group. The Board will continue to review key risks to ensure they remain within the boundaries defined by the Group Risk Appetite Statement.

RESPONDING TO THE CHANGING RISK ENVIRONMENT IN 2015

As part of steps taken to seek continual improvement of the risk management process, the following enhancements were made in 2015:

- the Board completed a risk workshop to undertake a robust assessment of the principal risks to and opportunities for achieving the Group's strategic objectives. As part of the workshop, the Board confirmed the risk appetite and supplementary risk tolerance levels remained appropriate;
- the Group's risk management procedures were revised and updated to embed a more consistent approach to managing risk across the Group, regardless of geography. Training is scheduled for H1 2016 for key stakeholders across the Group;

- assurance maps were prepared for the key risks within the Group. The assurance maps helped identify potential areas of control weakness and/or the ineffective use of assurance resources across the Group; and the Management Team (MT) formally conducted a review of the risks, mitigations and actions identified on the Group Risk Register each quarter to ensure ownership of the risks, mitigations and actions are clearly

- assigned and implementation dates for actions are tracked through to completion; and
- Ernst and Young (EY), the Group's internal auditor, completed an assessment of the Group's level of compliance with the revised FRC requirements and an action plan was developed to address any gaps. All key actions were implemented.

PRINCIPAL RISKS AND UNCERTAINTIES

AS THE GROUP CONTINUES TO FOCUS ON DELIVERING VALUE FOR SHAREHOLDERS FROM THE DISCOVERY AND DEVELOPMENT OF HYDROCARBONS WITHIN A SUSTAINABLE, SELF-FUNDING BUSINESS MODEL, THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP AT THE END OF 2015 WERE AS FOLLOWS:

SUSTAINED LOW OIL PRICE

The continuing low oil price is both a risk and opportunity for the Group. The low oil price is driving down industry costs introducing the potential for cost efficiencies in the Group's exploration, appraisal and development projects. The lower oil price environment, however, has reduced the amount of debt available under the Group's Reserve Based Lending (RBL) facility and may impact on the availability of other sources of funding for the Group. Declining oil prices may also impact the ability of our JV partners to fund work programme expenditures.

 Read more: *Financial review*
P32-35

RESTRICTION ON ABILITY TO SELL CAIRN INDIA LIMITED SHAREHOLDING

The Indian Income Tax Department is seeking to apply tax to a 2006 internal group reorganisation prior to the IPO of the Group's Indian business at that time. Cairn strongly contests their tax claim and is challenging it under domestic Indian and international law. However, in the meantime, Cairn is restricted from monetising its remaining assets in India which are material to the Group. If that restriction continues or if the tax claim is enforced against those Indian assets, that value may be further impaired.

 Read more: *Financial review*
P32-35

KRAKEN AND CATCHER DEVELOPMENT ACTIVITIES AND PRODUCTION START-UP NOT EXECUTED ON SCHEDULE AND BUDGET

The Kraken and Catcher development projects remain on track to deliver free cash flow from 2017. Development projects of this nature, however, can be susceptible to delays and budget increases for a variety of reasons and this may lead to increased costs and delays in future cash flow. To mitigate these risks, the Group works closely with its JV partners to support and/or influence key decisions.

 Read more: *Operational review*
P26-31

LACK OF EXPLORATION OR APPRAISAL SUCCESS

Exploration and appraisal success is fundamental to the strategy of creating value through discovery and development of hydrocarbon resources. In 2015, the Group commenced its appraisal programme offshore Senegal with successful testing of SNE-2, building on the success of the 2014 discoveries. A lack of exploration and appraisal success, specifically in Senegal, may lead to limited or no value creation and a loss of investor confidence in the Group's business model.

 Read more: *Operational review*
P26-31

HOW WE MANAGE RISK
PRINCIPAL RISKS TO THE GROUP IN 2015/2016
CONTINUED

During 2015, through a number of internal forums, the Group regularly reviewed the risks which could adversely impact on the achievement of strategic objectives. This included a robust assessment of the principal risks facing the Company at the Board meeting in December 2015. The following provides an overview of the principal risks to the Group at the end of 2015, the potential impacts, the mitigation measures and the KPIs the risks may impact. The list is not exhaustive nor set out in any order of priority and is continually subject to change.

The Board confirm that a robust assessment of the principal risks facing the Company was completed during 2015 as follows:

STRATEGIC RISKS				
RISK DESCRIPTION	IMPACT	MITIGATION	2015 MOVEMENT	2016 KPI OBJECTIVE
Lack of exploration or appraisal success	- Loss of investor confidence - Limited or no value creation - Failure of the balanced portfolio business model	- Active programme for high-grading new areas through licence rounds, farm-ins and other transactions - Inventory of prospects and leads that offer opportunities with a balance of geological and technical risks - Highly competent team applying a thorough review process of prospects and development opportunities and a team of geoscientists with a track record of delivering exploration success - Continue to seek out the right personnel who can add value, knowledge and experience to the Group	This risk remained at the same level in 2015. Key developments included: - Agreement with the Government of Senegal of an extensive evaluation plan. 3D seismic acquisition programme commenced in Q3 2015 and a multi-well exploration and appraisal programme commenced in Q4 2015 - The West of Kraken appraisal well confirmed the presence of oil, with potential for upside - At year-end 2015, the Group's exploration inventory comprised of 54 prospects and 146 leads across all of the Group's acreage - The CB-1 non-operated well in Morocco and the non-operated Crossbill well in the Norwegian Continental Shelf were drilled, neither of which discovered oil	- Maximise value in Senegal - Achieve exploration success through discovery or addition of commercial hydrocarbons in 2016
Kraken and Catcher development activities and production start-up not executed on schedule and budget	- Increased costs - Delay or reduction in future cash flow - Reduction in debt capacity	- Actively engage with all our JV partners early to ensure highly effective working relationships - Independent verification of reserves and production profiles - 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 - Frequent site visits to key contractor sites to increase focus on quality assurance performance - Work closely with the Kraken and Catcher operators to monitor and review progress with key contracts	This risk remained at the same level in 2015. Key developments included: - Catcher is progressing under budget and is scheduled to deliver first oil in the second half of 2017. Key milestones have been achieved during the year including the subsea installation work and as well as the 60 kilometre gas export pipeline being laid and tied-in during July 2015. Fabrication of the FPSO hull and topsides is ongoing in Asia - The Kraken FPSO vessel is at the shipyard in Singapore and the conversion plan is continuing on schedule. The fixed pipelines for the first two drill centres have been installed on the seabed. The project remains on course to deliver first oil in 2017	Successfully complete operated and non-operated 2016 work programme

STRATEGIC RISKS CONTINUED

RISK DESCRIPTION	IMPACT	MITIGATION	2015 MOVEMENT	2016 KPI OBJECTIVE
Inability to identify or secure prospective acreage at a cost which can generate reasonable returns	- Loss of investor confidence - Loss of competitive edge	- The Director of Exploration, with the support of the technical and commercial teams, continues to identify and review a number of prospects - Experience and knowledge throughout the organisation in recognising prospective opportunities	This risk remained at the same level in 2015. Key developments included: - Cairn participated in the Norwegian 2014 APA Licensing Round and was awarded five licences in Q1 2015 - The Group submitted applications for the 2015 APA Norwegian Licensing Round and were awarded five licences in Q1 2016 including one as operator. The Group also participated in the Barents Sea 23rd Licensing Round - A one year extension has been granted to block C-19 in Mauritania. This will provide sufficient time to carry out additional studies to further de-risk the prospects - In Malta, an exploration study in Area 3 is in progress	Portfolio optimisation and replenishment
Sustained low oil price	- Reduction in future cash flow - Value impairment of development projects - JV partner capital constraints	- Sensitivity reports completed to assess robustness of projects and development decisions - Operators cost initiatives delivering material cost reductions on development projects - Lower cost environment for E&A activities	This risk increased in 2015. Key developments included: - Using forward curve oil pricing has reduced the Group's forecast operating cash flows over the next three years - A reduction in forecast oil prices has reduced debt availability under the Group's RBL facility and may continue to do so - In addition, the Group's JV partners may experience capital constraints leading to a reallocation of capital and a reprioritisation of projects in which the Group has an equity interest	Manage balance sheet strength

HOW WE MANAGE RISK
PRINCIPAL RISKS TO THE GROUP IN 2015/2016
CONTINUED

HEALTH, SAFETY, ENVIRONMENT AND SECURITY RISKS				
RISK DESCRIPTION	IMPACT	MITIGATION	2015 MOVEMENT	2016 KPI OBJECTIVE
Health, safety, environmental and security incidents	- Serious injury or death - Environmental impacts - Reputational damage - Regulatory penalties and clean-up costs	- Effectively managing health, safety, security and environmental risk exposure is the first priority for the Board, SLT and MT - The Group's Corporate Responsibility Management System (CRMS) was streamlined in 2015. Training on the updated CRMS has been provided to key stakeholders to ensure processes and procedures are embedded throughout the organisation and all operations, ensuring all potential health, safety, security, environmental and societal impacts are proactively identified, evaluated and treated - Process in place for assessing an operator's overall operating and HSE capabilities, including undertaking JV audits to determine the level of oversight required - 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. This is being done in conjunction with the JV partners in Senegal	This risk remained at the same level in 2015. Key developments include: The Group's safety performance improved overall in 2015 and achieved Total Recordable Injury Rate (TRIR) of zero per million hours. The Group's target was less than 2.0 per million hours. The rate in 2014 was 3.88 per million hours	- Deliver activities with a focus on the safety of people and the environment - Continue to enhance the Group's HSE culture, behaviours and approach

OPERATIONAL RISKS				
RISK DESCRIPTION	IMPACT	MITIGATION	2015 MOVEMENT	2016 KPI OBJECTIVE
Operational and project performance	- Increased well costs - Incomplete well programme - HSE incident - Reputational damage	- Comprehensive set of criteria that must be met before contracting and accepting any rig - Work closely with the rig contractors to exert influence and impose our performance expectations - Management and influence of drilling contractors to ensure Cairn management systems are fully embedded in operations - Positive and regular engagement with JV operators and partners to share knowledge and offer support	This risk has remained at the same level in 2015. Key developments include: - The Group has commenced operations in Senegal (Ocean Rig Athena), Kraken (Transocean Leader) and Catcher (Ensco-100) and there is a continued exposure to potential operational performance issues - The seismic acquisition in Senegal was successfully completed on schedule and budget. Seismic delivery for non-operated projects, principally in Norway and Morocco, was behind schedule - The Group continues to work closely with the operators and drilling contractor to establish and implement mitigation plans, with safety being at the forefront of all considerations, before and during operations	Successfully complete operated and non-operated 2016 work programme

OPERATIONAL RISKS CONTINUED

RISK DESCRIPTION	IMPACT	MITIGATION	2015 MOVEMENT	2016 KPI OBJECTIVE
Reliance on JV operators for asset performance	- Cost/schedule overruns - Poor performance of assets - HSE performance - Delay in first oil from development projects - Impact on asset value	- Actively engage with all JV partners early to establish good, trusting, working relationships - Actively participate in technical meetings to challenge, apply influence and/or support partners to establish a cohesive JV view - Application of the Group risk management processes - Monitor the financial standing of JV partners	This risk has increased in 2015. Key developments include: - Due to the continued low oil price, there is an increased risk that the Group's JV partners may not be able to fund work programme expenditures and may reprioritise projects - The Group continues to work closely with a number of partners in Senegal, the North Sea, the Norwegian Continental Shelf and Morocco	Successfully complete operated and non-operated 2016 work programme

FINANCIAL RISKS

RISK DESCRIPTION	IMPACT	MITIGATION	2015 MOVEMENT	2016 KPI OBJECTIVE
Restriction on ability to sell CIL shareholding	Restriction in the funding capacity of the Group	- Committed work programme is fully funded from existing sources of funding, principally Group cash - Continued engagement with the Indian Government - Robust legal protections	This risk remained at the same level in 2015. Key developments include: - Restriction on monetising assets in India remains in place - International arbitration proceedings have commenced to settle the Indian tax dispute. An arbitration panel has now been appointed - Cairn has continued to engage with the Indian Government and the UK Government throughout 2015	Manage balance sheet strength
Uncertainty in fiscal regimes	- Loss of value - Uncertain financial outcomes	- Engage closely with regulators in all jurisdictions where the Group has activities - Legal agreements in place to protect interests - Seek appropriate legal and tax advice	This risk remained at the same level in 2015. Key developments include: The Group has assets in a number of different geographies and is potentially exposed to sudden or unplanned changes in tariffs or taxes	Manage balance sheet strength
Inability to access internal or external funding	Work programme restricted by reduced capital availability	- Committed work programme is fully funded from existing sources of funding, principally Group cash - Continue to actively manage the portfolio and capital programme - Continue to assess other forms of financing and seek release of Indian assets	This risk has increased in 2015. Key developments include: A reduction in forecast oil prices has reduced debt availability under the Group's RBL facility and may impact on the availability of other sources of external funding	Manage balance sheet strength

HOW WE MANAGE RISK
PRINCIPAL RISKS TO THE GROUP IN 2015/2016
CONTINUED

REPUTATIONAL RISKS				
RISK DESCRIPTION	IMPACT	MITIGATION	2015 MOVEMENT	2016 KPI OBJECTIVE
Negative stakeholder reaction to our operations	- Reputational damage - Loss of investor confidence - Loss of licence to operate	- Comprehensive stakeholder management and communication plans have been developed and executed for all operations - Actively monitor steps being taken by regulators and industry through participation in industry bodies such as the International Association of Oil & Gas Producers and Oil & Gas UK	This risk remained at the same level in 2015. Key developments include: The Group has assets in a number of different geographies and therefore there is potential for stakeholder opposition to the Group's activities. In 2015, the Group has continued to engage with local stakeholders and developed an engagement strategy and investment programme in Senegal	Deliver activities with a focus on the safety of people and the environment

ORGANISATIONAL RISKS				
RISK DESCRIPTION	IMPACT	MITIGATION	2015 MOVEMENT	2016 KPI OBJECTIVE
Staff recruitment and retention	- Inadequate resource to deliver work programme - Loss of key knowledge and experience	- The organisational restructure consultation process in 2014 identified the skills required to deliver the work programme and the Group worked to ensure key people were retained - Regional Directors and Departmental Heads agree resource requirements as part of the annual work programme and budget processes - As an accredited Investor in People, we support continuous professional development through technical, professional, management and behavioural skills courses as well as mentoring and educational assistance schemes - Succession planning is in place for all areas of the business	This risk has decreased in 2015. Key developments include: - The Group underwent a reorganisation in 2014 with the objective of ensuring the organisation remained appropriate to the future activity levels and work programme. The Group has since added a number of positions in Senegal and the UK and Norway - Prevailing market conditions have allowed the Group to attract a number of highly experienced personnel	No specific KPI objective

VIABILITY STATEMENT

The directors have assessed the prospects of the Group over a three year period to March 2019, taking account of the Group’s current position and the potential impact of the principal risks documented on pages 38 to 42.

At each Board meeting, the directors consider the sources of funding available to the Group against the capital requirements of the anticipated future work programme (the base plan) in the context of the performance and prospects of the business. The Board recognises that a significant part of this work programme is dependent on the results of future exploration or appraisal activity and also that it is the Group’s strategy to actively manage its licence portfolio to optimise its planned capital allocation. Consequently, reflecting this inherent variability in the longer term work programme, the Board has determined that three years is the appropriate period over which to assess the Group’s prospects.

The Principal risks and uncertainties that affect the Board’s assessment of the Group’s viability are:

- development project schedule and budget risk;
- the effect of sustained lower oil prices on the business and our partners’ financial positions;
- restriction on ability to sell Cairn India shareholding; and
- lack of exploration or appraisal success.

The base plan incorporates assumptions that reflect the impact of these Principal risks as follows:

- material budget contingencies and allowances are included for development projects as well as appropriate delay assumptions;
- projected operating cash flows assume oil and gas prices in line with the current forward curve;
- whilst the resolution of the Cairn India dispute remains a strategic priority, the funding plan does not include monetisation of the Group’s shares in Cairn India Limited; and

- lack of exploration or appraisal success would impact on the delivery of Cairn’s strategy but would not be expected to impact on 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 Group’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.

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

WORKING RESPONSIBLY
CEO'S INTRODUCTION

DELIVERING VALUE FOR STAKEHOLDERS



Corporate Responsibility is key to our business, delivering and protecting value for all our stakeholders.

THE 3Rs
OUR BUSINESS
PRINCIPLES ARE
BASED ON THESE
CORE VALUES

RESPECT

We act with **respect** for people, their communities, the environment, human rights and the law.

RESPONSIBILITY

We behave fairly and ethically and are accountable for our actions. We believe in, and act on, our **responsibility** to care for people, society and the environment.

RELATIONSHIPS

We act honestly, transparently and with integrity to develop strong, lasting **relationships** with all our stakeholders.

CORPORATE RESPONSIBILITY
HELPS US DELIVER VALUE

At Cairn, we have a responsibility to deliver value to our stakeholders through discovery and development of hydrocarbons in a safe, responsible and ethical manner. Putting Corporate Responsibility (CR) at the forefront of what we do from early phase exploration through to development and production provides value to our stakeholders throughout the oil and gas lifecycle.

Our CR approach is based on our core values of building respect, nurturing relationships and acting responsibly, which we call the '3Rs'.

These values underpin our ten Business Principles (see opposite) which set out our goals and the expected behaviours in the management of our business. These principles are embedded in our decisions and actions, inform our strategy and we hold ourselves accountable to them. Our Business Principles and CR Policies are regularly updated, most recently in October 2015 to reflect an increasing focus on major accident prevention embodied in recent developments in Europe, including UK offshore safety regulations. Our Business Principles and CR policies are available on our website at www.cairnenergy.com/responsibility.

OUR PROGRESS IN 2015

I am pleased to report that our CR performance has improved further in 2015. We have ensured that our rigorous approach to CR has not been compromised by the tough market conditions faced by our industry during the year.

SENEGAL

In 2015, following our success in opening up a new Atlantic Margin basin in Senegal the previous year, our focus was on preparing for and commencing our multi-well appraisal and exploration programme along with a further 3D seismic acquisition.

At all times, we are aware of the potential impacts our work can have on the local communities where we operate. A key activity in Senegal this year, therefore, has been to build relationships and foster communications with key stakeholders such as the fishing communities who may have been affected during our seismic activities. We successfully commenced our planned 3D seismic campaign in September following completion of a voluntary baseline environmental assessment review and regulatory approval. We maintained close communications with fishing representatives and government and maritime agencies prior to and during the campaign. The seismic work was successfully completed in November despite high fishing activity. We received a single claim for fishing net damage, which was managed through our established claim procedure.

We continued to work closely with the Senegal authorities both centrally and regionally to maintain our approvals for drilling, reviewing and refreshing our impact and safety risk work, which we shared proactively with national and local government and community representatives. The three-well exploration and appraisal drilling programme began in October following multiple stakeholder meetings and presentation of a formal communication and reporting plan. This plan promotes understanding of our industry through regular performance and activity updates to the national regulator.

For the 2015/16 drilling programme, we engaged our joint venture partner, ConocoPhillips, as well activities delegate to undertake certain operations, including the contracting of the Ocean Rig Athena and certain related services on behalf of the joint venture. We have worked throughout with our suppliers, contractors and partners including ConocoPhillips to carry out our activities safely and to reduce our environmental and social footprint.

As part of developing sustainable local benefits, I am very pleased that we are making progress with our Social Investment Programme in Senegal. We aim to promote the development of local people and suppliers toward supporting the oil and gas industry

into the future. We have continued to support capacity building initiatives identified in consultation with the regulating authorities as well as working with suppliers and academic institutions. For more details, please see responsibility section at www.cairnenergy.com.

NOTABLE KEY PERFORMANCE INDICATORS

I am happy to report that our safety KPIs have improved overall in 2015 for our operated assets with no lost time injuries and no recordable injuries. In mid-January 2016, our Senegal shore base personnel and contractors reached 900 days without a lost time injury. We had no oil spills to the environment over 2010-2014; however, we experienced one very minor oil spill incident in 2015: oil 'drop-out' from the flare (of less than one litre) during drill stem testing on the SNE-2 appraisal well. In addition, we had one very minor chemical spill (of less than one litre) of waste hydraulic oil which went to surface drain at the shore base during tank cleaning.

NON-OPERATED ACTIVITIES

We continue to have a significant non-operated portfolio and we play a proactive role in engaging with our partners on CR requirements. In particular, we are working closely with our partners on the Catcher and Kraken developments in the UK North Sea to support delivery of first oil in 2017. We also continue to participate in non-operated wells in the Norwegian and UK sectors. We pre-qualified as an operator in the Norwegian sector in 2015 and subsequently were awarded an operated licence.

IMPROVING OUR MANAGEMENT SYSTEMS

In 2015, we revised and updated our Corporate Responsibility Management System (CRMS) to better integrate it within the overall business management system. We have aligned our CRMS with the Cairn Operating Standards (COS) manual which sets out the standards by which our business processes must be carried out. Both the revised CRMS and COS documentation went live in January 2016, but have been in operation practically during 2015. In addition, we also completed a significant revision of our crisis and emergency arrangements including training and exercises.

Other developments in 2015 included improving our external engagement on issues material to the business, which has been helpful in confirming our understanding of the issues of importance to our stakeholders.

LOOKING FORWARD

During 2016, we will continue to prioritise the health, safety and wellbeing of people while promoting safe behaviours of our contractors. We remain committed to protecting the environment in the areas in which we operate. Good governance will also continue with our commitment to meeting all of our tax and our other obligations in a transparent manner. We will monitor the security situation across the business



and will introduce further improvements and training for business travellers.

In 2016, as operator, we will be progressing the appraisal and exploration programme offshore Senegal that commenced last year. We will continue to learn from and apply our experiences towards increasing local participation through developing skills critical to working in the oil and gas sector. This also improves awareness, serving to promote effective engagement with key stakeholders. We intend to follow-up with stakeholders in Senegal to test the quality and effectiveness of our CR plans as the project in Senegal develops.

We will maintain our focus on monitoring the geo-political situation of our non-operated assets, including offshore Western Sahara, and will work closely with the operators to ensure we operate in accordance with our Business Principles and CR policies.

We will also investigate how we, as a business, can more effectively measure and demonstrate the value of our activities to stakeholders.

We will continue to uphold and support the ten principles of the United Nations Global Compact (<https://www.unglobalcompact.org/what-is-gc/mission/principles>) and we will remain a Participating Company of the Extractive Industries Transparency Initiative. We believe that these two initiatives provide a valuable platform for promoting standards for ethical behaviour for our business and for those we interact with during the execution of our activities.

CR is and will remain a key focus at Cairn to help us deliver value for all of our stakeholders and protect our licence to operate.

SIMON THOMSON

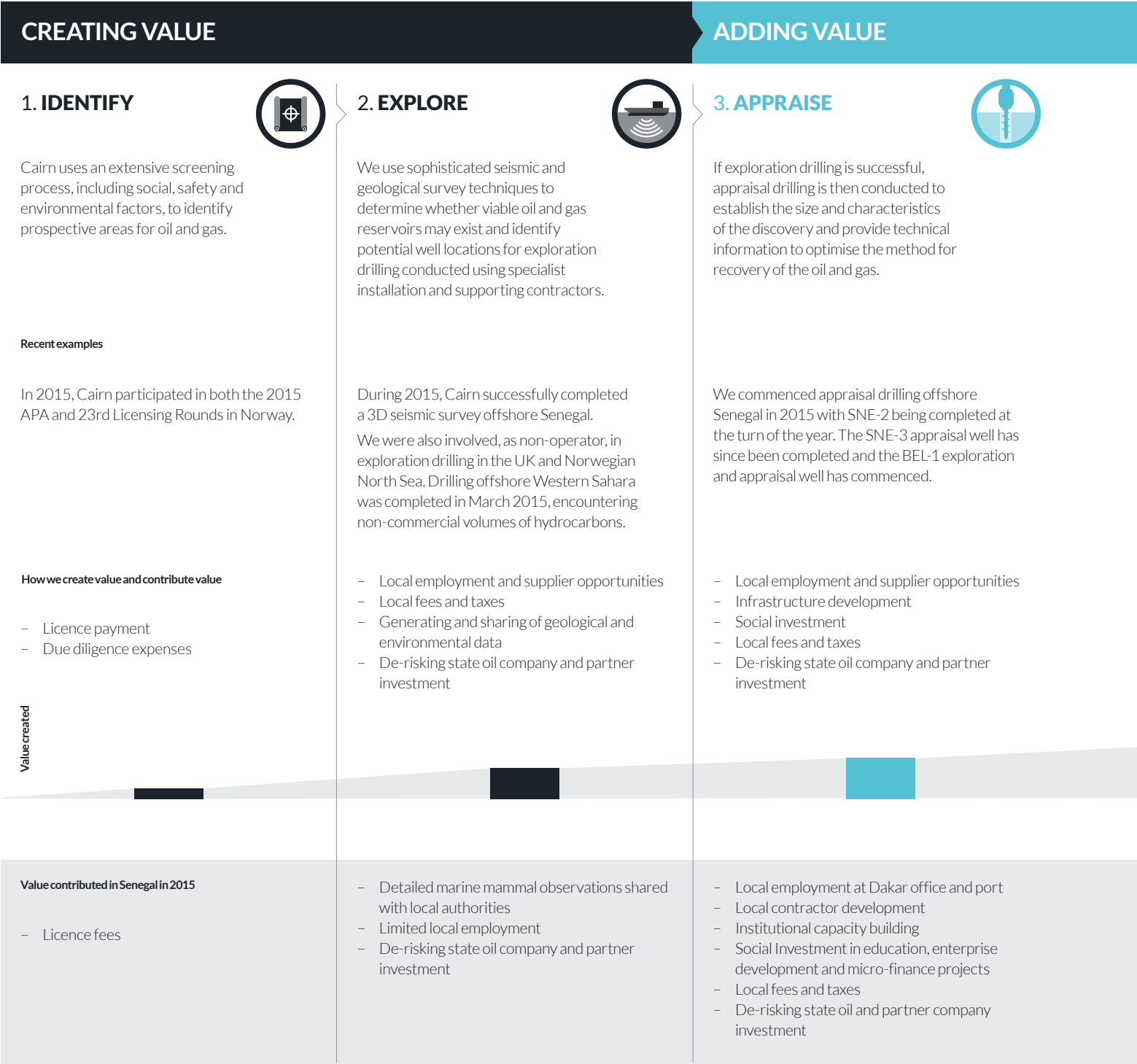
Chief Executive

14 March 2016

WORKING RESPONSIBLY CONTINUED
CREATING VALUE THROUGH THE OIL AND GAS
EXPLORATION AND PRODUCTION LIFECYCLE

DELIVERING SOCIAL
AND ECONOMIC VALUE
TO STAKEHOLDERS

Cairn looks to create, add and realise social and economic value for stakeholders through the oil and gas exploration and production life cycle. These include a broad group of stakeholders within the countries where we operate such as governments, communities, employees and local businesses. This value can be measured in financial terms,



for example, through payment of taxes, de-risking state oil company investment through exploration and appraisal and trading with local enterprises; it can also be measured in social terms through local employment, building skills and knowledge and aiding the development of local businesses and infrastructure. We recognise that our operations

may sometimes generate adverse impacts such as the generation of wastes but we manage the risks associated with our business responsibly and continually look at ways to minimise and mitigate against potential negative impacts and to maximise the social and economic benefits to create value where we operate.

The oil and gas business is, by nature, long-term and we identify, create and realise value at the different stages of the oil and gas life-cycle as outlined below.

REALISING VALUE

4. DEVELOP



If appraisal wells show technically and commercially viable quantities of oil and gas, a development plan is prepared and submitted to the relevant authorities for approval, prior to the development and construction of production facilities. This includes a rigorous assessment of all the potential risks and a long-term assessment of environmental and social impacts.

We are participating as non-operator in two development projects, the Kraken and Catcher fields, in the UK North Sea.

- Local employment and supplier opportunities
- Infrastructure development
- Social investment
- Local fees and taxes

5. PRODUCE



During this phase, which can last many decades, oil and gas is produced. Regular reviews are made of social and environmental performance.

We had no operated production at the end of 2015. We anticipate production from our non-operated Catcher and Kraken developments fields from 2017.

We have a ~10% residual interest in Cairn India Limited which is in the production phase.

- Local employment and supplier opportunities
- Infrastructure development
- Social investment
- Local fees and taxes
- Production royalties

6. RETURN AND RE-INVEST



This phase occurs when an area has not shown commercial hydrocarbon reserves or when hydrocarbons can no longer be extracted safely or economically. We will end operations and restore sites in a manner that protects people and the environment.

In 2015, a non-operated well in St Laurent, France was decommissioned and the site restored.

- Local employment and supplier opportunities
- Local fees and taxes

Not applicable

Not applicable

Not applicable

WORKING RESPONSIBLY CONTINUED PEOPLE

GOOD PEOPLE ARE KEY TO HIGH PERFORMANCE

ORGANISATIONAL STRUCTURE

Cairn recognises that its people provide the foundation for its success and we place great emphasis on attracting, engaging and retaining the right blend of talent across the business. We strive to provide an open, stimulating and rewarding work environment to encourage high levels of staff engagement and drive strong performance at every level across the organisation. Our Company values of respect, relationships and responsibility are at the very heart of this.

In 2014, Cairn undertook a review of the Group's organisation to ensure that it was appropriately resourced for the future activity levels and work programme. As a result, by the end of 2014, we had effected a 40% head count reduction across employees and contractors whilst retaining core competencies. The industry has been heavily impacted in 2015 by the continuing low oil price, with consequent reduction in workforces being seen across the sector. Following our actions in 2014, these market conditions did not impact Cairn staff levels in 2015 and we have remained properly resourced with the right skills to enable us to deliver our planned work programme.

With the new organisational structure from 1 January 2015, the focus naturally shifted to further engaging staff within the organisation and ensuring that we remained best placed from a resource and capability perspective to deliver our 2015/16 business objectives.

SUCCESSION PLANNING

Having a structured but flexible approach to succession planning is critical for ensuring successful continuity of the business in the event of a change – either planned or unplanned – in management and leadership or other key positions. Owing to the 2014 reorganisation, it was essential that a revised succession plan be developed for the business.

Following a thorough analysis of the organisation's talent pool, the Board was presented with a revised succession plan which provided a clear understanding of our skills base across the business; identified which key roles have potential successors; and similarly where there are gaps and risks associated from a succession perspective. Targeted plans were then prepared to confidently address the key gaps identified and recruitment efforts throughout the remainder of the year resulted in successfully filling roles which were deemed most critical and unable to be filled internally.

ORGANISATIONAL EFFECTIVENESS AUDIT

In order to provide assurances that the new organisational structure was operating effectively, the business, through its independent internal auditors, conducted a review in Q3 2015, which examined key governance, oversight and communication processes and controls under the new structure. The review concluded that the business was effectively structured following the 2014 reorganisation, with only a very small number of low to medium risk development areas identified, which are now being addressed.

ENGAGEMENT

Employee engagement remained a key focus area in 2015 and was particularly important given the organisational changes from the year before, coupled with the uncertainties faced by the industry as a result of the oil price.

We recognise that communication is key to ensuring that our people are informed and engaged from both a strategic and operational perspective. As such, we continued to communicate through regular team and staff meetings as well as updates from senior management. We also introduced the new step of offering staff the opportunity to pose questions anonymously in advance of town hall staff meetings to ensure that areas of particular interest or concern could be addressed by the CEO or CFO, as appropriate. In addition, our executive directors host regular 'coffee and chat' sessions with small groups of staff from across the business to facilitate conversations on strategy, operations and the working environment.

Cairn has a performance management process which is designed to reward, recognise and drive positive individual, team and organisational performance and behaviour. The process was streamlined and implemented in 2014 and continued to embed across the business in 2015. The alignment of individual objectives to team goals and Company KPIs are core to the process, which is further supported through monthly 1-1 meetings between staff and their line manager. This enables employees and managers to be engaged, give and receive feedback, regularly discuss progress being made against objectives, ensure that efforts are continuing to focus in the right areas and provide a means by which to discuss in depth each employee's development and future career aspirations in the Company. The performance management process is also intended to reinforce the importance of the Company's high performing behaviours and

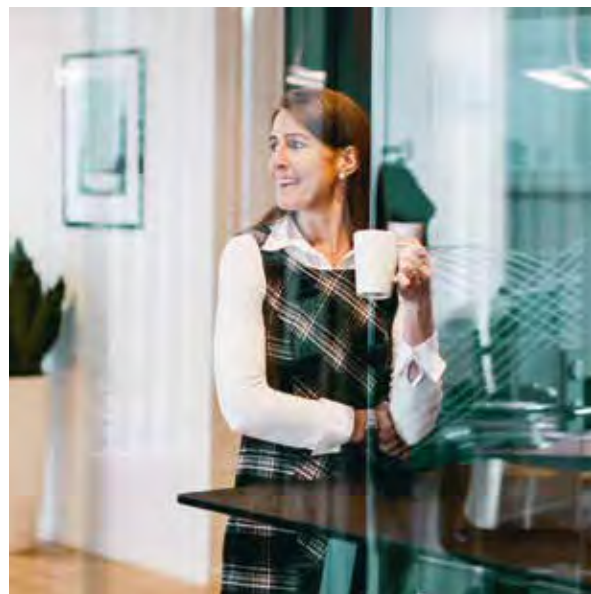
company values of respect, relationships and responsibility, thereby ensuring staff at all levels are aligned in their understanding of 'how' our business undertakings – both internally and externally – should be conducted to best deliver objectives.

Recognising staff for their efforts is also an important element of employee engagement. Our Cairn Adding Value Award scheme (CAVA) flourished in 2015 with awards made to a variety of nominees for wide-ranging reasons over the year. The CAVA scheme, which is overseen personally by the CEO, is intended to reward outstanding achievements and behaviours, recognising those who accomplish an extraordinary achievement out with their normal responsibilities. In 2015, recipients included staff who developed processes, systems or solutions which resulted in significant cost savings; those who went out of their way to go above and beyond that expected of their role; and those who delivered exceptional results in challenging circumstances.

The Company Social Committee remains an active part of Cairn and gives staff opportunities to mix with their colleagues from across the organisation, helping to foster positive working relationships and a collaborative work environment.

EMPLOYEE WELL-BEING

Having undertaken a review of our private health insurance scheme for UK-based staff following feedback from staff, the Company transferred to a new supplier with effect from 1 April, with a view to providing an enhanced level of cover. As part of this transfer, the Company added two new benefits: dental cover and annual health assessments. Feedback on the new provider has been excellent with 73% of the UK-based staff taking advantage of the optional health-assessments by the end of 2015.



In addition, Cairn launched a Health and Well-Being Intranet site to encourage healthy lifestyles. As well as providing information on health and well-being themes, various initiatives were rolled out, including healthy eating advice, a ‘Mindfulness’ Lunch and Learn session and a summer walking group.

LEARNING AND DEVELOPMENT

In periods of industry downturn and a low oil price environment, training and development budgets can be impacted. Cairn recognises the value of developing our people and our training budget was unaffected and staff were encouraged to continue to learn and develop.

Our geoscientists continued their professional development through various field trips to help understanding of different geologies in basins similar to those we are working on. With staff from across the regions and the function attending, this also provided an opportunity for teambuilding.

In November, we launched the first group ‘cohort’ of our ‘Management Bootcamp’ programme: a seven-module tailored management development programme for managers across the business. This will continue throughout 2016 to enable all our managers to attend and aims to support staff in further developing and refining their management skills to best deliver results through people.

Lunch and Learn seminars continue to be popular with staff and we had another varied and comprehensive programme during 2015. The programme included a mix of internal and external speakers, focusing on topics that ranged from the oil and gas specific, health and well-being, management, and general interest. This year’s programme also

featured talks from Jim McColl OBE and the Scottish academic historian, Sir Tom Devine, both of which were particularly well received and attended by staff.

OFFICE ENVIRONMENT AND SECURITY

In 2015, we undertook an office refurbishment in Edinburgh. The office space was reconfigured on a regionally-focused basis to help support the delivery of the Group’s work programmes, with an emphasis on creating an open, collaborative environment allowing ease of communication across regions and functions. To further enhance our commitment to health and safety, new HSE Safety billboards were created and placed in focal points across our offices as a reminder to all staff that health and safety is at the forefront of all that we do.

The Company, in conjunction with Police Scotland, delivered a series of security workshops in the Edinburgh office. The sessions were aimed at raising staff awareness in the current environment and included the roll-out of new Cairn-specific office security handbooks. The sessions, which were offered to all staff and contractors, were well received by all those who attended.

DIVERSITY

The Company continues to be committed to equality and diversity and recognises that a diverse workforce is fundamental to our business and essential for the delivery of our objectives. We understand the importance of a diverse workforce in broadening our skill base, bringing different approaches, perspectives and ideas, challenging norms and encouraging creativity, all of which support the business in successfully achieving its goals.

Our People Management Policy manual has a section dedicated to diversity, which lays out the Company’s overall position on equality and diversity and how this is implemented with respect to areas such as recruitment and selection, training and development, and remuneration and benefits. The section also includes policies specific to disability, religion and belief and the treatment of those employed on a part-time basis. We continue to capture data on the gender, nationality and disability of our appointed staff through our voluntary equal opportunities form. While it remains an area of continued focus, we are proud that our workforce now comprises 16 different nationalities and is made up of 48% women. Currently, 25% of management roles are held by women and, since May 2015, women represent 20% of the Company’s appointed Management Team (increasing from 9%). Our practice continues to be to engage with the local talent in our international offices and we seek, wherever practicable, to fill our local resource needs with nationals of the country of operation.

- At year end 2015:
- 48% of Cairn staff were women (73 of 151 employees);
 - 7.3% of Cairn staff worked part-time (11 employees);
 - 86% of women returned to work following maternity/adoption leave (six of seven employees) and 100% of men returned following adoption/paternity leave;
 - 16 different nationalities were employed at Cairn;
 - 3.3% of the workforce had a disability (five employees);
 - average age at Cairn was 43;
 - 25% of management roles were held by women (12 of 48 managers); and
 - one of the nine members of the Board was a woman (11%).



“Following the launch of the Health and Well-Being Intranet site and the creation of the summer walking group, 13 of us from the Edinburgh office, including the executive directors, Simon Thomson and James Smith, took part in the 26.2 mile Pentland Push in aid of St Columba’s Hospice. This was a fantastic event for a wonderful charity, with the added benefits of improving the fitness of the team and building relationships with people from across a variety of departments in an environment that was somewhat different to an office!”

Quote from team member

Staff in Stavanger

WORKING RESPONSIBLY CONTINUED
MAPPING CR PRIORITIES

WE CONTINUALLY IDENTIFY
CR PRIORITIES TO GUIDE
OUR CR ACTIVITIES AS
THE BUSINESS DEVELOPS

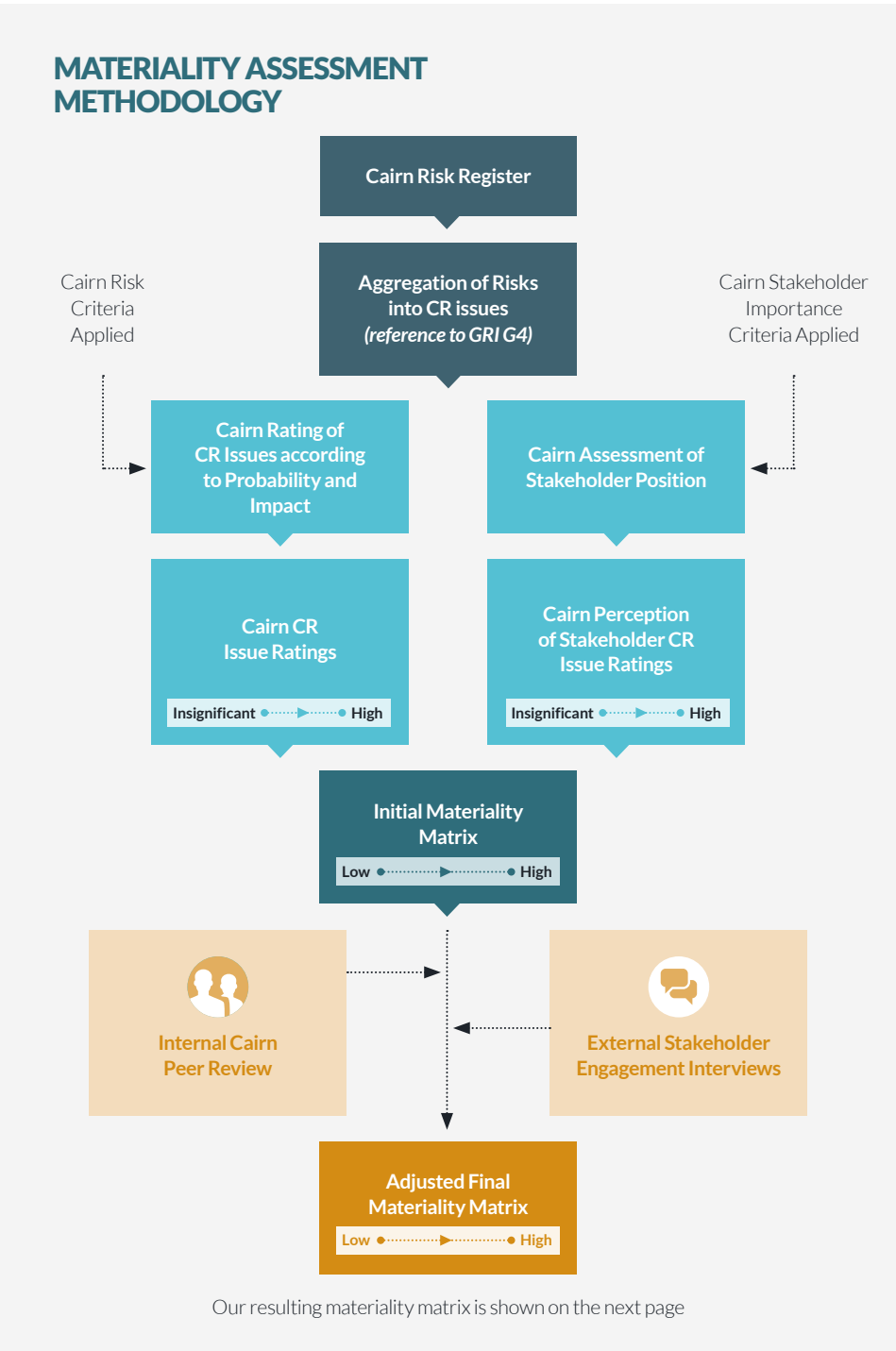
HOW WE IDENTIFY OUR KEY CR PRIORITIES

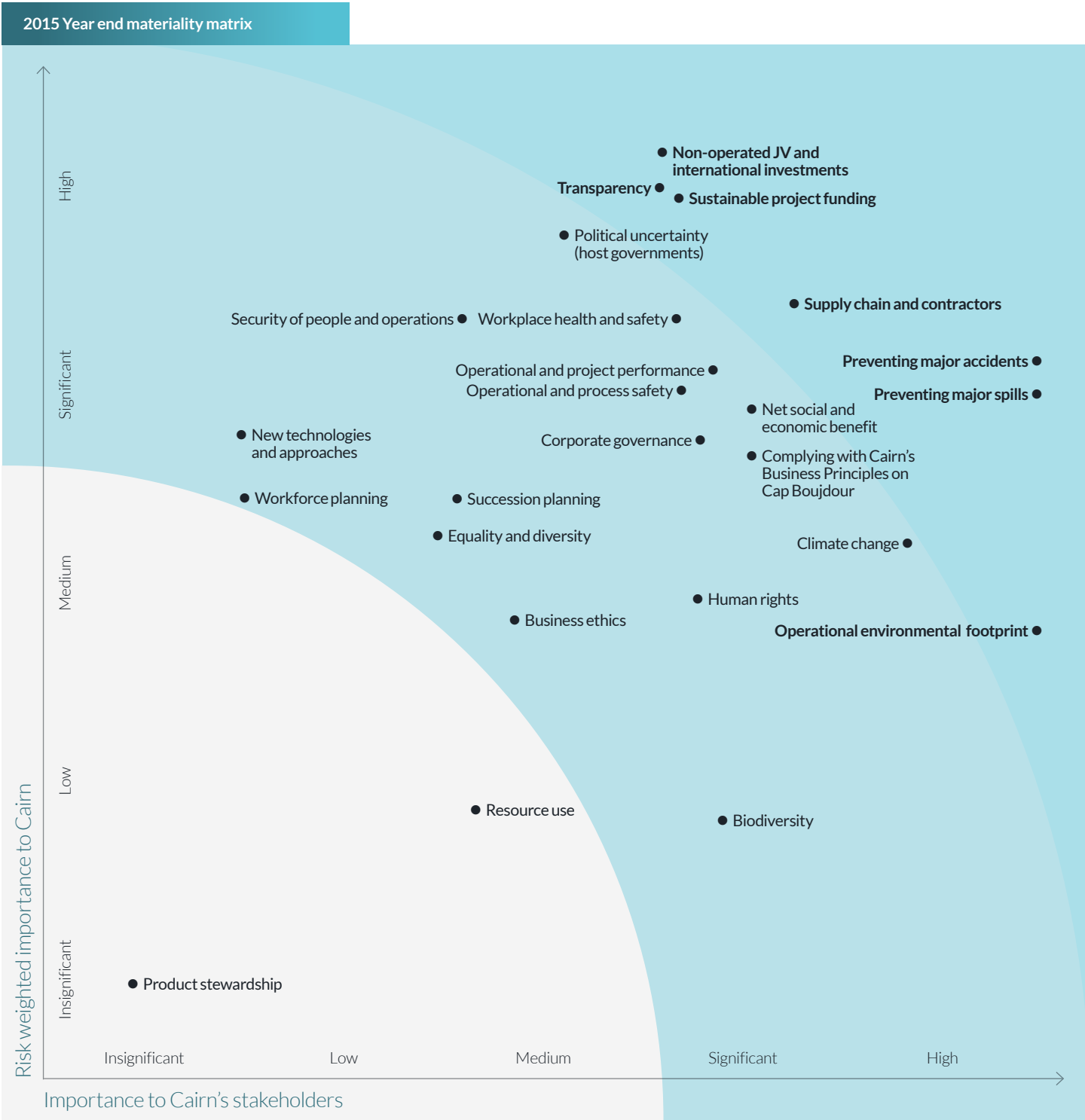
Our CR priorities reflect the topics that matter most to our business and our stakeholders. The process by which we identify these priorities is known as a materiality assessment process in which CR issues are plotted in a matrix showing their significance in broad classifications of 'high', 'medium' or 'low' (see diagram on page 51).

We improved our approach at the end of 2015 by conducting focused interviews with a cross section of stakeholders. This included representatives from: investors and finance organisations; business partners and peers; contractors and suppliers; communities; employees; industry organisations and agencies; non-governmental organisations; and academia. We invited several regulators and government representatives but none felt it was appropriate to participate. More detail on the comments made by stakeholders and our responses to these is available on our website at www.cairnenergy.com/responsibility.

Those receiving a 'high' rating are regarded as material and are discussed in this report and focus attention for setting our CR objectives.

Our 'CR Materiality Methodology' is based on the AccountAbility APS model (an internationally recognised framework developed by AccountAbility) and helps us conform to the latest Global Reporting Initiative (GRI) sustainability reporting guidelines, known as G4, which Cairn adopted successfully in 2014.





UNDERSTANDING THE MATRIX

The importance to Cairn is plotted on the vertical axis of the materiality matrix. The importance to stakeholders is plotted on the horizontal axis. The importance to Cairn reflects the probability and impact of a topic in line with our risk assessment criteria.

The importance to stakeholders uses a number of criteria with increasing impact. In this way 'Preventing Major Accidents' has a low probability but high impact when using Cairn's risk criteria, giving a significant rating, however it is classified as a high against the stakeholder concern criteria therefore when plotted in the matrix it is a 'High' material issue.

WORKING RESPONSIBLY CONTINUED
MAPPING CR PRIORITIES CONTINUED

A brief description of how things have changed in 2015 is set out in the table of movements below.

MOVEMENTS IN MATERIALITY ASSESSMENT FROM END 2014 TO END 2015

	IMPORTANCE TO CAIRN	IMPORTANCE TO STAKEHOLDERS	
PREVENTING MAJOR ACCIDENTS			We have increased the materiality assessment for the prevention of major accidents including major spills as we increase the level of operations through our exploration and appraisal programme offshore Senegal.
PREVENTING MAJOR SPILLS			
COMPLIANCE WITH OUR BUSINESS PRINCIPLES ON CAP BOUJDOUR			Our engagement activity indicated that the management of human rights was significant to stakeholders. Initial drilling operations in Cap Boujdour concluded in early 2015, but we will continue to monitor the situation in anticipation of potential future activities.
NON-OPERATED JOINT VENTURES AND INTERNATIONAL INVESTMENTS			The importance of these issues to Cairn has increased, reflecting the importance of delivery of development projects in the North Sea and the continuing financial capability of industry companies through a depressed period for the industry.
SUSTAINABLE PROJECT FUNDING			
CLIMATE CHANGE			The importance of climate change has increased in recognition of the Paris agreement made at the UN Intergovernmental Panel on Climate Change (IPCC) Conference of the Parties (COP 21) at the end of 2015 and the importance of emissions management and controls to any future production.
WORKFORCE			The importance of these issues to Cairn has decreased as the organisation has adjusted to the rationalisation that occurred in 2014. Matters relating to the workforce and succession planning do, however, remain in focus in anticipation of the potential organisational requirements associated with the progress of the Senegal project.
SUCCESSION PLANNING			
TRANSPARENCY			The issue of tax transparency was regarded generally less important to stakeholders as it is being managed. We continue to regard the issue to be of high importance to the business.
POLITICAL UNCERTAINTY			Political uncertainty affecting our business activities was of medium significance to stakeholders.
NET SOCIAL AND ECONOMIC BENEFIT			The net social and economic benefit of our activities was significant to stakeholders.

STAKEHOLDER GROUP



SEVEN MATERIAL ISSUES

Seven issues were identified to be of ‘high’ importance to both our stakeholders and to Cairn and these are described on the following pages. Further information on how we identify, assess and manage these CR topics as well as the majority of those identified as ‘medium’, is also available on the Cairn website at www.cairnenergy.com/responsibility.

Supply chain and contractors

Read more on page 54

Preventing major accidents

Read more on page 55

Preventing major spills

Read more on page 56

Operational environmental footprint

Read more on page 58

Non-operated joint ventures and international investments

Read more on page 60

Sustainable project funding

Read more on page 60

Transparency

Read more on page 61

WORKING RESPONSIBLY CONTINUED
MAPPING CR PRIORITIES CONTINUED

CR priorities

SUPPLY CHAIN
AND CONTRACTORS

Over 58% of hours worked on Cairn’s business were contracted. As such, in 2015, we placed a particular emphasis on selecting the right service providers, communicating expectations, ensuring effective policies and management processes, monitoring performance and sharing lessons learned.

We have a rigorous selection process to assess the suitability of contractors, which includes assessing their ability to conduct operations in line with our CRMS. Following appointment, contractors’ HSE or CR systems are linked to our CRMS using a bridging document. This lays out responsibilities and clarifies areas of potential uncertainty. It may also identify areas of collaboration and/or capacity building that could enhance a contractor’s HSE performance, ensuring that standards required by Cairn are met.

For example, training in heavy lifting was provided for shore base workers in Senegal.

In 2015, we engaged our partner ConocoPhillips as well activities delegate in respect of the drilling programme offshore Senegal. This arrangement delegated offshore drilling management and key supporting services to ConocoPhillips whilst Cairn retained onshore services and all operator duties. The teams across the two businesses have worked closely to ensure alignment of contracting standards, including anti-bribery and corruption requirements. Longer-term contracts, such as with our logistics agent, have been set up to promote commitment to training, infrastructure development and participation of local contractors, thereby increasing value creation in Senegal.

ZERO LOST TIME INJURIES

We had no lost time or recordable injuries in Senegal and across the Group in 2015. This is due to the hard work of each of our contractors, personnel, project HSE advisers and line managers associated with the project. High vigilance was maintained throughout the preparation, drilling and testing of the SNE-2 well and during the 3D seismic campaign. In 2016, the focus on health and safety will continue in Senegal and across the Company’s portfolio.

Case study

PROMOTING LOCAL SUPPLY CHAIN
PARTICIPATION IN OUR ACTIVITIES

We recognise the importance of developing local contractors to support our activities wherever we can. Sourcing skilled, local contractors in areas where there is a limited or no developed oil and gas industry, however, can be challenging.

In 2015, we continued to contract local supply base logistics providers in Senegal. Shore base operations involve the lifting of many heavy and often unusually shaped loads, therefore particular attention was given to the heavy lifting capabilities of our contractors. We aim to conform to international standards of lifting practices wherever we operate. To meet both Company objectives of safe operations and promoting local participation, Cairn often provides contractors with specific training.

In Senegal, Cairn provided safe lifting training to shore base workers in Dakar in 2014 and 2015. By the end of 2015, Cairn had provided lifting training to 48 Senegalese workers. Training was provided through the international training organisation, North Sea Lifting.

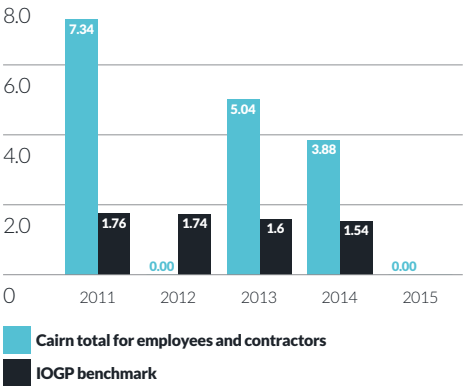
Potential future operations require human resource with the correct skills. English remains a universal language within the oil and gas industry, therefore a key focus of our Senegalese social investment programme in 2015 was developing English language skills among young people in academic institutions. This programme was initiated in October and at present 29 students from the Earth Sciences Institute of the University of Dakar are participating in a tailored English language course for the oil and gas industry, delivered on Cairn’s behalf by the British Council.



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



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



Notes:

(1) 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 are not yet available for 2015.

(2) Cairn TRIR and LTIF statistics can be higher than the IOGP benchmark after only one incident, or a small number of incidents, because our exploration activities often last for only a short time period, so there are relatively few hours worked compared with on-going production and other long-term operations.

CR priorities

PREVENTING MAJOR ACCIDENTS

KEEPING PEOPLE AND THE ENVIRONMENT SAFE

Prevention of any accident remains a key priority for Cairn and the wider oil and gas industry. It is recognised as a material CR topic which requires significant ongoing vigilance and attention. We apply rigorous procedures to identify, assess and manage potential risks and impacts in line with the As Low As Reasonably Practicable (ALARP) principle.

On 19 July 2015, the UK Health and Safety Executive introduced the Offshore Installations (Offshore Safety Directive) (Safety Case etc.) Regulations 2015 (UK SCR 2015) to conform to the EU Offshore Safety Directive, aimed at reducing the risks of major accident hazards to the health and safety of the workforce and increasing the protection of the marine environment and coastal economies against pollution. These regulations look to ensure improved response mechanisms in the event of such an incident. We have updated our CRMS to include new provisions of the regulations within our policies and standards. These changes to our CRMS will be applied throughout all our activities, not just to the UK offshore sector.

Our drilling operations, both operated and non-operated, remain a key focus of our drive to prevent major accidents. We implement our ‘Project Delivery Process (PDP)’ to assure, at regular intervals throughout a project, that critical requirements for CR performance have been met in a timely manner to prevent major accident hazards.

This year, we worked with our joint venture partner ConocoPhillips to design and execute the drilling programme offshore Senegal. Together, we have implemented a process of regular project reviews consistent with both companies’ requirements.

The wells drilled offshore Senegal were designed to include various well engineering and control barriers. All well designs have been assured by Cairn’s Head of Well Engineering and Construction and the Principal Drilling Engineer who verify that the designs comply with defined standards based on industry best practice.

In Senegal, our 2015 drilling programme built on the successful programme of 2014, incorporating the lessons learned. The well risk assessments, major accident safety studies and emergency/oil spill response plans were all reviewed and updated by Cairn and examined again by the Senegalese regulators. An operational readiness audit of the shorebase was also conducted before resumption of drilling operations in 2015.

An independent expert rig acceptance audit was conducted including assessment of critical equipment and systems before drilling commenced. All contingency plans, equipment and trained staff were also in place prior to starting the first well in 2015.

WORKING RESPONSIBLY CONTINUED
MAPPING CR PRIORITIES CONTINUED

CR priorities

PREVENTING
MAJOR SPILLS
PROTECTING THE ENVIRONMENT

The prevention of major hydrocarbon spills and preparation for response in the unlikely event of a major spill event remain of critical importance to Cairn and our stakeholders.

During the year, we continued to prioritise the integrity of the wells drilled offshore Senegal and to adopt industry good practice in assessing the risk of oil spills and in oil spill response planning. Steps taken to prevent major spills include:

- designing wells to a level that exceeds requirements for the expected characteristics of the geological formations to be encountered;
- maintaining the appropriate barriers during drilling activities to ensure our well control standards and procedures are met; and
- applying the International Association of Oil & Gas Producers (IOGP) Joint Industry Project (JIP)'s new and revised guidance on oil spill risk assessment and response planning. This includes a structured and detailed analysis of oil spill risk, development of potential spill scenarios, likelihood and consequence analysis, detailed modelling and development of a credible response capability.

We have ensured that in the unlikely event of a large oil spill, we are able to provide an effective oil spill response. We continue to apply good practice for all our drilling programmes:

- **Planning** – applying the IOGP JIP's approach to oil spill risk assessment and response planning.
- **Surface response capability** – maintaining tiered oil spill response capability including Associate Membership of Oil Spill Response Limited (OSRL) for access to established Tier 3 oil spill response equipment. We also enhanced our Tier 2 capability in Senegal through membership of Western and Central Africa Aerial Surveillance and Dispersant Spraying Services (WACAF). OSRL membership also gave us access to highly experienced consultants who assisted in the development of the oil spill response plans and who could assist in the event of a spill.
- **Subsea cap and secure capability** – Cairn maintained access to the Subsea Well Incident System which includes the Capping Stack System, the Subsea Incident Response Toolkit and the Global Dispersant Stockpile, all of which are managed by OSRL.

- **Oil Spill Contingency Plan** – Our Senegal plan was developed using IOGP practices and through consultation with a number of stakeholders including government departments, local response organisations and subject experts.
- **Preparedness** – training and emergency exercises were held with our partners ConocoPhillips and PETROSEN during 2015. These helped to embed roles and responsibilities and rehearsed application of the oil spill plans and emergency response plans in our field locations.

We continue to track the latest developments and improvements in spill prevention and control to ensure we implement those which will enhance our already high standards.

In 2015, a minor spill of waste hydraulic oil (<1 litre) to surface drain occurred, arising from failure to follow procedure during tank cleaning at the shorebase. A second minor spill of oil drop-out (<1 litre) also occurred, from the flare during testing of the SNE-2 well.

Total spills to the environment (number)

	2011	2012	2013	2014	2015
Oil	0	0	0	0	1
Fuel	1	0	0	0	0
Chemical	0	1	0	0	1
Waste	0	0	0	0	0
Other	2	0	0	0	0

Total spills to the environment (barrels)

	2011	2012	2013	2014	2015
Oil	0	0	0	0	0.002
Fuel	0.06	0	0	0	0
Chemical	0	2.20	0	0	0.006
Waste	0	0	0	0	0
Other	9.44	0	0	0	0



Oil spill response exercise



Case study

CONTINUING TO BUILD CAPACITY FOR OIL SPILL PLANNING AND RESPONSE

When Cairn started drilling operations offshore Senegal in 2014 there had been relatively little previous exploration drilling carried out.

Working with the authorities in Senegal, oil spill planning and response capability was developed in-country. This year, we have built on this programme to further bolster capacity in this area, while at the same time strengthening our own plans.

In 2015, we were invited to support a jointly sponsored International Maritime Organisation (IMO)/Global Initiative West and Central Africa (GI-WACAF) National Workshop on the development of the national policy for the use of dispersants, held in Senegal. GI-WACAF is a partnership between IMO and the global oil and

gas industry association for environmental and social issues (IPIECA). Its mission is to strengthen national capacity to combat oil pollution in 22 countries in West and Central Africa with the establishment of local partnerships between the oil industry and the authorities. The overall objective of the three-day workshop was to assist in developing a legal framework on the use of dispersants. Cairn contributed by running an interactive case study session to examine the most suitable treatments and implications of using dispersants and by participating in a desk-based scenario simulation on the third day.

As part of the new operational arrangements in place within Cairn, an extensive review of our internal crisis and emergency arrangements was conducted in Q3 for all aspects of Group activities. A comprehensive new Crisis and Emergency Response Team (CERT) manual

was issued in September and training and exercises were rolled out through the remainder of 2015 and this will continue in 2016. The CERT manual also bridged with the specific Senegal Emergency Response Plan developed by ConocoPhillips, as well activities delegate, and the Oil Spill Contingency Plan, and allowed Cairn to draw on the extensive in-house ConocoPhillips Crisis Management Support Team based in Houston and their international network of emergency experts within the ConocoPhillips Global Incident Management Assist Team.

In 2015, we held a number of exercises including in-field deployment of mechanical oil spill boom and an oil spill emergency exercise involving both ConocoPhillips and Cairn teams and contractors.

WORKING RESPONSIBLY CONTINUED
MAPPING CR PRIORITIES CONTINUED

CR priorities

OPERATIONAL
ENVIRONMENTAL
FOOTPRINT

Oil and gas activities can potentially impact the environment including impairing air quality, water quality, marine resources and the disposal of waste. Managing our environmental performance is very important. Comprehensive contractual and regulatory environmental obligations are placed on our operations.

Prior to exploration and appraisal drilling in Senegal in 2015, we reviewed impacts of planned changes to the previous programme in rig, vessels, aviation and overall approach. This included assessing and mitigating risks arising in the following areas:

- environmental and social impacts of operational equipment, locations and increased local environmental and social knowledge;

- emergency and oil spill preparedness, changes in terms of operational approach and increased knowledge of oil characteristics;
- changes to critical safety elements associated with the rig, vessels and aviation; and
- a voluntary assessment of environmental impacts for the proposed 3D seismic campaign offshore Senegal including implications for the fishing community and local artisan fishermen.

The impact of changes in the drilling programme in 2015 were submitted as an addendum to the Environmental and Social Impact Assessment approved and submitted to the regulatory authorities in 2014. The development and submittal of the addendum was a voluntary initiative by Cairn and

involved formal discussions with the regulators, review by National Technical Committee members and a programme of consultations with regional and district authorities in Fatick, Bassoul, Foundiougne, Toubacouta, Djirnda and Dionewar. Around 80% of the local council representatives attended each meeting.

CR plans, which include environmental requirements and compliance registers, are put in place for all our operational programmes and these have been adhered to with no issue of non-conformance or non-compliance during 2015.

Environmental performance metrics are gathered on a monthly basis throughout any operational activity. These are collated and analysed and reported to the Board, SLT and MT (for more details, please see www.cairnenergy.com/responsibility).

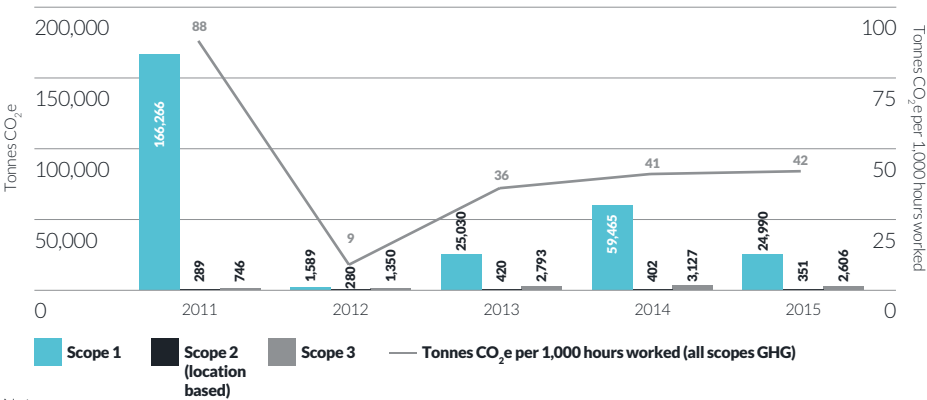
GREENHOUSE GASES

Greenhouse Gases (GHGs) form a part of our operational environmental footprint. We monitor and manage the GHGs emitted during our activities and disclose them in accordance with industry requirements and standards. In 2015, we updated our methodology for calculating Scope 2 emissions in line with the Greenhouse Gas Protocol Scope 2 guidance, issued in January 2015. We disclose on an 'operational control' basis which means we report emissions from those assets which are operated by us and not those controlled by our partners. With no operated production facilities, our direct GHG emissions occur primarily from the combustion of fuel on rigs and vessels during the drilling of wells or acquisition of seismic.

The graph shown indicates that our GHG emissions over the last five years are heavily dependent on the level of operational activity in any given year due to the absence of any steady production. This makes it difficult to identify baseline information and set meaningful targets for total GHG reduction over time. We have therefore chosen to adopt a methodology for calculating GHG emissions intensity with reference to the number of hours worked, as this provides a direct relationship with the levels of activity and provides a mechanism for engaging with our contractors on energy efficiency. The quantity of GHG emissions from our activities has reduced in 2015 from 2014 due to reduced levels of operational activity. GHG intensity levels in 2015 are similar to those achieved in 2014.

At the end of 2015, the UN Intergovernmental Panel on Climate Change (IPCC) Conference of the Parties (COP 21) took place in Paris. The resulting agreement required countries to work within their action plans to limit global greenhouse emissions and review these every five years from 2020. While we will assess the implications of the agreement to our business more fully in 2016, we expect that emissions management and controls will become increasingly important to any future production.

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



Notes:
We calculate our GHG emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard.
(1) For calculating Scope 1 (direct) GHG emissions we use emission factors from the API Compendium 2009.
(2) In 2015 we updated our methodology for calculating Scope 2 GHG emissions in line with the new Greenhouse Gas Protocol Scope 2 Guidance that was published in January 2015. As a result we now report Scope 2 emissions in two ways: according to a location-based method and a market-based method. For the location-based method we use emission factors from the IEA (International Energy Agency) Report 'CO₂ emissions from Fuel Combustion Highlights' (2013 Edition). These are grid average emission factors for each country. For district heating and cooling we use location-based emission factors from DEFRA 2015. For the market-based method we use emission factors, where available, in the following order of preference:
a. Supplier-specific emission factor – obtained from Cairn offices' electricity suppliers.
b. Residual mix emission factors – obtained from the RE-DISS II document 'European Residual Mixes 2014', last updated in June 2015.
c. 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 on our website.
(3) 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 2015 emission factors this year (see <http://www.ukconversionfactorscarbonsmart.co.uk/>).

Case study

ADDRESSING CONCERNS REGARDING SEISMIC ACTIVITIES OFFSHORE SENEGAL

We completed a 3D seismic campaign offshore Senegal within the Rufisque, Sangomar and Sangomar Deep blocks, where there are significant marine resources in the area important to local fishing activities.

To address stakeholder concerns, a number of activities were undertaken to consult with local representatives:

Submissions were made to national and regional authorities to explain the scope of the operations. An Environmental Assessment Report was compiled to identify environmental sensitivities in the area and formulate management measures to ensure our operations had a minimal impact on marine life. To monitor implementation of these measures, the seismic vessel included a Marine Mammal Observer who, along with advising and reporting on compliance to environmental

management measures, also collected data on encountered marine mammals and bird life. This environmental data will be shared with the Senegalese government authorities to add to their national information resource.

Channels of Communication were set up with fishing organisations and maritime authorities. Ahead of operations, information flyers were produced to ensure that the local fishing communities understood how seismic projects are undertaken. We provided information relating to the essential actions to be taken by any fishing vessels encountering the seismic operations, including a diagram showing the safe working distances around the 8km x 1km streamer spread layout. Throughout seismic operations, radio announcements were made providing information on where our operations would be in the coming days. We initially deployed two boats and a support vessel to warn and guide fishermen out of the path of the seismic vessel. As the level

of fishing activity encountered was higher than anticipated, particularly closer to the coast, we completed the campaign with four boats and a support vessel. Communication was facilitated by French and Wolof speaking Fisheries Liaison Officers on board the vessels.

A procedure for potential claims was promoted to receive and address potential complaints as well as provide an ongoing means for asking further questions. We received a single claim for a damaged fishing net and this was addressed using the claim procedure.



WATER, WASTEWATER AND WASTE

Water use in our 2015 activities was not regarded as a significant or material issue due to the nature of our offshore activities and abundance of local supply. Wastewater discharges and waste disposals consisted of typical vessel sanitary discharges and discharge and disposal of drilling wastes. Cairn again used low impact water based drilling fluids in the 2015 drilling campaign and these were discharged in line with good industry practice. Waste management in Senegal received particular attention in order to ensure a 'Duty of Care' was maintained in line with European practice. This includes not only the application of a waste management hierarchy (avoid, reuse, recycle, recover, dispose) but also requires prevention of escape of waste; appropriate handling, treatment and disposal; and handling such waste by 'fit and proper persons'.



WORKING RESPONSIBLY CONTINUED
MAPPING CR PRIORITIES CONTINUED

CR priorities

**NON-OPERATED
JOINT VENTURES
AND INTERNATIONAL
INVESTMENTS**

**HSE PERFORMANCE OF
OPERATING PARTNERS**

For some of our assets, operational activities may be carried out by partner organisations. HSE performance of these assets will therefore be dependent on the quality and competence of our partners and so we undertake a rigorous due diligence process to ensure confidence in their integrity and HSE track record. We also regularly assess the HSE performance of our operating partners through partner review committees. Cairn believes that good HSE management is cost-effective and should remain a key focus of the industry even when facing difficult market conditions.

We have continued to work in collaboration with partners EnQuest and Premier Oil on development assets, Kraken and Catcher. This includes our obligations and duties under the new UK SCR 2015. We continue to scrutinise non-operated activities including understanding the HSE risks associated with the projects to ensure robust mitigation plans are implemented through the design, construction, commissioning and operational phases. These requirements are reflected in the new Cairn Operating Standards Manual and CRMS.

We have also continued to ensure our ‘see to’ obligations were met for non-operated joint venture wells in Norway. There is a requirement that non-operating partners must assess HSE arrangements of the block operator prior to approval of activities by the Norwegian regulator. This necessitates all non-operating parties assure and are responsible for planned activities. In line with our pre-qualification as an operator in Norway, procedures have been updated in the UK and Norway region and have strengthened links with the Cairn Group CRMS. We will look to renew our external environmental management system audit (under OSPAR (Oslo/Paris) Convention for the Protection of the Marine Environment of the North East Atlantic) in 2016.

APPLYING OUR BUSINESS PRINCIPLES

Prior to any new venture, whether operated or non-operated, we undertake an extensive due diligence management process to understand any risks associated with the project including any challenges to our Business Principles. In our 2014 Annual Report, we reported extensively on the venture operated by Kosmos in Cap Boujdour. No operational activity has been carried out in Cap Boujdour since conclusion of the CB-1 exploration well in March 2015, however we continued to track developments and work with our partner in this area during the course of the year. Cairn and the operator, Kosmos, continue to believe that responsible resource exploration and, if successful, development in Western Sahara can occur in parallel with the UN-led discussion on the region’s future.

CR priorities

**SUSTAINABLE
PROJECT
FUNDING**

Cairn’s business model is to create, add and realise shareholder value from a balanced portfolio, with material upside potential from exploration and appraisal activity supported by established development and production assets and a strong balance sheet. We believe that CR performance is integral to promoting cost-effective operational performance and managing societal and reputational risks that may impact on our licence to operate and our ability to access funding for future projects.

Cairn’s exploration inventory is underpinned and balanced by development assets in the UK and Norway, the free cash flow from which will be used in part to fund future exploration programmes. Many of these assets are non-operated ventures. Our emphasis is on the safe delivery of these projects within budget and schedule and this is reflected in the standards governing our core business processes set out in the new Cairn Operating Standards Manual and our CRMS.

It is important to Cairn that our operations and those of our partners are robust and carried out responsibly. We have sought to demonstrate our commitment through:

- upholding and supporting the ten principles of the Global Compact;
- seeking to apply the IFC Environmental and Social Performance Standards;
- participating in the Extractive Industries Transparency Initiative; and
- applying a robust Corporate Responsibility Management System.



CR priorities

TRANSPARENCY

We operate in areas around the world, which often have unique social and political challenges. To manage this and protect our reputation, we have developed a robust Code of Business Ethics. Cairn's Code of Business Ethics sets out the standards of conduct we expect from our employees. Doing business in a corrupt or unethical way has serious consequences for society and those involved. Our Group Code of Business Ethics and Anti-Bribery and Corruption (ABC) System not only guide our own behaviour but also clarify our expectations of partners and suppliers.

Before entering into a business relationship, we undertake a process of information gathering and risk identification, with the option to undertake further third party checks if any concerns arise. To assist with the risk assessment process, we use various due diligence tools which enable us to identify potential 'red flags' and establish whether these issues are manageable and if any residual risks lie within our risk appetite statement. We acknowledge that at times this will mean there may be challenges to secure new acreage in line with our business plan whilst living up to our standards and responsibilities. Third party due diligence checks were conducted on a number of suppliers and business partners in 2015.

ANTI-BRIBERY AND CORRUPTION

Cairn has a zero-tolerance approach to bribery and corruption.

In 2015, ABC continued to be strengthened throughout Cairn. A series of refresher training sessions were presented to staff in Edinburgh, Stavanger and Senegal. This training will be followed up in 2016 with the roll-out to all staff and key contractors of an ABC e-learning training module to all staff and key contractors. As activities continue in Senegal, contractor ABC procedures will continue to be implemented.

PAYMENTS TO GOVERNMENTS

We advocate transparency of tax contributions and other payments to government and support two transparency initiatives, namely the European Union Accounting Directive and the EITI.

The EU Accounting Directive applies to Cairn as a listed extractive company and requires parent companies to disclose certain payments to governments on a country-by-country basis. In 2015, the UK government brought forward implementation of these accounting requirements and Cairn has worked diligently to conform to these regulations. Our submission to Companies House will be made in the first half of 2016 and a copy will be available from that time on our website.

The EITI is an international initiative that is voluntarily entered into by governments in order to promote openness in respect of the management of revenues from natural resources. We became a

Total Payments to Governments ¹ (US\$'000)		
	2014	2015
Licence, rental and entry fees	1,475	1,033
Infrastructure improvements	1,995	0
Corporate Income Tax	(66,000)	(51,865)
WHT withheld on payments to group companies	4,029	333
VAT	(9,285)	(6,257)
Customs Duty	1,058	309
Training allowances	987	607
PAYE and NI	16,069	18,009
WHT withheld on payments to third parties	28,051	10,095
Other	5,460	1,388

Notes:

(1) We disclose gross payments for assets that we operate and net payments for our non-operated assets. Negative figures reflect refunds received. The figures above represent a net of payments and refunds. We are reporting a greater number of payment categories this year. Data in this format is only available since 2014.

(2) WHT – Withholding Tax.

Participating Company in the EITI in September 2013, Norway joined EITI in 2009, Senegal in 2013 and the UK joined the EITI in October 2014. No other countries in which Cairn operates have joined. We are actively participating in EITI working groups in Senegal. As in previous years, we have disclosed our payments to governments in the table below. These disclosures include both payments to governments included in our EITI reporting, such as corporate income tax, licence fees and WHT² suffered, and additional payments made including VAT and payroll taxes and social security costs.

As Cairn operates in various territories with diverse tax obligations and requirements, we are committed to ensuring that in every territory we comply fully with local tax rules and regulations. Cairn's Tax Policy does not permit any artificial tax planning and, in managing its tax affairs, the Group must align any planning with genuine commercial activity.

As at 31 December 2015, Cairn has a ~10%, holding in Cairn India Limited. The retroactive tax claim made by the Indian Tax Department is addressed in the Financial Review on pages 32 to 35.

SUSTAINABLE SOCIAL INVESTMENT

We seek to make a positive social impact in every area in which we work. First and foremost we contribute to community and social development in the countries in which we operate through our core business activities such as energy and infrastructure, as well as through payment of taxes, employment opportunities, skills development and trade with local enterprises. Cairn also adds to benefits generated by our operations through focused and appropriate social investment. We have set criteria for social investment activities which aim to ensure that longer-term projects are sustainable with plans in place from the outset to continue without Cairn's contributions, typically beyond an initial three year period. Our projects are also developed through a process of community engagement, consultation and participation, using a transparent decision making process to ensure any payments made are aligned with our Business Principles and comply with our ABC Management System.

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



SIMON THOMSON
Chief Executive
14 March 2016

BOARD OF DIRECTORS



Executive Directors

Non-Executive Directors

SIMON THOMSON
Chief Executive

JAMES SMITH
Chief Financial Officer

IAN TYLER
Non-Executive Chairman

TODD HUNT
Non-Executive Director

Biography	Simon Thomson was appointed Chief Executive in July 2011 having been Legal and Commercial Director since 2006 and holding various posts across the organisation including head of assets. Simon originally joined Cairn in 1995 and holds an LLB (Hons) from Aberdeen University and a Diploma in Legal Practice from Glasgow University.	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 E&P companies, oil majors and national oil companies on their M&A transactions and equity and debt market financing. James holds a BA (Hons) from the University of Oxford.	Ian Tyler graduated with a first class degree in Commerce from Birmingham University. He 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 2005-2013. During this time, he took the company from being primarily a UK construction business, to a global infrastructure services business.	Todd Hunt has more than 40 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.
Term of office	Simon was appointed to the Board in November 2006 as Legal and Commercial Director and became Chief Executive in July 2011.	James was appointed to the Board in May 2014 as Chief Financial Officer.	Ian was appointed as an independent non-executive director in June 2013 and became non-executive Chairman in May 2014.	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.
Independent	Not applicable	Not applicable	Yes	No
External appointments	Simon is a non-executive director of Graham's The Family Dairy Limited and a member of the advisory Board of the Winning Scotland Foundation.	James has no external appointments.	Ian is a non-executive director of BAE Systems plc and non-executive chairman of Bovis Homes Group PLC. Ian was non-executive chairman of Al Noor Hospitals Group plc throughout 2015. In February 2016, Al Noor was acquired by Mediclinic International plc, at which point Ian stepped down as chairman of Al Noor and was appointed Senior Independent non-executive director of the enlarged group. Ian was a non-executive director and chairman of the audit committee of Cable & Wireless Communications plc until he retired from the post with effect from 30 September 2015.	Todd is president and joint owner of Atropos Exploration Company and Atropos Production Company.
Committee membership	Simon chairs the Senior Leadership Team. He is a member of the nomination committee and attends meetings of the remuneration committee by invitation and part of each audit committee meeting by invitation. From 1 January 2016, Simon chairs the Group Risk Management Committee.	James is a member of the Senior Leadership Team. He is a member of the governance committee and attends meetings of the audit committee by invitation. During 2015, James chaired the Group Risk Management Committee.	Ian chairs the nomination committee and is a member of the governance committee and the remuneration committee. During the year, Ian was a member of the audit committee until he stepped down as a member on 30 June 2015.	Todd was a member of the governance committee, the nomination committee and the remuneration committee until 30 June 2015. Following this date, Todd attends meetings of the remuneration committee by invitation.



**IAIN
MCLAREN**

Non-Executive Director

Iain McLaren has significant experience in the oil and gas sector. He is a chartered accountant and was formerly senior partner of KPMG in Scotland.

**ALEXANDER
BERGER**

Non-Executive Director

Alexander holds a Masters degree in Petroleum Engineering from Delft University and an MBA from Rotterdam School of Management. He is chief executive officer of Oranje-Nassau Energie B.V., a private Dutch exploration and production company based in Amsterdam.

**M. JACQUELINE
SHEPPARD QC**

Non-Executive Director

M. Jacqueline Sheppard QC (Jackie Sheppard) holds a BA from the Memorial University of Newfoundland, BA and MA in Jurisprudence from Oxford University and LLB from McGill University. She was executive vice president, corporate and legal at Talisman Energy Inc from 1993 to 2008 and appointed Queen’s Counsel for the Province of Alberta in 2008.

**KEITH
LOUGH**

Non-Executive Director

Keith Lough is a chartered certified accountant with an economics degree from the University of Edinburgh and an MSc in Finance from London Business School. He was Finance Director of British Energy PLC from 2001 to 2004 before becoming a founder shareholder and Chief Executive of Composite Energy Ltd, a privately owned coal-bed methane focused business. He held this post until 2011, when Composite was divested to Dart Energy.

**PETER
KALLOS**

Non-Executive Director

Peter Kallos has a degree in Applied Physics from Strathclyde University and a postgraduate degree in Petroleum Engineering from Heriot Watt University. He 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, a UK based oil and gas business with activities in the Turkmen sector of the Caspian Sea.

Iain was appointed as an independent non-executive director in July 2008.

Alexander was appointed as an independent non-executive director in May 2010.

Jackie was appointed as an independent non-executive director in May 2010.

Keith was appointed as an independent non-executive director in May 2015.

Peter was appointed as an independent non-executive director in September 2015.

Yes

Iain is chairman of Investors Capital Trust plc and a non-executive director of Baillie Gifford Shin Nippon plc, Edinburgh Dragon Trust plc and Ecofin Water & Power Opportunities plc. He is also a past president of the Institute of Chartered Accountants of Scotland.

Yes

Alexander is chief executive officer of Oranje-Nassau Energie B.V., and a director of Oranje-Nassau Energie UK Limited and Oranje-Nassau Energy Petroleum Limited.

Yes

Jackie is non-executive chairperson of Emera Inc., a public Canada-based international energy generation, transportation and distribution company. She is also a director of the general partner of Pacific NorthWest LNG LP, which was formed for the purpose of constructing, owning and operating an LNG facility in British Colombia. She is the founder, lead director and chair of the audit committee of Black Swan Energy Inc., a private equity financed upstream oil and gas company with operations in Canada.

Yes

Keith is a non-executive director of Rockhopper Exploration PLC, a non-executive director of Papau Mining PLC and Rock Solid Images Inc, and non-executive director of the UK Gas and Electricity Markets Authority, which has supervisory responsibility for Ofgem. In December 2015, Keith became a non-executive director of Gulf Keystone Petroleum Ltd.

Yes

Peter is Chief Executive of Buried Hill Energy.

Iain chairs the audit committee and is a member of the nomination committee and the remuneration committee.

Alexander is a member of the audit committee and the governance committee. During the year, Alexander was a member of the nomination committee until 30 June 2015.

Jackie chairs both the remuneration committee and the governance committee.

Keith is a member of the audit committee, the nomination committee and the governance committee.

Peter is a member of the remuneration committee and the nomination committee.

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 2015 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 12 May 2016.

RESULTS AND DIVIDEND

The Group made a loss after tax of US\$515.5 million (2014 loss of US\$381.1 million).

The directors do not recommend the payment of a dividend for the year ended 31 December 2015.

Subsequent events that have occurred after the balance sheet date as at 31 December 2015 are included in Section 6.5 of the Notes to the Financial Statements.

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 10 to 11 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 81 to 104. 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 page 89. 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 Senior Secured Borrowing Base Facility Agreement entered into by the Company with BNP Paribas and other syndicated banks dated 18 July 2014 (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 67 to 75 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 62 and 63. The beneficial interests of the directors in the ordinary shares of the Company are shown below:

	As at 31 December 2014	As at 31 December 2015	As at 14 March 2016
Simon Thomson	457,567	572,783	572,783
James Smith	2,688	62,853	62,853
Ian Tyler	0	0	0
Todd Hunt	72,012	72,012	72,012
Iain McLaren	7,878	7,878	7,878
Jackie Sheppard	7,000	7,000	7,000
Alexander Berger	40,008	40,008	40,008
Keith Lough*	–	0	0
Peter Kallos**	–	0	0

* Keith Lough was appointed as a non-executive director of the Company on 14 May 2015.
** Peter Kallos was appointed as a non-executive director of the Company on 1 September 2015.

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 81 to 104.

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 81 to 104.

SHARE CAPITAL

The issued share capital of the Company is shown in Section 6.1 of the Notes to the Financial Statements. As at 14 March 2016, 576,343,551 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 set out in the Company's Articles of Association. However, the Company recognises that best practice is now to hold a poll on all shareholder resolutions. It is the Company's current practice, therefore, to hold a poll and it is committed to doing so going forward.

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

member of the Company may authorise one or more individuals to act as its representative or representatives at any meeting of the Company, or at any separate meeting of the holders of any class of shares. A person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company.

RESTRICTIONS ON VOTING

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

VARIATION OF RIGHTS

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

TRANSFER OF SHARES

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

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

The directors may, in their absolute discretion and without assigning any reason 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 2015 and 10 March 2016 (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 2015	% Share Capital	As at 10 March 2016	% Share Capital
MFS Investment Management	82,780,635	14.36	82,420,410	14.3
BlackRock	68,125,111	11.82	67,681,753	11.74
Hotchkis & Wiley	41,425,120	7.19	39,209,325	6.8
Franklin Templeton	27,631,773	4.79	27,235,771	4.73
Majedie Asset Management	23,726,623	4.12	25,031,312	4.34
Aviva Investors	23,303,021	4.04	24,164,413	4.19
Schroder Investment Management	20,152,406	3.50	21,055,998	3.65
Standard Life Investments	17,017,440	2.95	27,527,989	4.78

POLITICAL DONATIONS

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

GREENHOUSE GAS EMISSIONS

Details of the Group's greenhouse gas emissions can be found in the Strategic report section on pages 1 to 61 of this document, 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 3.6 of the Financial Statements.

ACQUISITION OF OWN SHARES

In 2013, the Company initiated a share buy-back programme with a view to maximising shareholder value and optimising capital allocation. The Board considered that the share buy-back programme would maximise shareholder value by increasing the capital gain per share that would be expected in the event of a successful hydrocarbon discovery and that it would be in the best interests of shareholders generally. Therefore, the Company entered into an irrevocable and non-discretionary agreement with its brokers, Morgan Stanley and Jefferies, to repurchase on the Company's behalf and within certain pre-set parameters up to US\$300m of ordinary shares in the Company for cancellation.

The Board decided to suspend the share buy-back programme as of 21 March 2014 and therefore no further shares have been repurchased by the Company since that date.

DIRECTORS' REPORT

CONTINUED

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 67 to 75 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. In May 2014, the Company entered into standalone deeds of indemnity with each of the directors, pursuant to which the directors have the benefit of an indemnity which is a Qualifying Third Party Indemnity Provision. The indemnities came into force upon execution of the deeds of indemnity and are currently in force. The Company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

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 (IFRSs) 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 IFRSs 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. 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 2015 (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 62 and 63, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group and Company; and
- the Strategic report section on pages 1 to 61 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

The directors of the Company who held office at 31 December 2015 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 2016

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 12 May 2016. The resolutions to be proposed at the AGM are set out and fully explained in the Circular containing 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.

By order of the Board

DUNCAN WOOD

Company Secretary
14 March 2016

CORPORATE GOVERNANCE STATEMENT



INTRODUCTION

Ian Tyler *Chairman*



At Cairn, we operate with integrity at all times, recognising that in doing so the Company will maintain the trust of its many stakeholders.

The Cairn Board is committed to promoting high standards of corporate governance and understands that an effective, challenging and diverse Board is essential to enable the Company to deliver its strategy and shareholders' long-term interests, whilst also generating investor confidence that the business is conducting itself in a responsible manner. Further information on our strategy, business model and approach to operating responsibly can be found in the Strategic report section of this Annual Report and Accounts.

We have further strengthened the Board through the appointment of two new independent non-executive directors during 2015. Keith Lough was appointed with effect from 15 May 2015 and Peter Kallos joined the Board on 1 September 2015. The appointment process is summarised in the Nomination Committee report on page 72. We had previously announced that Todd Hunt would retire as a non-executive director at the Company's AGM on 12 May 2016. However, following discussions in Q1 2016, the Board has now invited Mr Hunt to continue as a non-executive director and a resolution for his re-election will, therefore, be proposed at the AGM. The decision that Mr Hunt remains on the Board has been made to allow for a longer period of transition following the appointment of our two new non-executive directors. The Board also believes that given the current state of the industry, having the experience and knowledge of Mr Hunt on the Board will be of significant value to the Company. We provide further explanation of this on page 68 in relation to the independence of our non-executive directors.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

As a company incorporated in the UK 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). Cairn is fully committed to achieving compliance with the principles and provisions set out in the Code.

The Board regularly reviews the provisions of the UK Corporate Governance Code and has amended or enhanced the Company's governance framework to ensure that the Company complies with the Code (other than as detailed on page 75). Set out below is a statement of how the Company applied the principles in sections A to E of the UK Corporate Governance Code for the year ended 31 December 2015. This statement reports compliance with the version of the Code published in September 2014.

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.

Following the appointment of two new non-executive directors during 2015, the Board currently comprises the Chairman, two executive directors and six non-executive directors. The current directors' biographies are on pages 62 and 63.

The Company considers periodic refreshment of the Board to be positive as it brings new thinking to the Company as well as ensuring that the Board's collective experiences equip it to direct the Company's strategy and meet its business needs as they evolve over time. The Board is also mindful 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.

Diversity is a key element of the Cairn Board, with emphasis placed not only on gender but also on nationality and experience. The Board has one female non-executive director and continues to demonstrate diversity in the broader sense, with directors from the Netherlands, the USA and Canada, 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 report of the Nomination Committee on page 72 and in the Strategic report section of this Annual Report and Accounts.

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.

The Chairman's responsibilities include:

- the leadership and effective running of the Board;
- ensuring that the Board plays a full and constructive part in the determination and development of the Group's strategy;
- acting as guardian and facilitator of the Board's decision-making process;
- ensuring effective implementation of the Board's decisions; and
- ensuring open communications with shareholders and, in particular, understanding their issues and concerns with regard to governance.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

The Chairman's other commitments out with the Company are included in his biography on page 62. The Chairman devotes a significant amount of time to his role and regularly utilises the Company's London office to deal with Company matters.

The Chief Executive's responsibilities include:

- managing the Group's business and proposing and developing the Company's strategy and overall commercial objectives in consultation with the Board;
- leading the Senior Leadership Team in implementing the decisions of the Board and its committees;
- driving the successful and efficient achievement of the Company's KPIs and objectives; and
- providing strong and coherent leadership in representing the Company to its stakeholders.

SENIOR INDEPENDENT DIRECTOR

Iain McLaren continues to be Cairn'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 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.

RE-ELECTION OF DIRECTORS

In accordance with the UK Corporate Governance Code, all of the Company's directors are subject to annual re-election by shareholders. As such, each of the directors will seek re-election at the AGM to be held on 12 May 2016. Full biographical details of the current directors can be found in the Board of Directors section on pages 62 and 63.

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. The Company first conducted an externally facilitated Board evaluation in 2012 and conducted internal evaluations in 2013 and 2014.

The 2014 evaluation resulted in some important recommendations for improving the Board's effectiveness, including proposals to undertake in-depth workshops on strategy and succession planning and to appoint two new non-executive directors, all of which have subsequently been completed.

This year, taking into account the requirement to conduct an externally facilitated evaluation at least every three years, the Board approved an external board performance evaluation for 2015. The Company subsequently appointed Independent Audit to facilitate this process (Independent Audit has no other connection with the Company).

Independent Audit reviewed a full annual cycle of the Company's Board and Board committee papers. They then conducted interviews with all Board members and the Company Secretary during Q3 2015 and attended the October Board and committee meetings as an observer. The results of their review were included in a final report published in November 2015 which was presented and discussed at the December 2015 Board meeting.

Following completion of the external evaluation process, the Chairman also held a series of one-to-one meetings with each of the directors in December 2015 in order to discuss the outcomes of the evaluation. In addition, the senior independent non-executive director met with each of the non-executive directors (excluding Ian Tyler) in order to discuss/appraise the performance of the Chairman.

The main action points arising from the 2015 external performance evaluation include the following:

Key actions	Implementation
Continue to develop the Board risk process	The Board conducted a second annual Board risk workshop in December 2015 at which it undertook a detailed review of risk appetite and key risks.
Ongoing review of Board composition	Board composition will be revisited to ensure it remains appropriate.
Further increase explanation and simplify technical analysis in Board papers	There is increased focus on distilling technical data in Board papers in order to ensure that there is an appropriate balance between clearly explained management recommendations and any supporting technical information.

As explained above, some improvements have been identified and have already been or will be addressed during 2016.

Following the external performance evaluation process conducted in 2015, the Board and the Board committees are satisfied that they are operating effectively and that each director has performed well in respect of their roles 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 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 in the KPI section on pages 20 to 25. The 2015 bonuses payable to the executive directors under the Company's cash bonus scheme (described further in the Directors' Remuneration Report on pages 81 to 104) were linked directly to the Group's performance against these KPIs.

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;
- 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 does however recognise that, in view of the characteristics of independence set out in the UK Corporate Governance Code, Todd Hunt cannot technically be deemed independent given his length of service. The Board are however confident that Mr Hunt's judgement remains independent and that he continues to display all of the behaviours expected of our independent non-executive directors.

INDUCTION AND DEVELOPMENT

New directors receive a full and appropriate induction on joining the Board. This involves meetings with other Board members (in particular the Chairman), senior management and the Company’s principal advisers. 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; financial delegations of authority; 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	Group Corporate Responsibility Business Principles; Group Code of Business Ethics; Anti-Bribery-and-Corruption (ABC) Management System; ABC Business Partner Due Diligence Procedure; Dealing Rules and Model Code; Procedures, Systems and Controls for Compliance with the Listing Rules and Disclosure Rules.
Organisation	Group Structure Chart; latest Annual Report and Accounts.
Governance	UK Corporate Governance Code; FRC Guidance on Board Effectiveness and Audit Committees; ICSA Guidance on Liability of non-executive directors; GC100 Directors’ Remuneration Reporting Guidance.
Legal/ regulatory	Memorandum for directors on their responsibilities and obligations as directors.
Insurance	Full details of directors’ and officers’ liability cover.

The Company also provides, on an ongoing basis, the necessary resources for developing and updating its directors’ knowledge and capabilities. In particular, the Company is committed to the provision of continuing professional development training for its directors. In 2015, 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 2015, the subjects covered by these seminars included:
- a session on the continuing obligations and responsibilities of directors under the UK Disclosure and Transparency Rules and the Listing Rules;
 - an anti-bribery compliance update;
 - revisions to the UK Corporate Governance Code and in particular the new requirement for a viability statement;
 - together with the Company’s legal advisers, a ‘deep dive’ on the Indian tax matter and arbitration process;
 - a presentation by the British High Commissioner in Senegal; and
 - asset presentations by senior management at pre-Board meetings (further information on pre-Board meetings is included on page 70).

These seminars are held prior to Board meetings and are attended by all directors present at such meetings (the Company keeps a record of attendance). Any director may request that a particular subject is covered in a seminar. In addition, all media articles relating to the Company and all analyst reports relating to the Company are distributed to all directors.

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 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. The governance committee also supports the Board in relation to corporate governance matters and further information on the role of this committee is provided on page 73.

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.

DIRECTORS’ AND OFFICERS’ LIABILITY INSURANCE

The Company has directors’ and officers’ liability insurance in place.

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. There are no conflict matters which require to be authorised for the current directors. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

MATTERS RESERVED TO THE BOARD AND DELEGATION OF AUTHORITY

The Board has a formal schedule of matters specifically reserved to it for decision. During 2015, the Board conducted an in-depth review of this and adopted an updated schedule of matters reserved which is now divided into categories covering different types of decisions, including: corporate; Board/ directors; financial/operational; and legal/regulatory.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

By way of example, some of the matters which the Board considered and approved during 2015 were:

Corporate	Board/Directors
The Company's 2014 Annual Report and Accounts and 2015 interim accounts	The appointment of two new non-executive directors
The Company's 2015 AGM circular	Various changes to Board committees
The Company's Risk Appetite Statement	
Financial/Operational	Legal/Regulatory
The appropriateness of the Group going concern sign-off for the 2014 full year accounts and 2015 interim accounts	Commencement of arbitration process seeking resolution of the Indian tax issue
The Company's first viability statement (see page 43)	
Selection of a mobile offshore drilling unit and well management services for the 2015/16 Senegal drilling programme	
Participation in the Norwegian APA 2015 licensing round	

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

The senior executive management structure at Board level and beneath 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.

The SLT comprises the Chief Executive, the Chief Financial Officer, the Chief Operating Officer (COO), the Director of Exploration, the Company's two Regional Directors 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:

- devise and generate the Company's strategy to be proposed to the Board for approval and implement and communicate this strategy across the business;
- implement the business plan, the key performance indicators and annual work programme and budget following their approval by the Board;
- consider business development and new venture projects prior to submitting these to the Board; and
- provide leadership and guidance to the Company on vision, strategy, 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 pages 73 and 74.

The MT comprises the COO (chair), the Director of Exploration, the Deputy Finance Director, two Regional Directors, the General Manager, Senegal, and four functional managers (Human Resources Manager, Legal Manager, HSE Manager and Business Development and New Ventures Manager).

The MT meets formally six to nine times per year with four of those meetings focusing on a quarterly performance review of the business.

The key elements of the MT's role include the following:

- develop and implement a Business Plan, which will deliver the Company's strategic objectives (these will be reflected in annual KPIs, including HSE);
- critically assess and determine the mitigation plans for key business risks and ensure that all risks are captured and reviewed regularly in the Company's risk register;
- co-ordinate operations and licence management along with resource allocation and organisational alignment to ensure timely and cost-effective delivery against approved budgets;
- Health, Safety, Security and Environment matters; and
- review and approve other day-to-day business requirements.

The Exploration Leadership Team (ELT), which is chaired by the Director of Exploration, comprises the Group Geoscience Manager, the Chief Geologist, the Chief Geophysicist, three regional Exploration Managers and a representative from new ventures/new business.

The ELT meets every two weeks to facilitate alignment, consistency, best practice and team work in the following areas:

- ensuring exploration, appraisal and new venture opportunities align with the Company's Business Plan;
- ensuring consistent screening and ranking of exploration opportunities prior to detailed assessment, thereby utilising the significant knowledge and experience of the ELT;
- developing and implementing new geosciences technology and techniques where appropriate for application within the Company to reduce subsurface uncertainty and/or risks; and
- ensuring appropriate representation at resource assessment reviews and other internal subsurface peer reviews.

BOARD MEETINGS

During 2015, six scheduled meetings of the Board were held, with all of these meetings taking place over two consecutive days. The first day includes a Chief Executive's lunch with the non-executive directors and a Board education session followed by a pre-Board meeting and a Board dinner in the evening. The pre-Board meeting includes a detailed presentation from senior management on key projects, assets or matters to be considered at the Board meeting and thereby provides an excellent opportunity for a technically rigorous discussion. It also allows the Board to more fully understand any risks or challenges to the business plan and strategy and allows exposure to talent within the Company.

The Company's Board meetings are then held on the second day and followed by a Board lunch. Board committee meetings are held on either the first or second day or, depending on the number of committee meetings required, on both days. All Board committee meetings take place prior to the main Board meeting so that the chair of each committee can provide a report to the Board.

Two of the Board meetings during 2015 were held at the Company's registered office in Edinburgh, three were held at the Company's office in London and one was held in Senegal. Details of attendance at each of those Board meetings, and at meetings of each of the Board committees, are set out in the table to the right.

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 when directors are not able to attend meetings in person.

The formal agenda for each scheduled Board meeting, which regularly includes presentations from senior management, is set by the Chairman in consultation with the Chief Executive and the Company Secretary. Formal minutes of all Board and committee meetings are circulated to all directors prior to the next Board meeting and are considered for approval at that Board meeting. In addition, the members of the Board are in frequent contact between meetings to progress the Group's business. 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.

The non-executives have a practice of meeting informally before and after 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 (in particular the remuneration and audit committees) to ensure that non-executive directors can discuss any relevant issues arising from those meetings without executive management being present.

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The table below sets out the attendance record of each director at scheduled Board and Board committee meetings during 2015. The Board and committee members achieved full attendance at all meetings.

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Governance Committee
Meetings held during 2015 ¹	6	4	4	3	3
	Meetings attended	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Executive Directors					
Simon Thomson (Chief Executive)	6	n/a ²	n/a ²	3	n/a
James Smith (CFO)	6	n/a ³	n/a	n/a	3
Non-Executive Directors					
Ian Tyler (Chairman)	6	2 ⁴	4	3	3
Iain McLaren (senior independent director)	6	4	4	3	n/a
Todd Hunt	6	n/a	2 ⁵	2 ⁵	2 ⁵
Alexander Berger	6	4	n/a	2 ⁶	3
Jackie Sheppard	6	n/a	4	n/a	3
Keith Lough ⁷	4	3	n/a	2	1
Peter Kallos ⁸	2	n/a	2	1	n/a

Notes:

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

(1) During 2015, certain directors who were not committee members attended meetings of the audit committee, remuneration committee, nomination committee and governance 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. Mr Thomson also attends part of each audit committee meeting by invitation.

(3) James Smith is not a member of the audit committee but attends its meetings by invitation.

(4) Ian Tyler retired as a member of the audit committee with effect from 30 June 2015. The number of meetings he attended is stated up to that date.

(5) Todd Hunt retired as a member of the remuneration, nomination and governance committees with effect from 30 June 2015. The number of meetings he attended is stated up to that date.

(6) Alexander Berger retired as a member of the nomination committee with effect from 30 June 2015. The number of meetings he attended is stated up to that date.

(7) Keith Lough was appointed a member of the Board and of the audit, nomination and governance committees with effect from 14 May 2015. The number of meetings he attended is stated from that date.

(8) Peter Kallos was appointed a member of the Board and of the remuneration and nomination committees with effect from 1 September 2015. The number of meetings he attended is stated from that date.

BOARD COMMITTEES

The Board has established an audit committee, a remuneration committee, a nomination committee and a governance committee, each of which has formal terms of reference approved by the Board. Copies of the terms of reference, which satisfy the requirements of the UK Corporate Governance Code, are available on the Company's website.

Each of the Board committees is provided with all necessary resources to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to all Board committees with the exception of the audit committee, where the Deputy Company Secretary undertakes this role. The minutes of all committee meetings are circulated to all directors.

Set out below are reports from each of the Board committees, with the exception of the audit committee report which, in line with best practice, is presented as a separate report (on pages 76 to 80) rather than being included in the corporate governance statement. The remuneration committee section below covers only the composition and role of the committee, with full details of the Company's policies on remuneration, service contracts and compensation payments given in the separate Directors' Remuneration Report on pages 81 to 104.

REMUNERATION COMMITTEE REPORT

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

- Jackie Sheppard (Chair);
- Iain McLaren;
- Ian Tyler;
- Peter Kallos (appointed as a member of the committee on 1 September 2015); and
- Todd Hunt (retired as a member of the committee on 30 June 2015).

The remuneration committee met four times during 2015 and currently comprises four 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, New Bridge Street, 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.

The role of the committee includes:

- determining and agreeing with the Board the remuneration policy for the executive directors, the Chairman, and the Company's Persons Discharging Managerial Responsibilities (PDMRs);
- within the terms of the agreed policy, determining the total individual remuneration package for the executive directors;
- determining the level of awards made under the Company's long-term incentive plans and share option plans and the performance conditions which are to apply;
- determining bonuses payable under the Company's annual cash bonus scheme;
- determining the vesting of awards under the Company's long-term incentive plans and exercise of share options; and
- determining the policy for pension arrangements, service agreements and termination payments for executive directors.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

NOMINATION COMMITTEE REPORT

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

- Ian Tyler (Chair);
- Iain McLaren;
- Simon Thomson;
- Keith Lough (appointed as a member of the committee on 14 May 2015);
- Peter Kallos (appointed as a member of the committee on 1 September 2015);
- Todd Hunt (retired as a member of the committee on 30 June 2015); and
- Alexander Berger (retired as a member of the committee on 30 June 2015).

The nomination committee met three times in 2015. 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.

The role of the nomination committee includes:

- evaluating the balance of skills, experience, independence and knowledge on the Board; and
- leading the process for Board appointments and making recommendations to the Board in respect of new appointments.

The committee considers, on an ongoing basis, the balance of skills, experience, independence and knowledge of the Company on the Board, its diversity (including gender), how the Board works together as a unit, and other factors relevant to the Board's effectiveness.

One of the main recommendations arising from last year's performance evaluation was to consider the composition of the Board in light of the changes to the Board during 2014. The Company publicly stated its aim to do this in last year's corporate governance statement and confirmed that external recruitment consultants Ridgeway Partners had been instructed in connection with the proposed appointments. Ridgeway Partners has no other connection with the Company.

On 29 April 2015, the Company announced the appointment of Keith Lough and Peter Kallos as independent non-executive directors and the process with regard to these appointments is described below.

NEW APPOINTMENTS DURING 2015

Ridgeway Partners were briefed regarding the proposed appointments in Q4 2014 and, following a confidential initial research phase, provided a long-list in January 2015. Following screening of the long-list a number of candidates were then short-listed for interview by Ridgeway. Following these interviews, Ridgeway put forward four candidates for consideration by the Company. All of these candidates were then interviewed by the Chairman and Chief Executive pursuant to which Keith Lough and Peter Kallos were selected as the preferred candidates.

Following selection and prior to their appointment, Mr Lough and Mr Kallos met with the other members of the Board, the Company Secretary, senior management and some of the Company's key external advisers. Both were given the opportunity to, and subsequently did, carry out due diligence on the Company. The nomination committee then recommended to the Board that Mr Lough and Mr Kallos be appointed as non-executive directors of the Company and the proposed appointments were unanimously approved by the Board.

Keith Lough was appointed with effect from 14 May 2015 and was also appointed as a member of the audit, nomination and governance committees with effect from that date. Peter Kallos was appointed with effect from 1 September 2015 and was also appointed as a member of the remuneration and nomination committees with effect from that date.

DIVERSITY

The nomination committee very much takes into account the benefits of diversity on the Board, including gender. The Company currently has one female director and the Board is very diverse in terms of the range of 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.

Cairn aspires to diversify its Board further as part of its succession planning policy. In seeking to achieve this aspiration, the Company will not appoint an individual to the Board unless they are the best candidate for the role, whether male or female. Whilst a number of women were considered during the recruitment process to appoint the Company's two new non-executive directors, unfortunately the selection process did not identify a woman as the best candidate for either role.

Beneath Board level, the Company has however continued to develop and increase the number of women in senior management roles across the Group. There is currently one woman on the SLT (representing 14% of total membership) and there are two women on the MT (representing 20% of total membership).

The Company operates a range of measures which support diversity at Cairn, including succession planning, training and development and flexible working policies. The pipeline of younger talent within the Group is also diverse and bodes well for the future.

SUCCESSION PLANNING

The nomination committee regularly evaluates the balance of skills, experience, independence and knowledge on the Board and makes recommendations to the Board as appropriate. The Board has satisfied itself that plans are in place for orderly succession for appointments to the Board and for 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 Board and the nomination committee have regularly discussed and reviewed Board composition and succession planning throughout 2015 and this will continue in 2016 in view of the Board changes which have taken effect during the year.

However, one of the main recommendations arising from last year's performance evaluation was that the Board required a clearer process for fully understanding succession planning beneath Board level. The Company was also mindful that this was particularly important given the staff reorganisation process undertaken in 2014.

The Board therefore undertook a detailed review of succession planning at its meeting in June 2015, which clearly identified potential successors for key roles within the organisation. The Board considered succession planning for each of these positions, analysed any succession gaps or risks identified and considered how best to develop the succession pipeline. The Board now has a deeper understanding of succession planning across the Company and the range of measures being used to continue to develop and recruit talented employees.

More information on succession planning can be found on page 48 of this annual report.

GOVERNANCE COMMITTEE

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

- Jackie Sheppard (Chair);
- Alexander Berger;
- Ian Tyler;
- James Smith;
- Keith Lough (appointed as a member of the committee on 14 May 2015); and
- Todd Hunt (retired as a member of the committee on 30 June 2015).

The governance committee met three times in 2015 and is comprised of a majority of non-executive directors. In addition, to ensure continuing executive input on governance matters, the CFO is also a member of the committee.

The role of the governance committee includes:

- reviewing and approving changes to the Board’s corporate governance practices and policies;
- monitoring the Company’s compliance with the UK Corporate Governance Code and with all applicable legal, regulatory and listing requirements; and
- reviewing developments in corporate governance generally and advising the Board periodically with respect to significant developments in the law and practice of corporate governance.

RELATIONS WITH SHAREHOLDERS

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 its 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-yearly 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 pre-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 65. The Company recognises that the success of the comply-or-explain approach under the UK Corporate Governance Code depends on an ongoing and open dialogue with shareholders, and remains committed to communicating with shareholders, as well as proxy voting agencies, on any matter which they wish to discuss in relation to the Company’s governance.

ANNUAL GENERAL MEETING (AGM)

The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. It is policy for all of the directors to attend the AGM. Whilst this may not always be possible for business or personal reasons, in normal circumstances the chair of each of the Board committees will be available to attend the AGM and be prepared to answer questions.

It is policy 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 activities and prospects. Details of resolutions to be proposed at the AGM on 12 May 2016 can be found in the Notice of Annual General Meeting which is contained in the shareholder circular posted with this Annual Report and Accounts. Further explanation of each of the resolutions can also be found in the circular.

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.

INFORMATION PURSUANT TO THE TAKEOVER DIRECTIVE

The Company has provided the additional information required by DTR 7.2.6 (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 is responsible for the Company’s system of internal control and for regularly reviewing its effectiveness. 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 framework for considering internal control systems. The COSO framework, which was first released in 1992 and updated in 2013, seeks to help organisations develop systems of internal control which help facilitate the achievement of business objectives and improvements in Company performance. The 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. This system of internal control is in accordance with the UK Corporate Governance Code and is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The framework has been in place for the 2015 financial year and up to the date of approval of the annual report and accounts. The Board has carried out a review of the effectiveness of the system of internal controls during 2015 and will ensure that a similar review is performed in 2016. In so doing, the Board took into account the assurance provided by the Chief Executive in respect of the effectiveness of the system of internal control within the Company. 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 2014.

Cairn seeks to create value through oil and gas exploration and production while at the same time safeguarding the environment and respecting and contributing to the communities it is a part of. In order to achieve this, Cairn’s core values of building respect, nurturing relationships and acting responsibly are at the core of the business, informing how the Company operates. These values are promoted to Cairn’s employees, partners and contractors. Cairn’s licence to operate depends on transparent relationships and active stakeholder engagement programmes with our many stakeholders including governments, communities, partners, shareholders and suppliers globally. The directors believe that this commitment to strong governance generates trust and ensures consistent global standards and is critical to the Company’s success.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

Particular attention has been placed by the Company's management during 2015 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 2015 to the following key controls, business processes and procedures:

- the Group developed a Cairn Operating Standards manual of core business processes which outlines 'the Cairn way' for executing key processes. The manual was rolled out across the Group in Q3 2015 and compliance with the business standards became mandatory from Q1 2016;
- the suite of policies and procedures which form the Group's Corporate Responsibility Management System (CRMS) were developed or revised to achieve alignment with the Cairn Operating Standards and the latest International Association of Oil and Gas Producers (IOGP) guidance. The revised CRMS was rolled out across the Group in Q4 2015;
- the Group Risk Management Procedure was updated to incorporate a number of recommendations from a recent risk management audit and to include some emerging practice in risk management. Plans are in place to provide training to the Group on the new procedure in Q2 2016;
- a test of the Business Continuity Plan was completed in Q4 2015 with positive results. The Group enhanced its business continuity recovery capability with the addition of a further disaster recovery site close to the Head Office; and
- assurance maps were developed for the principal risks to the Group. These maps have helped to identify potential areas of control weakness and/or ineffective use of assurance resources which may require further independent assurance in 2016.

The following describes the key elements of the framework and the processes used by the Board during 2015 to review the effectiveness of the system and the approach to be taken in 2016.

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 strategy and overall commercial 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 against the Company's KPIs.

2. OPERATING MANAGEMENT

The Company operates three regional units covering different countries and with various partners on both an operated and non-operated basis. Supporting the strategy is a matrix organisation, where the assets are the principal focus, tasked with delivering objectives for their particular asset with functional departments providing support to the assets in delivering their objectives.

The executive directors continue to be supported by the SLT as well as by the MT and ELT. Further information on the composition of these teams and their remit can be found earlier in this statement on page 70. 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 plans, and supplying the directors with full and accurate information with which to make statements on the adequacy of internal control.

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

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

3. RISK MANAGEMENT

The Board is responsible for maintaining sound risk management and internal control systems across the Cairn Group and 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 agreed 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 2015, risk management updates were presented at each Board meeting and as part of an annual process, the Board undertook a strategic risk workshop which analysed the key threats and opportunities which could impact on achievement of the Group's strategic objectives.

The RMC, which meets on a quarterly basis, was chaired by the CFO in 2015 and comprises the executive directors and senior functional management. The internal auditor also attends RMC meetings, in order to ensure internal audit's integration with the risk management process. In line with the Company's biannual rotation plan, the Chief Executive will chair the RMC during 2016. Regular MT risk meetings were also held during 2015 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 2015 included the following:

- the Group Risk Appetite statement was reviewed and updated in light of internal and external changes to the business environment. A series of risk tolerance levels across a number of categories were identified and agreed with the Board and senior management; and
- the Group Risk Management Procedure was revised and rolled out across the Group in Q1 2016 with targeted risk training to key stakeholders.

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 2015 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, external 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 2015, 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. The 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 the principal risks were also developed, which outlined the key sources of assurance across the three lines of defence. The three lines of defence model is a method of assessing the 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 have helped to identify potential areas of control weakness and/or the ineffective use of assurance resources across the Group. This has helped influence the topics included in the 2016 Internal Audit Plan.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

Throughout 2015, the Company complied with the provisions of the UK Corporate Governance Code published in 2014, except in the following areas:

Provision of the UK Corporate Governance Code	Company position	Explanation
C.3.1. – In smaller companies the company chairman may be a member of, but not chair, the audit committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment.	Cairn does not meet the Code definition of a smaller company and the Company’s Chairman was a member of the audit committee until 30 June 2015.	The Company recognises the Code recommendation that, except in smaller companies, the Chairman should not be a member of the audit committee. The Board deemed it appropriate (in view of his financial expertise) that Ian Tyler should remain on the committee until such time as another suitably qualified non-executive director could be appointed. Following the appointment of Keith Lough as a member of the committee, Ian Tyler stepped down from the committee on 30 June 2015. The Company has therefore complied with this provision with effect from that date.
D.2.1 – The board should establish a remuneration committee of at least three independent non-executive directors. In addition the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman.	Until 30 June 2015, the remuneration committee was made up of two independent non-executive directors plus the chairman and Todd Hunt, who, having served on the Board as non-executive director for more than nine years cannot be deemed independent in terms of the UK Corporate Governance Code. Mr Hunt retired from the committee on 30 June 2015. Peter Kallos, an independent non-executive director was appointed on 1 September 2015.	The Company accepts that Todd Hunt is not independent in terms of his length of service but, as explained on page 68, the Board is of the view that he has remained independent in all other respects. However, in order to further comply with the Code, Mr Hunt stepped down from all of the Board committees of which he was a member, including the remuneration committee, on 30 June 2015. Peter Kallos, an independent non-executive director was appointed to the remuneration committee on 1 September 2015, from which point, the Company fully complied with this provision of the Code.



IAN TYLER
Chairman
14 March 2016

The Directors derived assurance from the following internal and external controls during 2015:

- a regularly updated schedule of matters specifically reserved for a decision by the Board;
- implementation of policies and procedures for key business activities;
- an appropriate organisational 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 and cost-effective;
- 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 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 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 all employees.

AUDIT COMMITTEE REPORT

INTRODUCTION

Iain McLaren
Chair of the Audit Committee



Throughout 2015, our activities continued to focus on the integrity of the financial reporting of the Group and the appropriateness of internal controls and risk management processes. In the current industry climate, the committee has focused on the economic assumptions adopted by the group and their impact on both the financial statements for the year and on the group’s going concern assessment and longer term viability.

During the year under review, I served as Chair of the audit committee alongside three of my fellow non-executive directors, all of whom are considered by the Board to be independent.

The members of the committee who served with me during the year were:

- Ian Tyler (member of committee until 30 June 2015);
- Alexander Berger; and
- Keith Lough (appointed as a director and member of the committee on 14 May 2015).

Ian Tyler continued to attend meetings in his capacity of Chairman of the Cairn Energy PLC Board.

The members of the committee have been chosen to provide the wide range of financial and commercial experience needed to fulfil these duties. The addition of Keith Lough to the committee further enhances this skill set. Keith, Ian Tyler, and I are Chartered Accountants with recent and relevant financial experience. Alexander Berger brings comprehensive industry knowledge to the committee.

RESPONSIBILITIES AND ACTIVITIES DURING THE YEAR

The Terms of Reference of the committee take into account the requirements of the 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 contained in them; and - reviewing accounting policies, accounting treatments and disclosures in financial reports.	- Going concern conclusions and linkage to the viability statement; - significant accounting issues at the interim 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 2015 year-end; - discussing the materiality levels set by the auditors; - approval of the auditor’s remuneration; - consideration of the results of the external audit with the auditors and management; and - assessment of the effectiveness of the external audit (see below).
Internal risk 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.	- Review of the Group’s corporate and operational risk register; - review reports on the activities of the Risk Management Committee; - selection of internal audit work planned for 2015 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.	Approval of the Group’s whistleblowing procedures.
Other matters	- Agree policy for approval of non-audit work to the Company’s auditors; and - review booking of Group reserves and resources.	Classification of reserves and resources for disclosure in the Annual Report.

SUMMARY OF AUDIT COMMITTEE MEETINGS DURING THE YEAR

The audit committee met four times in 2015, with meetings arranged around the key external reporting dates. The meeting in March focused on the 2014 year-end external audit process (reported in the 2014 Annual Report), meetings in June and August on half-year reporting; and a December meeting on planning for the 2015 year-end cycle and external audit process and internal work programme for 2016.

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 monitors the Internal Audit process, tracking the progress of internal audits and reviewing their output and recommendations. Other business covered by the committee includes the approval of corporate assumptions and re-approval of the Group’s policy on non-audit services and the Group’s Whistleblowing Policy. Subsequent to the year-end, a further meeting was held in March 2016 to conclude on the 2015 audit and significant issues.

At our request, the Chief Financial Officer and senior members of the Finance Department attended each of these meetings. Other relevant people from the business are also invited to attend certain meetings to give us the necessary insight into their own areas of business, for example in relation to the reporting of oil and gas reserves. In addition, these meetings were attended by both internal and external auditors.

The external auditors receive copies of all relevant audit committee papers and minutes of all audit committee meetings. In addition, I regularly meet privately with the external audit partner to discuss matters relevant to the Group.

EXTERNAL AUDIT

The current edition of the UK Corporate Governance Code states that FTSE 350 companies should put the external audit contract out to tender at least every ten years. Cairn not only adopted this policy but decided to comply with this provision early and completed an external audit re-tendering process in 2013. PricewaterhouseCoopers LLP (PwC) were subsequently appointed as external auditor of the Group, on our recommendation. The 2015 year-end audit therefore represents the third year of PwC’s tenure as Group auditor.

AUDIT COMMITTEE REPORT

CONTINUED

2015 YEAR-END SIGNIFICANT ACCOUNTING ISSUES

The continued low oil price environment witnessed during 2015 and the Company's ongoing tax issue in India were the principal external factors which determined the significant accounting issues for the year end.

IMPAIRMENT TESTING

The continued fall in the oil price during 2015 is an indicator that the Group's exploration, appraisal and development assets and related Goodwill may be impaired. The recoverable amount of the Group's assets is determined using financial models to estimate the fair value less costs of disposal of the assets. The key inputs into the financial models, including the long-term oil price assumption are reviewed and approved by the audit committee.

Audit committee action	Audit committee conclusions
The committee reviewed and discussed the Group's corporate assumptions at each audit committee. Management's proposed short and particularly long term price assumptions were debated at length and reviewed against benchmarking information provided by the Group's auditors and other third parties.	The audit committee concluded that the continued use of a short-term (three year) oil price assumption based on the forward curve was appropriate.
The committee also reviewed other key inputs into the asset models including first oil dates, cost estimates and reserve estimates and production profiles comparing the movements in the year to the latest information available from operators. The audit committee challenged management on the appropriateness of these assumptions and the review that had been undertaken where these assumptions were provided by the operator.	The committee approved the Group's long-term price assumption at the December 2015 meeting based on benchmarking available at that time. Updates were provided at the March 2016 committee meeting and the committee were satisfied that no revision to this assumption was necessary.
Sensitivity analysis prepared by management and disclosed in the accounts was reviewed and the committee considered if there were any further reasonable scenarios which could lead to a material adjustment to the impairment charge in the financial statements that should be considered.	The committee were satisfied that the other key assumptions were appropriate. Where these are based on those of the operator, the committee were satisfied that management had suitably challenged the appropriateness of these assumptions.
	The committee considered the sensitivity analysis provided in the financial statements appropriate.

Further details on impairment testing and sensitivity analysis can be found in Section 2 to the financial statements.

INDIAN TAX ISSUE

Proceedings against the Government of India under the UK-India Investment Treaty seeking resolution of the retroactive tax dispute have now formally commenced following agreement with the Government of India on the appointment of the arbitration panel. Cairn received a draft assessment order from the Indian Taxation department in March 2015 and the final tax assessment was received in February 2016. Cairn remains restricted from selling its shares in CIL and CIL are restricted in remitting dividends to Cairn. The committee considered the accounting implications of changes in the year.

Audit committee action	Audit committee conclusions
Following receipt of first the draft assessment order and, subsequent to the year end, on receipt of the final assessment order, the audit committee again discussed at length whether either event triggered the recognition of a provision.	The audit committee agreed with the recommendations of management, the Group's advisors and the opinion of the auditors that there was no requirement to make a tax provision in respect of the transactions subject to Income Tax Department of India enquiries and the restriction on sale does not lead to an impairment of the asset or a tax provision.
For the 2014 year end, the audit committee having taken advice from the Company's tax and legal advisors and the auditors concluded that the Company should not make any tax provision in relation to the transactions subject to Indian Income Tax Department review.	

OTHER ACCOUNTING ISSUES

There were two further material accounting issues where the audit committee challenged the judgement of management.

Reversal of deferred tax assets

The audit committee examined management conclusion that it was no longer appropriate to recognise deferred tax assets at the balance sheet date. The committee were satisfied that the approach management had taken to assess the likelihood of future profit available to offset tax losses was appropriate and that suitable sensitivity analysis had been performed to support management's conclusion.

Recognition of decommissioning provisions on development assets

A decommissioning provision was recorded in the half-year financial statements for the Kraken development well abandonment and site restoration costs and in the second half of the year a further provision was recorded on the Catcher development for similar costs. The committee noted that management's estimate was based on information provided by the respective operators of each development, subject to internal Cairn review and adjustment if necessary. The committee challenged management both on the review process that had been undertaken, including assessing the consistency of assumptions applied to each decommissioning estimate, and the approach to assessing the estimate to be recorded at the reporting date. The committee supported management's approach.

GOING CONCERN AND VIABILITY

At each reporting date, management consider the factors relevant to support a statement of going concern (see Section 1.2 of the Financial Statements on page 117). The audit committee review and challenge 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.

Given the low price environment facing the oil and gas industry, the audit committee carefully reviewed management’s going concern conclusion based on the Group’s latest net cash position and the forecast exploration and appraisal spend in the period ending 31 March 2017. This confirmed that the Group is fully funded to meet its work programme and firm commitments over this period. The audit committee subsequently recommended to the Board that the Group continues to use the going concern basis in preparing its financial statements.

With the introduction of the viability statement, included on page 43, the audit committee took advice on this new reporting requirements from both the Group’s internal auditors (as part of a wider review of the Group’s readiness for further Corporate Governance changes) and external auditors before assessing the approach to be taken by management in preparing the viability statement. The committee reviewed and provided feedback to management on their initial assessment of the viability statement requirements presented at the August 2015 audit committee. Management presented their revised approach to the December meeting with which the committee agreed.

At the March 2016 meeting the committed reviewed and queried management on the sensitivity analysis prepared to support their conclusions reached. Following this review, 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 of:

A review of the audit plan including the materiality level set by the auditors and the process they have adopted to identify financial statement risks and key areas of audit focus (summarised in the Independent Auditor’s Report on page 105).	The Committee agreed with the level of materiality set by the auditors.
A review of the Audit Quality Inspection (AQI) Report on our auditors published by the Financial Reporting Council with particular emphasis on those 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 were 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 and meetings between myself as Chair of the audit committee and the lead audit engagement partner.	The Audit plan for the year ending 31 December 2015 was presented to the audit committee in June 2015 and is summarised in the Independent Auditor’s Report on page 105.
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 2016. After thorough discussion, the committee agreed with the conclusions that the auditors had reached noting the degree of judgement around the areas of significant audit risk.

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 cost. These advisers may include the Group’s external auditors, under a restricted set of circumstances, although, before the engagement commences, Cairn must be satisfied that the auditor’s objectivity and independence would not be compromised in any way as a result of being instructed to carry out those services.

The Group’s current policy for approval of non-audit services was reviewed and re-approved by the audit committee in December 2015. Full details of the Group’s policy can be found on the Company’s website.

During the year, PwC provided other services including certification of the Group’s EITI submission in Senegal and providing the accountant’s report on the circular approving the sell-down of the Group’s holding in Cairn India Limited should the current restriction be lifted.

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

AUDIT COMMITTEE REPORT

CONTINUED

INTERNAL AUDIT

Following a competitive tender process, Ernst & Young LLP (EY) were 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 73), 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 auditors do 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 auditors do, however, attend all committee meetings where internal audit updates are given and meet separately with the internal auditors to discuss areas of common focus in developing their audit plan.

WHISTLEBLOWING AND RELATED POLICIES

The Group updated its Whistleblowing Policy during 2012 and the new policy was reviewed by the audit committee and subsequently rolled out across the organisation. The committee 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 Whistleblowing Policy was reviewed by the committee in December 2015 and re-approved with no changes considered necessary.

The Group has in place a comprehensive Anti-Bribery and Corruption Management System and Code of Business Ethics and related training has been provided to all staff during 2015. As Cairn enters new countries, further monitoring is undertaken and training is continued. Further information regarding these policies can be found on the Group's website.



IAIN MCLAREN

Chair of the Audit Committee
14 March 2016

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

M. Jacqueline Sheppard QC

Chair of the remuneration committee



As the Chair of Cairn's remuneration committee, I am pleased to present our Directors' Remuneration Report for 2015. During the year we continued to apply the executive remuneration policy that was strongly supported at the 2014 AGM, with over 98% of the votes cast at that meeting being in favour of its adoption.

During 2015, the committee reviewed pay arrangements throughout the organisation. This exercise took into consideration evolving best governance standards and remuneration policy perspectives expressed by our investors and others. As part of our review, the committee has examined all elements of executive compensation taking into account the Company's long-term strategy, its current and near term business plans and today's severe industry conditions and uncertainty. We did consider making changes to certain aspects of the current structure in 2016. However, after considering the above noted factors, and recognising the fact that each individual element of our remuneration arrangements should represent a component part of an overarching and cohesive policy, we have determined that the appropriate time to make any material variations would be on expiry of the current policy at the AGM in 2017.

For ease of reference the substantive provisions of the current policy that was approved in 2014 are repeated in Part 2 of this report. Part 3, which contains our Annual Report on Remuneration, then goes on to explain how these provisions were actually applied in 2015 and how they will be operated in 2016. The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM to be held on 12 May 2016.

PART 1 – ANNUAL STATEMENT FROM THE CHAIR OF THE COMMITTEE

SUMMARY OF 2015 BUSINESS CONTEXT AND KEY REMUNERATION DECISIONS

The work of the committee in 2015 was conducted against a backdrop of a year in which the Company fulfilled its objective of operating with a focus on safety, building a business with appropriate exposure to material frontier and mature basin exploration whilst maintaining balance sheet strength and financial flexibility.

Its key decisions relating to remuneration in 2015 are described in more detail in the Annual Report on Remuneration contained on pages 90 to 104 and can be summarised as follows:

- **Base salary increases**
With effect from 1 January 2015, both the Company's executive directors (being Simon Thomson and James Smith) received an increase to base salary of 1.5%. This was consistent with the level of standard annual salary increase awarded to other employees at that time.
- **Annual bonus**
Based on an assessment of the extent to which the relevant targets were achieved during 2015, payments made under the annual bonus scheme to the executive directors during the year (as a percentage of annual salary) were 75% for both Simon Thomson and James Smith. Further details of the way in which these awards were determined are set out on pages 95 to 98 of the Annual Report on Remuneration.
- **Long Term Incentive Plan (LTIP)**
The performance period applicable to the LTIP awards granted in 2012 came to an end during 2015. Over this period, the Company's Total Shareholder Return (or 'TSR') was sufficient to place it above the median level in the applicable comparator group with the result that these awards vested in respect of 23.43% of the shares over which they were granted.

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

APPLYING THE POLICY FOR 2016

While we have determined that the current remuneration structure should remain in place for the time being, the committee did decide (within the confines of the existing policy) to make changes to the performance condition weightings applicable to the 2016 annual bonus scheme.

An overview of the way in which the current remuneration policy will be applied in 2016 (including details of the above noted variations made to the bonus scheme) is set out on page 104 in the Annual Report on Remuneration. In summary:

- with effect from 1 January 2016, both the Chief Executive and the CFO received an increase to base salary of 1.5%;
- the Group KPI measures used for the annual bonus scheme (and their respective weightings) have been reformulated for 2016 in order to reflect appropriately the Company's strategic priorities for the period;
- it has also been decided that a personal performance element (equal to 10% of the overall opportunity) should be reintroduced into the annual bonus scheme for the Chief Executive and CFO in order to ensure that it can be used as a more bespoke incentive that reflects their individual roles within the business; and

DIRECTORS' REMUNERATION REPORT
CONTINUED

- no material changes have been made to the manner in which the LTIP will operate in 2016, although the members of the TSR international oil and gas comparator group will be updated to take account of recent delistings.

At the same time as undertaking its review of directors' remuneration, the committee also considered the pay structures for other employees. The focus of this review was to simplify the current arrangements and to more closely align share awards made to other employees to those for the executive directors.

SHAREHOLDER SUPPORT AND FEEDBACK ON DIRECTORS' REMUNERATION REPORT

We welcome questions and feedback from all those interested on both the content and style of this report. We hope that our shareholders will support the resolution to approve the Annual Report on Remuneration that will be proposed at our AGM on 12 May 2016.



M. JACQUELINE SHEPPARD QC
Remuneration Committee Chair
14 March 2016

PART 2 – DIRECTORS' REMUNERATION POLICY

INTRODUCTION

At the AGM held on 15 May 2014, shareholders overwhelmingly approved a new Directors' Remuneration Policy for the Company. This policy, which specifies the various pay structures operated by the Company and summarises the approach that the committee will adopt in certain circumstances such as the recruitment of new directors and/or the making of any payments for loss of office, became effective immediately on receipt of such approval and was applied by the committee during 2014 and 2015. This policy will again be operative throughout 2016.

Although not required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), the substantive terms of the above Directors' Remuneration Policy are repeated in this Part 2 for ease of reference. However, any details that were specific to 2014 or earlier years (including, for example, any disclosures relating to named directors and the illustrative remuneration scenarios set out on page 88) have, where applicable, been updated to reflect the current position. The policy as originally approved by shareholders can be found on pages 82 to 89 of the 2013 Annual Report and Accounts, a copy of which is available on the Company's website.

PURPOSE AND ROLE OF THE REMUNERATION COMMITTEE

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

- determining the total individual remuneration package for each executive director and PDMR;
- determining the level of awards made under the Company's LTIPs and share option plans and the performance conditions which are to apply;
- determining bonuses payable under the Company's annual cash bonus scheme;
- determining the vesting levels of awards under the Company's LTIPs and share option arrangements; and
- determining the policy for pension arrangements, service agreements and termination payments for executive directors and PDMRs.

The committee also reviews and approves the overall remuneration levels of 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.

Cairn's remuneration 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 terms of reference of the remuneration committee are available on the Company's website.

CONSULTATION WITH RELEVANT STAKEHOLDERS

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

Although the committee does not undertake a formal consultation exercise with employees in relation to the Group's policy on senior management remuneration, members of staff are regularly given the opportunity to raise issues on a variety of matters, including executive pay, via a number of mechanisms including employee engagement surveys.

OVERVIEW OF CURRENT REMUNERATION POLICY

Cairn's current policy on executive directors' remuneration, which became effective on 15 May 2014 and which is set out below, is to ensure that it appropriately incentivises individuals to achieve the Group's strategic objectives to create, realise and add value for its shareholders, 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 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.	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.	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 will be in line with the market.	None

DIRECTORS' REMUNERATION REPORT
CONTINUED

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Annual bonus	Rewards the achievement of annual KPIs and/or other objectives linked to the Company's strategic goals.	Bonuses are awarded by reference to performance against specific targets measured over a single financial year. Any amounts awarded to an individual under this arrangement are paid out in full shortly after the assessment of the performance targets has been completed. However, annual bonuses may be subject to clawback where, in the period of three years from the end of the relevant financial year, the committee becomes aware of a material misstatement of the Company's financial results or an error in the calculation of performance targets.	Maximum % of salary: 100%	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. Any remaining part of a director's bonus will normally be based on the achievement of personal objectives relevant to that individual's role within the business. A payment scale for different levels of achievement against each KPI and/or other objective is specified by the committee at the outset of each year – these range from 0% for below-threshold performance up to 100% for full satisfaction of the relevant condition. The committee has discretion to vary the measures and weightings during the year if events arise which mean that it would be inappropriate to continue with the originally prescribed structure. The committee expects that this discretion will only be exercised in exceptional circumstances and not to make the bonus scheme for that year less demanding than when it was originally set. In addition, the committee has discretion to ensure that the ultimate bonus payment for a financial year is fair and reasonable and properly reflects performance over that period.

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Long Term Incentive Plan (or LTIP)	Incentivises executive directors to deliver superior levels of long-term performance for the benefit of shareholders, thereby aligning the interests of the directors with those of the Company's investors.	Cairn currently operates one LTIP that was approved by shareholders in 2009. Awards of conditional shares and/or nil-cost options are made annually with vesting dependent on achievement of performance conditions chosen by the committee. Performance is measured over a three-year period. On vesting of an award, only 50% of the shares to which the holder has become entitled are released/become exercisable immediately, with the remaining 50% normally being released/ becoming exercisable after a further period of one year. The committee reviews the quantum of awards annually, taking into account factors such as market rates and overall remuneration. Awards may be subject to clawback where, in the period of three years from the end of the relevant performance period, the committee becomes aware of a material misstatement of the Company's financial results or an error in the calculation of performance conditions.	Normal maximum % of salary: 300%. Exceptional circumstances maximum % of salary: 400%.	Vesting of all awards granted under the LTIP to date is determined by comparing the growth in Total Shareholder Return ('TSR') of Cairn over a performance period of three years from grant with the TSR of a comparator group of international oil and gas companies that is selected by the committee prior to each grant, with 20% vesting at median, 100% at upper decile and on a straight line sliding scale in between. In order to encourage exceptional performance, the above condition provides that, at upper decile levels, a 'multiplier' of up to 1.33 is applied if absolute TSR growth is between 50% and 100% (or more). It also states that no part of any award 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. Although the committee's intention is that the above condition will be applied to LTIP awards granted in 2016, 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.
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

DIRECTORS' REMUNERATION REPORT
CONTINUED

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
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.	Company contributes 15% of basic salary on behalf of executive directors or pays them an equivalent amount of additional salary.	None
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.	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.	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 2016 is provided on page 104.
- (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 limited to the executive directors and certain selected senior managers. Other employees have historically participated in the Company's share option schemes (details of which are provided on pages 135 and 136) and will, from 2016 onwards, be eligible to participate in a new conditional share award/nil cost option arrangement.
 - Under the Company's defined contribution pension scheme, the Company contribution for less senior employees 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 LTIP (further details of which are provided on page 98) were selected by the remuneration 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 LTIP becomes exercisable, it will generally remain so until the tenth 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 of the business 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 not appropriate to apply performance conditions to free shares awarded under it.
- (7) As highlighted on page 102, the Company has a share ownership policy which requires the executive directors to build up and maintain a target holding equal to 100% of base salary. Until such a 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. Details of the extent to which the current executive directors had complied with this policy as at 31 December 2015 are set out on page 102.

COMMITTEE DISCRETIONS

The committee will operate the annual bonus scheme, LTIP and SIP according to their respective rules and the policy described in this Part 2 of the report. The committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these arrangements. These include (but are not limited to) the following:

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or a payment;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- the weightings, metrics and targets for the annual bonus plan;
- the determination of the annual bonus payment;
- determination of a 'good leaver' (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- discretion to disapply time pro-rating in the event of a change of control or good leaver circumstances;
- adjustments or variations required in certain circumstances (e.g. rights issues, corporate restructuring, change of control, special dividends and other major corporate events); and
- the ability to adjust existing performance conditions for exceptional events.

LEGACY AWARDS

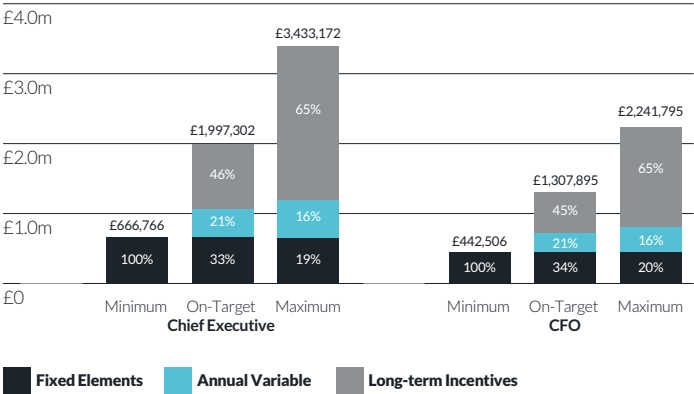
Outstanding share incentive awards that remain unvested/unexercised as detailed on page 100 of the Annual Report on Remuneration remain eligible to vest/be exercised based on their original award terms.

DIRECTORS' REMUNERATION REPORT

CONTINUED

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 2016 under minimum, on-target and maximum scenarios.



- 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 2016 irrespective of performance levels, namely base salary (at current rates), benefits (using the details set out in the 2015 single-figure table provided on page 92) and pension (calculated by applying the percentage entitlement 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 LTIP. Given that neither of these incentive arrangements explicitly stipulate an 'on-target' amount, the assumed levels for this scenario are:
 - in the case of the LTIP, a 55% vesting of awards originally granted in 2016 over shares worth 300% of salary (such vesting level being 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); and
 - in the case of the annual bonus, a payout of 75% of salary (being the approximate average of such payouts for all executive directors over the five years up to and including 2015).
 - The 'maximum' columns demonstrate total remuneration levels in circumstances where the variable elements pay out in full (i.e. annual bonus payment of 100% of salary and 133% vesting of LTIP awards originally granted in 2016 over shares worth 300% of salary).
 - For the purposes of valuing the LTIP awards, any post-grant share price movements have been ignored.
 - 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 and pensions 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 relevant costs and expenses incurred by the individual may also be paid by the Company.

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.

NON-EXECUTIVE DIRECTORS

On the appointment of a new Chairman or non-executive director, the fees will be set taking into account the experience and calibre of the individual. 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

The current executive directors’ service contracts contain the key terms 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 LTIP and SIP, subject to plan rules.
Notice period¹	– 12 months’ notice by the director or by the Company.
Termination payment	– See separate disclosure below.
Restrictive covenants	– During employment and for 12 months after leaving.

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.

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 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 awards granted pursuant to the Company’s long-term incentive arrangements will lapse immediately. However, if such cessation occurs by reason of death, injury, permanent disability or redundancy, 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 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. 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.

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.

EXECUTIVE DIRECTOR BOARD APPOINTMENTS WITH OTHER COMPANIES

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.

DIRECTORS' REMUNERATION REPORT

CONTINUED

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 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 of the Company's directors. There are no provisions for compensation payable on termination of appointment.

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' 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 2015 and explains how Cairn's approved Directors' Remuneration Policy that is described on pages 82 to 90 was implemented during that period. It also summarises how that policy will be applied in 2016.

In accordance with the Regulations, this part of the report will be subject to an advisory vote at the forthcoming AGM on 12 May 2016.

The Company's auditors are 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.

OPERATION OF THE REMUNERATION COMMITTEE DURING 2015

MEMBERS OF THE REMUNERATION COMMITTEE

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

- M. Jacqueline Sheppard QC (Chair of the committee);
- Todd Hunt (stepped down as a member of the committee on 30 June 2015 but remained an invitee);
- Iain McLaren;
- Ian Tyler; and
- Peter Kallos (joined the committee on 1 September 2015).

With the exception of Todd Hunt, each of the above individuals is an independent non-executive director of the Company. Mr Hunt was independent on his original appointment as a non-executive director in May 2003. However, given his length of tenure, he is no longer considered to be independent. As noted above, Mr Hunt stepped down as a member of the committee on 30 June 2015.

The non-executive directors who served on the committee 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. Biographical information on the committee members is shown on pages 62 and 63 and details of attendance at the committee's meetings during 2015 are shown on page 71.

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 2015	Fees for committee assistance in 2015 ¹	Other services provided to the Company during 2015
New Bridge Street²	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.	£56,330	None
Ernst & Young LLP	Appointed by the Company to carry out an independent verification of its achievement against performance conditions applicable to the Company's LTIP and share option schemes.	N/A – no advice provided to the committee.	Internal auditors 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.	£20,650	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) 'New Bridge Street' is a trading name of Aon Hewitt Limited, part of Aon plc – they are a member of the Remuneration Consultants Group and their work is governed by the Code of Conduct in relation to executive remuneration consulting in the UK.

(3) The committee reviews the performance and independence of all its advisers on an annual basis.

DIRECTORS' REMUNERATION REPORT
CONTINUED

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 2014 Directors' Remuneration Report	14 May 2015	410,111,848	98.59%	5,858,991	1.41%	415,970,839	1,643,831
To approve Directors' Remuneration Policy	15 May 2014	379,512,480	98.06%	7,495,533	1.94%	387,008,013	1,045,923

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 and gave due consideration to any concerns raised by investors who did not support the resolutions.

PAYMENTS TO PAST DIRECTORS DURING 2015 (AUDITED)

Dr Mike Watts and Jann Brown stood down as executive directors on 15 May 2014 and subsequently ceased employment with the Group on 17 October 2014. As explained in last year's Annual Report on Remuneration, both of these individuals were treated as 'good leavers' for the purposes of the Company's incentive schemes and were, therefore, allowed to retain their outstanding awards under the LTIP (subject to time pro-rating). Details of these entitlements that vested and/or were exercised during 2015 have been included in the relevant sections of this part of the report.

No other payments were made to past directors during the year to 31 December 2015.

SINGLE TOTAL FIGURE TABLE FOR 2015 (AUDITED)

The tables below set out the remuneration received by executive directors and non-executive directors during the year in the following categories.



EXECUTIVE DIRECTORS

	Financial year	Fixed elements of pay						Pay for performance			Total remuneration
		Salary and fees	Benefits ¹	Pension ²	SIP ³	Award on recruitment ⁴	Fixed element subtotal	Bonus ⁵	Long-term incentives ⁶	Performance element subtotal	
Directors											
Simon Thomson	2015	£546,197	£29,217	£81,930	£7,200	-	£664,544	£409,648	£217,975	£627,623	£1,292,167
	2014	£538,125	£26,126	£80,719	£5,997	-	£650,967	£422,458	-	£422,458	£1,073,425
James Smith ⁴	2015	£355,250	£27,840	£53,288	£7,200	-	£443,578	£266,438	-	£266,438	£710,016
	2014	£291,667	£21,000	£43,750	£2,998	£200,000	£559,415	£229,969	-	£229,969	£789,384

Notes:
(1) Taxable benefits available to the executive directors during 2015 were a company car/car allowance, private health insurance, death-in-service benefit and a gym and fitness allowance. This package of taxable benefits was unchanged from 2014 save that, in the prior year, James Smith received certain relocation expenses. The increase in the amounts for 2015 is largely attributable to a rise in the costs of the company car provision for the year.
(2) Additional disclosures relating to the pension provision for the executive directors during 2015 are set out on page 94.
(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 2015 are set out on pages 101 and 102.
(4) James Smith became an employee of the Company on 3 March 2014 and was appointed as a director with effect from 15 May 2014. The amount of his 2014 'Salary and fees' shown in the above table reflects the period from 3 March 2014 to 31 December 2014. His 'Award on recruitment' was made up of: a cash award of £100,000 that was paid on the commencement of his employment with the Group; and a conditional award of 55,096 ordinary shares at a price of 181.5 pence per share, both by way of compensation for the loss of bonus from his previous employer. Further information in relation to these matters was provided in the Annual Report on Remuneration for the year to 31 December 2014.
(5) This column shows the amount of bonus paid or payable in respect of the year in question after the operation of any applicable time pro-rating reduction. Further information in relation to the annual bonus scheme for 2015 is provided on pages 95 to 98.
(6) 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 2015 are provided on pages 98 to 101.
(7) Following the end of the year to 31 December 2015, the committee considered whether there were any circumstances that could or should result in the recovery or withholding of any sums pursuant to the clawback arrangements contained within the Company's remuneration policy. The conclusion reached by the committee was that it was not aware of any such circumstances.

NON-EXECUTIVE DIRECTORS

		Fixed elements of pay				Pay for performance			Total remuneration
		Financial year	Salary and fees ¹	Benefits	Pension ²	Fixed element subtotal	Bonus ²	Long-term incentives ²	
Directors									
Ian Tyler	2015	£160,000	–	–	£160,000	–	–	–	£160,000
	2014 ³	£127,675	–	–	£127,675	–	–	–	£127,675
Todd Hunt	2015	£74,900	–	–	£74,900	–	–	–	£74,900
	2014	£73,800	–	–	£73,800	–	–	–	£73,800
Iain McLaren	2015	£84,900	–	–	£84,900	–	–	–	£84,900
	2014	£83,800	–	–	£83,800	–	–	–	£83,800
Alexander Berger	2015	£74,900	–	–	£74,900	–	–	–	£74,900
	2014	£73,800	–	–	£73,800	–	–	–	£73,800
M. Jacqueline Sheppard QC	2015	£84,900	–	–	£84,900	–	–	–	£84,900
	2014	£83,800	–	–	£83,800	–	–	–	£83,800
Keith Lough ⁴	2015	£47,341	–	–	£47,341	–	–	–	£47,341
	2014	–	–	–	–	–	–	–	–
Peter Kallos ⁴	2015	£25,555	–	–	£25,555	–	–	–	£25,555
	2014	–	–	–	–	–	–	–	–

Notes:

(1) The annual fee for each of the non-executive directors (other than the Chairman) for 2015 was £74,900. In addition, a further annual fee of £10,000 was payable to both Iain McLaren and M. Jacqueline Sheppard QC for their roles as Chair of the audit committee and the remuneration committee respectively.

(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) Ian Tyler, who had previously served as a non-executive director, was appointed Chairman on 15 May 2014. The annual rate of fees payable to him on appointment to this new role was £160,000.

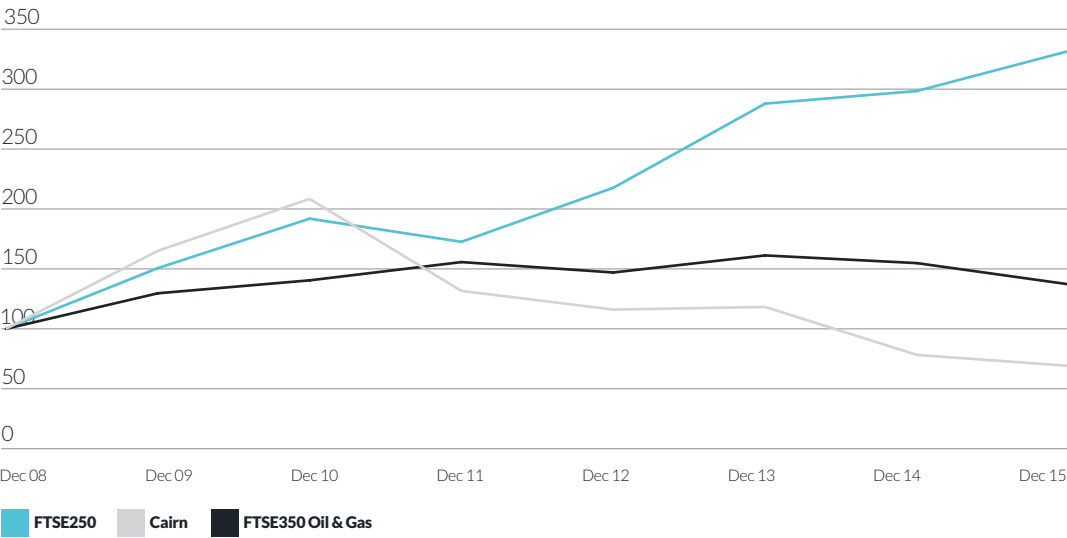
(4) Keith Lough and Peter Kallos were appointed as directors on 14 May 2015 and 1 September 2015 respectively. Their fees for 2015 reflect the period from those dates to the year end.

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 seven years. These comparisons have been chosen on the basis that: Cairn was a constituent member of the FTSE 250 Index for the whole of 2015; and the FTSE 350 Oil & Gas Producers Index comprises companies which are exposed to broadly similar risks and opportunities as Cairn.

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

PERFORMANCE GRAPH – COMPARISON OF SEVEN-YEAR CUMULATIVE TSR ON AN INVESTMENT OF £100



DIRECTORS' REMUNERATION REPORT
CONTINUED

TOTAL REMUNERATION OF CHIEF EXECUTIVE DURING THE SAME SEVEN-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)
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 ²	Simon Thomson	£3,405,719	82%	121%
2011	Sir Bill Gammell	£4,053,822	N/A	106%
2010	Sir Bill Gammell	£7,302,533	58%	113%
2009	Sir Bill Gammell	£962,757	54%	0%

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 92.
(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 cash 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 2015 remuneration package, the percentage change from 2014 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	1.5%	11.8% ¹	(3.0%)
All Group employees	2.5% ²	1.6%	3.9%

Note:
(1) As highlighted on page 92, the above increase in the Chief Executive's taxable benefits is largely attributable to a rise in the costs of his company car provision for 2015.
(2) The standard level of salary increase across the Group in 2015 was 1.5%. However, a small number of individuals received higher percentage increases which raised the average for all employees to 2.5%.

EXECUTIVE DIRECTORS' BASE SALARIES DURING 2015

Based on a review carried out in December 2014, the following salary increases for executive directors became effective on 1 January 2015:

2015 Annual salary details

Job title	Annual salary as at 31 December 2014	Annual salary as at 1 January 2015	% increase with effect from 1 January 2015
Directors			
Simon Thomson Chief Executive	£538,125	£546,197	1.5%
James Smith CFO	£350,000	£355,250	1.5%

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 2015.

EXECUTIVE DIRECTORS' PENSION PROVISION DURING 2015 (AUDITED)

As highlighted in the Directors' Remuneration Policy described on pages 82 to 90, 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 senior executives) 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 a Company contribution of 15% of his basic 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 reached the applicable statutory limits.

Details of the actual amounts of pension contributions/additional salary that were paid to the executive directors during 2015 are set out in the 'pension' column of the single total figure table on page 92.

ANNUAL BONUS – 2015 STRUCTURE AND OUTCOME (AUDITED)

During 2015, Cairn operated annual cash bonus schemes for all employees and executive directors. The maximum level of bonus award for executive directors and certain PDMRs for 2015 was 100% of annual salary (as at date of award).

For all participants, as in prior years, bonus awards were based on individual and/or Company performance measures. Individual performance was measured through the Company’s performance management system and Company performance conditions were based on annually defined KPIs.

As highlighted in last year’s Annual Report on Remuneration, the whole of the executive directors’ bonus opportunity for 2015 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.

2015 ANNUAL CASH BONUS SCHEME – GROUP KPI PERFORMANCE CONDITIONS AND ACHIEVEMENT LEVELS

KPI measures and performance achieved in 2015				Weighting	Bonus awarded
Purpose	2015 KPI	Measurement	2015 performance	(as % of allocated proportion of maximum opportunity)	
Deliver exploration and appraisal success					
Grow the reserves and resources base to provide a basis for future growth.	Invest in exploration and appraisal activities which add net 2C resources in excess of 20 mmboe.	- Evidence of commercial discoveries based on 2C resources. - Net volumes discovered or added versus the 20 mmboe target. - The finding efficiency expressed in US\$/boe.	- Five exploration and appraisal wells were drilled in 2015. 35.9 mmboe net 2C were added to the resource base from the SNE-2 Senegal appraisal well (which was appraising the P50 330 mmbbls gross discovery) and the West of Kraken well, enabling the Company to achieve a reserves/resources replacement ratio in excess of 100%. - The Atlas and Crossbill wells in the Norwegian North Sea and Al Khayr well in Western Sahara were unsuccessful at the primary exploration target. - Overall finding efficiency was ranked in the second quartile.	25%	19.5%
Portfolio management					
Active portfolio management and acreage protection.	Mature high impact exploration prospects ready for drilling in 2016 or 2017.	Mature a minimum of four new independent ‘drill-ready’ prospects which meet investment criteria and which could be considered for drilling in 2016 or 2017.	- A Group prospects review was held in Q4 2015 and one independent and two partially dependent prospects were identified in Senegal. - In Norway, the Group participated in the 2015 APA Licensing Round and was successful in all five applications. The Group also participated in the 23rd Barents Sea Licensing Round where licence awards are expected in Q2 2016. - Prospectivity in Mauritania and the Republic of Ireland continues to be assessed.	25%	17.5%
	Maximise acreage retention for the Sangomar, Sangomar Deep and Rufisque blocks in Senegal.	- Submission of evaluation plan. - Extension of PSC.	Following the SNE-1 well discovery in 2014, a full field long-term evaluation programme was submitted to and approved by the Senegalese authorities in 2015. Subsequently, the authorities granted a three year extension to the PSC for the Sangomar, Sangomar Deep and Rufisque blocks.		

DIRECTORS' REMUNERATION REPORT
CONTINUED

KPI measures and performance achieved in 2015				Weighting	Bonus awarded
Purpose	2015 KPI	Measurement	2015 performance	(as % of allocated proportion of maximum opportunity)	
Deliver operational excellence					
Deliver operational excellence in all 2015 activities and maintain licence to operate.	Deliver all operated and non-operated asset projects (technical studies, surveys, seismic and drilling programmes) on schedule and budget (including manpower costs), with full data recovery.	Projects delivered within expected timeframe and within budget.	- Senegal Rufisque-Sangomar 3D seismic acquisition, which was the Group's primary operated seismic project in 2015, was successfully completed in Q4 2015. The data was acquired safely and without major incident on schedule and under budget. - Seismic delivery for non-operated projects, principally in Norway and Morocco, was behind schedule.	15%	12.2%
	Progress North Sea development projects, remaining within 10% of capital guidance and first oil dates scheduled within six months of Final Investment Decision (FID) base case estimates.	Reference should be made to the original FID cases reflected in the Investment Proposals for Kraken and Catcher versus the YE 2015 status of the projects.	- Catcher and Kraken projects are progressing well. The Catcher project remains within 10% of capital guidance whilst capex on the Kraken project has been reduced by more than 10%. - Catcher and Kraken remain on schedule to deliver first oil in 2017.		
	Secure a suitable rig for further exploration and appraisal in Senegal.	Contract terms acceptable to the Board, with firm slots allocated to mature opportunities.	- Following a rig selection process in Q1 2015, the JV secured the Ocean Rig Athena for drilling in Q4 2015. - The costs for both the rig and associated support services were significantly lower than the previous drilling campaign in 2013/14.		

KPI measures and performance achieved in 2015				Weighting	Bonus awarded
Purpose	2015 KPI	Measurement	2015 performance	(as % of allocated proportion of maximum opportunity)	
Maintain licence to operate (including HSE performance)					
Deliver activities with a focus on the safety of people and the environment.	Minimise injuries and environmental incidents in 2015 operated activities: - Total Recordable Injury Rate (TRIR) target of less than 2.0 TRI/million hours. - No oil spills to the environment.	- TRIR. - Number of oil spills to the environment.	- The TRIR for 2015 was zero per million hours. - Two minor spills to the environment, each of less than one litre in volume, occurred during the Senegal campaign.	15%	13.3%
	Achieve targets for HSE leading performance indicators (LPIs) linked to elements of the HSE culture framework.	Progress against HSE LPIs.	- CRMS was substantially revised in line with latest IOGP guidance. - Extensive contractor management programme completed including acceptance and readiness audits for Senegal project. - Worked closely with JV partners in Western Sahara to monitor and track human rights issues through to completion of the drilling programme. Ongoing engagement post-completion of drilling programme. - Stakeholder engagement strategy and investment programme has been developed and is being implemented in Senegal. - Enhanced the risk assessment process for travellers to 'high' risk countries.		
Deliver a sustainable business (maintain liquid reserves)					
Maintain a self-funding business plan.	Maintain liquid reserves including undrawn committed banking facilities to meet planned funding commitments plus a cushion at all times.	Development of a funding strategy to optimise deployment of risked capital whilst maintaining adequate financial downside protection.	The Group remains funded to deliver its firm exploration, appraisal and development programme through to free cash flow from 2017.	20%	12.5%
	Make tangible progress on Cairn India Limited (CIL) shares freeze.	Release of CIL shares or significant advancement on process to release CIL shares.	- Proceedings against the Government of India under the UK-India Investment Treaty seeking resolution of the retroactive tax dispute have now formally commenced following agreement with the Government of India on the appointment of the arbitration panel. - Cairn has a high level of confidence in its case under the UK-India Investment Treaty and, in addition to resolution of the retroactive tax dispute, its statement of claim to the arbitration panel will seek damages equal to the value of Cairn's residual shareholding in CIL at the time it was attached (approximately US\$1 billion).		
Totals				100%	75%

DIRECTORS' REMUNERATION REPORT
CONTINUED

2015 ANNUAL CASH BONUS SCHEME – ACTUAL PAYMENTS AWARDED

The application of the outturn from the above performance condition assessment resulted in annual bonuses of £409,648 and £266,438 becoming payable to Simon Thomson and James Smith respectively. In both cases these amounts were equal to 75% of their basic annual salary.

The remuneration committee considered that the above award levels were appropriately reflective of overall performance during the year.

LONG-TERM INCENTIVES DURING 2015

INTRODUCTION

During the year to 31 December 2015, the executive directors participated in the Company's LTIP, which was originally approved by shareholders at the AGM held on 19 May 2009.

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

In the case of all awards under the LTIP (including those granted during 2012, 2013, 2014 and 2015), 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. 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

A list of the companies comprised in the comparator groups applicable to all LTIP awards that were outstanding during 2015 is set out on page 101.

In order to ensure that the 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 award will vest unless the remuneration committee is satisfied that there has been an overall satisfactory and sustained improvement in the performance of the Company as a whole over the performance period. In addition, and as noted in the Directors' Remuneration Policy, LTIP awards 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.

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

LTIP – AWARDS GRANTED DURING 2015 (AUDITED)

On 19 March 2015, the following awards under the LTIP were granted to executive directors:

						Face value (£'000) of		
Type of award	Basis of award granted	Share price at date of grant ³	No. of shares over which award originally granted	% of shares over which award originally granted that vest at threshold	...shares over which award originally granted ⁴	...max. no. of shares to vest if all performance measures met ⁵	Vesting determined by performance over	
Directors								
Simon Thomson	Nil-cost option	3 x salary of £546,197	£1.868	877,190	20%	£1,639	£2,179	
James Smith	Nil-cost option	3 x salary of £355,250	£1.868	570,529	20%	£1,066		
							3 years until 18 March 2018	

Notes:

(1) Details of the performance conditions applicable to the awards granted in 2015 are provided on page 98.

(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 average of the closing mid-market prices of a share in the Company over the thirty days preceding the date of grant. (The actual closing price on the 19 March 2015 was £1.535.)

(4) The values shown in this column 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) The values shown in this column have been calculated by multiplying the 'number of shares over which the award was originally granted' by 133% (being the vesting percentage that would apply on full satisfaction of all performance conditions to which the awards are subject – see page 98) and multiplying the result by the 'share price at date of grant'.

LTIP – AWARDS VESTING DURING THE YEAR (AUDITED)

On 13 June 2015, the three-year performance period applicable to the awards granted under the LTIP on 14 June 2012 to various participants (including current and former executive directors) came to an end. Thereafter, the remuneration committee assessed the relevant performance conditions. The results of this assessment, which was completed on 17 June 2015, can be summarised as follows:

Performance measure	% of award subject to measure	Performance achieved 2012–2015	% 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 8th and 9th (median) ranked companies in the comparator group. After careful consideration of a variety of factors, the committee also concluded that there had been a sustained improvement in the overall performance of the Company over the three years in question.	23.43%

Notes:

(1) Further details of the performance conditions that applied to the above awards are set out on page 98.

(2) At various points in the period 14 June 2012 to 13 June 2015, the committee was required to determine 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.

DIRECTORS' REMUNERATION REPORT
CONTINUED

The following table shows, for each current and former director, details of the LTIP awards that vested during the year:

	Type of award	Date of grant	No. of shares over which award originally granted	Date of vesting	% of award to vest as per performance condition assessment	No. of shares that vested (after taking account of any time pro-rating requirements) ¹	Value of shares vesting ²
Current director ³							
Simon Thomson	Nil-cost option	14 June 2012	513,335	17 June 2015	23.43%	120,295	£217,975
Former directors							
Jann Brown ⁴	Nil-cost option	14 June 2012	432,282	17 June 2015	23.43%	79,190	£143,492
Dr Mike Watts ⁴	Nil-cost option	14 June 2012	469,691	17 June 2015	23.43%	86,043	£155,910

- Notes:
- (1) On the vesting of an LTIP award held by a current employee or executive director of the Group, only 50% of the shares to which the holder has become entitled are available for immediate exercise, with the remaining 50% normally becoming exercisable after a further period of one year.
 - (2) The values shown in this column have been calculated by multiplying the number of shares that vested by £1.812, being the closing mid-market price of a share in the Company on the day such vesting occurred. In the case of current directors, this value has been included in the single figure total for 2015.
 - (3) James Smith was not employed by the Group in 2012 and was not, therefore, granted an LTIP award during that period.
 - (4) As explained on page 92, both Jann Brown and Dr Mike Watts were categorised as 'good leavers' for the purposes of the LTIP rules with the result that their 2012 LTIP awards vested at the same time as those held by all other participants. However, a pro-rata reduction was applied to the number of shares that vested in respect of these individuals' awards to reflect the proportion of the performance period that they were employed by the Group.

LTIP – AWARDS EXERCISED DURING 2015 (AUDITED)

Details of vested LTIP awards (which are in the form of nil-cost options) that were exercised by current and former directors during the year to 31 December 2015 are as follows:

	Date of grant	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	14 June 2012	17 June 2015	26 June 2015	60,147	Nil	£1.724	£103,693
Former director							
Dr Mike Watts	14 June 2012	17 June 2015	27 June 2015	86,043	Nil	£1.623	£139,648

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 under the LTIP during 2015, set out below are details of the other unvested entitlements under the plan that were held by current executive directors during the year:

							Face value (£'000) of		
	Date of grant	Type of award	Basis of award granted	Share price at date of grant	No. of shares over which award originally granted	% of shares over which award originally granted that vest at threshold	...shares over which award originally granted ²	...max. no. of shares to vest if all performance measures met ³	Vesting determined by performance over three years until...
Directors									
Simon Thomson	20 March 2013	Nil-cost option	3 x salary of £525,000	£2.784	565,732	20%	£1,575	£2,095	19 March 2016
	19 March 2014	Nil-cost option	3 x salary of £538,125	£1.682	959,794	20%	£1,614	£2,147	18 March 2017
James Smith	19 March 2014	Nil-cost option	3 x salary of £350,000	£1.682	624,256	20%	£1,050	£1,396	18 March 2017

- Notes:
- (1) Further details of the performance conditions that apply to these awards are set out on page 98.
 - (2) 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' (being, for these purposes, the closing mid-market price of a share in the Company on the day immediately preceding the date of its 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 1.33% (being the vesting percentage that would apply on full satisfaction of all performance conditions to which the awards are subject – see page 98) and multiplying the result by the appropriate 'share price at date of grant' (being, for these purposes, the closing mid-market price of a share in the Company on the day immediately preceding the date of its grant).

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 LTIP to executive directors that were outstanding during 2015.

Company	Comparator group applicable to LTIP awards granted on....			
	14 June 2012	20 March 2013	19 March 2014	19 March 2015
Afren PLC*	✓	✓	✓	✓
BG Group PLC*	✓	✓	✓	✓
Det Norske Oljeselskap ASA				✓
DNO ASA	✓	✓	✓	✓
Dragon Oil PLC*				✓
EnQuest PLC	✓	✓	✓	✓
Faroe Petroleum PLC	✓	✓	✓	✓
Genel Energy PLC	✓	✓	✓	✓
JKX Oil & Gas PLC	✓	✓	✓	
Kosmos Energy Limited				✓
Lundin Petroleum AB	✓	✓	✓	✓
Niko Resources Limited	✓	✓	✓	
Nostrum Oil & Gas PLC				✓
Ophir Energy PLC	✓	✓	✓	✓
Petroceltic International PLC	✓	✓	✓	✓
Premier Oil PLC	✓	✓	✓	✓
Rockhopper Exploration PLC	✓	✓	✓	✓
Salamander Energy PLC*	✓	✓	✓	
Santos Limited	✓	✓	✓	✓
SOCO International PLC	✓	✓	✓	✓
Talisman Energy, Inc*	✓	✓	✓	
Tullow Oil PLC	✓	✓	✓	✓

* Denotes companies that have delisted during the applicable performance period.

PARTICIPATION OF EXECUTIVE DIRECTORS IN ALL-EMPLOYEE SHARE SCHEMES DURING 2015

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 2015/2016, the Company awarded two matching shares for every one partnership share purchased and intends to continue using this award ratio for the tax year 2016/2017.
- ‘Free shares’ – employees can be given up to £3,600 worth of ordinary shares free in each tax year. On 8 April 2015, 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.

DIRECTORS' REMUNERATION REPORT
CONTINUED

DETAILS OF EXECUTIVE DIRECTORS' SIP PARTICIPATION IN 2015

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 1 January 2015	Free shares awarded on 8 April 2015 at a price of £1.70 per share	Partnership shares awarded on 6 May 2015 at a price of £1.83 per share	Matching shares awarded on 6 May 2015 at a price of £1.83 per share	Total SIP shares held at 31 December 2015
Directors					
Simon Thomson	10,980	2,117	984	1,968	16,049
James Smith	2,688	2,117	984	1,968	7,757

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 64.

SHAREHOLDING GUIDELINES FOR DIRECTORS (AUDITED)

The committee believes that a significant level of shareholding by the executive directors strengthens the alignment of their interests with those of shareholders. Accordingly, a formal share ownership policy is in place under which the executive directors are required to build up and maintain a target holding equal to 100% of base salary. The policy also provides that, until such a 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.

The following table discloses the beneficial interest of each director in the ordinary shares of the Company as at 31 December 2015. It also highlights the fact that, on that date, the above shareholding requirements were satisfied by Simon Thomson, Chief Executive but, in light of his relatively recent appointment as CFO, not by James Smith. However, James Smith does intend to build-up his holding over time in accordance with the committee's policy and it is expected that he will reach the necessary levels within a period of three to five years from joining the Group.

	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 2016 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	556,734	16,049	572,783	171%	60,148	2,402,716	3,035,647
James Smith	55,096	7,757	62,853	29%	–	1,194,785	1,257,638
Non-executive directors							
Ian Tyler	–	–	–	–	–	–	–
Todd Hunt	72,012	–	72,012	–	–	–	72,012
Iain McLaren	7,878	–	7,878	–	–	–	7,878
Alexander Berger	40,008	–	40,008	–	–	–	40,008
M. Jacqueline Sheppard QC	7,000	–	7,000	–	–	–	7,000
Keith Lough	–	–	–	–	–	–	–
Peter Kallos	–	–	–	–	–	–	–
	738,728	23,806	762,534		60,148	3,597,501	4,420,183

Notes:
(1) Details of the Company's share ownership policy for executive directors are set out above.
(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 2015.
(5) This column shows all vested but unexercised awards under the LTIP that were held by the director concerned as at 31 December 2015.
(6) This column shows all unvested and outstanding awards under the LTIP that were held by the director concerned as at 31 December 2015 (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 99 and 100.

DILUTION OF SHARE CAPITAL PURSUANT TO SHARE PLANS DURING 2015

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 LTIP and the share option 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 are existing ordinary shares purchased in the market. As a result, the SIP does not involve the issue of new shares or the transfer of treasury shares.

BOARD APPOINTMENTS WITH OTHER COMPANIES DURING 2015

Certain of the Company's current executive directors serve as non-executive directors on the boards of other companies and are permitted to retain any associated fees. Details of the positions held during 2015 and the fees that were payable are as follows:

	Position held	Fees received for the year to 31 December 2015
Director		
Simon Thomson	Non-executive director, Graham's The Family Dairy Limited	£35,000

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 2014 and 2015.

	Financial Year 2014	Financial Year 2015	% change
Employee costs (US\$m)	51.3	32.6	(36.4%) ¹
Distributions (US\$m) ²	64.3	0	(100%)

Note:
(1) This fall in employee costs is largely attributable to the headcount reduction that occurred within the business during 2015.
(2) 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 2016

The following table provides details of how the Company intends to implement the key elements of the Directors' Remuneration Policy described in pages 82 to 90 during the year to 31 December 2016.

Remuneration element	Implementation during 2016
Base salary	Both of the executive directors received a 1.5% increase in base salary on 1 January 2016 – 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 2016 are as follows: – Simon Thomson, Chief Executive – £554,390; and – James Smith, CFO – £360,579.
Benefits	Executive directors will continue to receive the same benefits as in 2015.
Annual bonus	In accordance with the requirements of the policy, executive directors will be eligible to receive a bonus of up to 100% of base salary depending on the extent to which specified measures are satisfied over the year. 90% of the Chief Executive's and CFO's 2016 bonus opportunity will be based on the demanding Group KPIs described below (with details of the weightings specified in brackets): – exploration and appraisal success (29%); – active portfolio optimisation (16%); – manage balance sheet strength (20%); – maintain licence to operate (15%); and – operational excellence (20%). The balance (10%) of the executive directors' bonuses for 2016 will be determined by reference to the achievement of personal objectives that are relevant to each individual's role within the business. The specific targets to be used for the purposes of the 2016 bonus scheme are commercially sensitive and have not, therefore, been set out in detail above. However, appropriate disclosures in relation to the 2016 bonus scheme will be included in next year's Annual Report on Remuneration.
LTIP	It is intended that, during 2016, the executive directors will be granted LTIP awards over shares worth 300% of salary (being the same level as was awarded in 2015). The performance conditions that will determine the vesting of these grants will be unchanged from those that applied to last year's awards (full details of which are set out on page 98 of the Annual Report on Remuneration) except that the Total Shareholder Return comparator group will exclude Afren plc, Dragon Oil plc and BG Group plc and include Maurel & Prom, Africa Oil Corp and Cobalt International Energy, Inc.
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 executive directors or pay them an equivalent amount of additional salary.
Non-executive directors' fees	For 2016, both the annual non-executive director fee and the additional annual fee for chairing the audit and/or remuneration committees remain unchanged at £74,900 and £10,000 respectively.
Chairman's fees	The annual Chairman's fee for 2016 has been retained at £160,000.

The Directors' Remuneration Report was approved by the Board on 14 March 2016 and signed on its behalf by:

M. JACQUELINE SHEPPARD QC
Chair of the remuneration committee

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAIRN ENERGY PLC

REPORT ON THE FINANCIAL STATEMENTS OUR OPINION

- In our opinion:
- Cairn Energy PLC's group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
 - the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
 - the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
 - the financial statements 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.

WHAT WE HAVE AUDITED

- The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:
- the Group Balance Sheet and the Company Balance Sheet as at 31 December 2015;
 - the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
 - the Group Statement of Cash Flows and the Company Statement of Cash Flows for the year then ended;
 - the Group Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

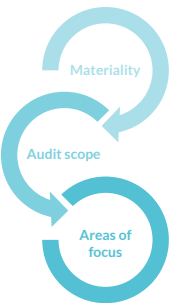
Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

OUR AUDIT APPROACH

Context

The context for our audit is set by Cairn Energy PLC's ('Cairn') major activities in 2015, together with the sustained low world oil prices throughout the year. In the year, Cairn has continued to progress their development assets in the Catcher and Kraken North Sea fields and commenced a three well appraisal programme offshore Senegal. They also farmed-down a 10% interest in the Catcher field to Dyas in January 2015. Away from core operations, Cairn's main focus has been dealing with the continuing restriction on the ability to sell the remaining 10% holding in Cairn India, the ongoing discussions with the Indian Tax Authorities in relation to the draft assessment order issued in March 2015, and the final assessment order received in February 2016.



OVERVIEW

- Overall group materiality: \$23.1 million (2014: \$30.2 million), which represents 1% of group total assets.
- The group is structured into 49 reporting units (or 'components'). We performed a full scope audit on six components due to the contribution they made to group total assets.
- A further three components were subject to full scope audit on a risk basis due to the carrying value of their exploration and development assets.
- We performed the majority of audit work in the UK, with PwC Norway performing the audit work on the North West Europe component. The group audit team visited Norway as part of the audit process.
- Our audit obtained coverage of over 97% of group total assets.
- Risk of impairment of exploration & development assets and goodwill.
- Potential impact on tax provisions of tax enquiry in relation to Cairn India Limited.
- Going concern.

Other tax judgements, which were an area of focus last year, have been considered to be of lower risk this year due to there being fewer events which triggered industry-specific tax considerations, and accordingly are not an area of focus for the current year audit.

THE SCOPE OF OUR AUDIT AND OUR AREAS OF FOCUS

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS’ REPORT
TO THE MEMBERS OF CAIRN ENERGY PLC CONTINUED

Area of focus	How our audit addressed the area of focus
Risk of impairment of exploration/development assets and goodwill This risk has increased compared to the prior year due to the current outlook for the market prices for oil remaining low, impacting the value associated with exploration and development assets. Exploration assets of \$425.0m relate to costs incurred where there is expected future activity but no approved development plan. Development assets of \$579.6m reflect spend to 31 December 2015 on Catcher and Kraken. Both of these tangible fixed asset categories require an impairment review only if an impairment trigger is identified. The goodwill balance of \$131.9m arose on the acquisitions of Agora and Nautical in 2012. As required by IAS 36, an annual impairment review is performed on this balance. Relevant indicators of impairment in the Oil & Gas industry include: – unsuccessful exploration such as experienced in Cap Boujdour and Crossbill during the year; – the sustained environment of low oil price outlook; – changes to exploration plans; – changes to reserves estimates; and – consolidated net assets being more than \$0.7bn greater than the market capitalisation of the group. When an impairment review and calculation are performed, there are significant judgements in relation to the assumptions made such as: – long-term oil price; – reserve 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 whether there are any impairment triggers or impairments. Refer to Notes 2.1, 2.2 and 2.6 to the financial statements.	We tested management’s impairment review of goodwill, capitalised exploration and capitalised development costs by performing the following work. We read management’s assessment of impairment triggers and did not identify any further triggers which had not been considered by management. Specific work we performed over the impairment review included: – comparing the assumptions used within the impairment review model to approved budgets and business plans and other evidence of future intentions for individual exploration properties, which we found to be materially consistent; – comparing reserves and production profiles and matching capital and operating expenditure forecasts to group approved values or operator estimates, which we found to be materially consistent; – benchmarking of key assumptions including commodity price and discount rate and inflation against our own internal data and recent public announcements from other oil companies. We found certain assumptions used by Cairn, including the long-term oil price, to be at the upper end of a reasonable range, while other assumptions, for example the use of a 3 year forward curve, were towards the lower end of a reasonable range; in combination, we consider the assumptions used by Cairn to be reasonable and in line with our expectations based on information that is publicly available about other market participants; – we read management’s sensitivity analysis and performed additional sensitivity analysis over key assumptions in the model in order to assess the potential impact of a range of possible outcomes. For Catcher and Kraken, we determined that the calculation was most sensitive to assumptions relating to the oil price; and – assessed 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 a fair value less costs of disposal, the inclusion or exclusion of certain tax related balances and agreed that all relevant balances had been included. None of the items described above resulted in a change to the impairment charge recorded by management.

Area of focus	How our audit addressed the area of focus
Potential impact on tax provisions of tax enquiry in relation to Cairn India Limited	
We focused on this area because on 22 January 2014 the Group received a request for information from the Indian tax authorities in respect of amendments introduced in the 2012 Indian Finance Act which seek to tax prior year transactions under legislation applied retrospectively. At the same time the Group received an order not to sell the remaining shares in Cairn India. On 10 March 2015, a draft assessment order was received from the Indian tax authorities for an amount of \$1.6 billion plus interest and penalties. Cairn are continuing to contest this draft assessment order and there is no certainty over the outcome. A final assessment order was received in February 2016, which Cairn are contesting, quantifying the interest at \$2.8bn, bringing the total potential exposure to \$4.4bn. Management have made judgements relating to the likelihood of an obligation arising and whether there is a need to recognise a provision or disclose a contingent liability. Although Cairn received a final demand from the Indian Tax Authorities in February 2016, we consider the level of risk to be the same as last year as the Group is going through due process in relation to this tax issue. Refer to Note 5.5 to the financial statements.	In assessing the potential impact of the draft assessment order from the Indian tax authorities we: – read the correspondence received by the Group from the Indian tax authorities; – understood the group reconstruction under review, and the potential basis for any claim, including the relevant legislation and other precedent; – discussed with management the advice and action they had taken with regards to the enquiry and reviewed any associated documents; and – discussed certain aspects of the matter directly with the group's legal advisers. We concluded that the position adopted in the financial statements was reasonable based on the work we performed, in particular: – management's view that no provision for tax should be made at this time; – the adequacy of the disclosure in the Annual Report; and – the impact of the restriction on sale of Cairn India shares on the future funding requirements for the Group. We also considered whether this ongoing enquiry would have any impact on the carrying value of the investment in Cairn India Limited of \$384.0m. We noted that while the group are restricted from selling the investment, this is a restriction directly on them and not all market participants, and therefore it does not affect the fair value of the underlying investment, which is the basis on which it is carried in the consolidated balance sheet.
Going concern	
We believe this risk has increased from last year as the Group has continued to incur operating and capital expenditure and does not yet have revenue-producing assets. In addition, the lower oil price has reduced the level of funding available under the RBL facility. We focused on this area as the Group is in the exploration and development phase and is therefore reliant on having sufficient funding to progress their asset portfolio. As the group currently has no significant cash-generating assets in operation, there is a finite cash resource to fund ongoing activities and therefore we have focused on whether there are sufficient cash resources in place to allow the group to continue as a going concern. In addition, the restriction on selling the remaining Cairn India shares noted above means the Group is currently unable to access the value in this investment to fund operations. During 2014, the group negotiated a debt facility to partially fund the development of Catcher and Kraken, and are required to meet a liquidity test to allow them to drawdown this facility. Cairn are also planning to drill one exploration well in North West Europe and complete the three well appraisal program in Africa over the next 12-18 months which will be funded from existing cash resources.	In assessing the appropriateness of the going concern assumption used in preparing the financial statements, we: – reviewed the cash flow requirements of the Group over the next 18 months based on budgets and forecasts; – understood what forecast expenditure is committed and what could be considered discretionary; – considered the liquidity of existing assets on the balance sheet, including the Cairn India investment; – reviewed the terms associated with the debt agreement and the amount of the facility available for drawdown; and – considered potential downside/upside scenarios and the resultant impact on available funds. Our conclusion on going concern is below.
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 geographic structure of the group, the accounting processes and controls, and the industry in which the group operates. For operating purposes, the group is structured around three key segments: Atlantic Margin, North West Europe and Other. During 2015, North West Europe has seen the most significant development activity, with the main exploration activity being undertaken in the Atlantic Margin, consistent with 2014. For accounting purposes, the group is structured into 49 reporting units (or 'components'). The majority of the finance function is based in Edinburgh, other than North West Europe which is primarily accounted for in Norway. Our PwC Norway audit team performed the audit work on the North West Europe components and all other audit work was performed by our UK audit team. Our group scoping was based on total assets, consistent with our approach to materiality, and identified six financially significant components, comprising a high proportion of total group assets, which required an audit of their complete financial information. A further three components were identified as significant from a risk perspective due to the carrying value of their exploration and development assets, which were subject to a full scope audit. Two components were subject to specified procedures on certain financial statement line items (FSLI) to obtain sufficient coverage.	

INDEPENDENT AUDITORS’ REPORT
TO THE MEMBERS OF CAIRN ENERGY PLC CONTINUED

The UK team attended audit planning and closing meetings in Norway, as well as being directly involved in the scoping and review of the work performed by PwC Norway.

Our group audit approach resulted in coverage of over 97% of the group total assets, our key benchmark for planning and scoping our audit.

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 on the financial statements as a whole.

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

Overall group materiality	\$23.1 million (2014: \$30.2 million).
How we determined it	1% of total assets.
Rationale for benchmark applied	We believe that total assets is an appropriate measure for an exploration and development Oil and Gas group that does not currently have producing assets.

We agreed with the audit committee that we would report to them misstatements identified during our audit above \$1.15 million (2014: \$1.50 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

Under the Listing Rules we are required to review the directors’ statement, set out on page 117, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors’ statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors’ statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and parent company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors’ use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group’s and parent company’s ability to continue as a going concern.

OTHER REQUIRED REPORTING
CONSISTENCY OF OTHER INFORMATION
Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 67 to 75 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAS (UK & IRELAND) REPORTING

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- Information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and parent company acquired in the course of performing our audit; or - otherwise misleading.	We have no exceptions to report.
the statement given by the directors on page 66, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company acquired in the course of performing our audit.	We have no exceptions to report.
the section of the Annual Report on pages 76 to 80, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

THE DIRECTORS' ASSESSMENT OF THE PROSPECTS OF THE GROUP AND OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

the directors' confirmation on page 38 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
the directors' explanation on page 43 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' 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 Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

ADEQUACY OF ACCOUNTING RECORDS AND INFORMATION AND EXPLANATIONS RECEIVED

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAIRN ENERGY PLC CONTINUED

DIRECTORS' REMUNERATION

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

CORPORATE GOVERNANCE STATEMENT

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Directors' Responsibilities Statement set out on page 66, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



MICHAEL TIMAR (SENIOR STATUTORY AUDITOR)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
14 March 2016

- (a) The maintenance and integrity of the Cairn Energy PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONTENTS

112	Group Income Statement
112	Group Statement of Comprehensive Income
113	Group Balance Sheet
114	Group Statement of Cash Flows
115	Group Statement of Changes in Equity
116	Section 1 Basis of Preparation
116	1.1 Significant Accounting Policies
117	1.2 Going Concern
118	Section 2 Oil and Gas Assets, Decommissioning Provisions and Related Goodwill
119	2.1 Intangible Exploration/Appraisal Assets
121	2.2 Property, Plant & Equipment – Development/Producing Assets
122	2.3 Gain on Disposal of Oil and Gas Assets
122	2.4 Provisions – Decommissioning
123	2.5 Capital Commitments
123	2.6 Intangible Assets – Goodwill
124	2.7 Impairment Testing Sensitivity Analysis
125	Section 3 Financial Assets and Working Capital
125	3.1 Available-for-sale Financial Assets
126	3.2 Cash and Cash Equivalents
127	3.3 Other Receivables
127	3.4 Trade and Other Payables
128	3.5 Financial Instruments
129	3.6 Financial Risk Management: Objectives and Policies
131	Section 4 Results for the Year
131	4.1 Segmental Analysis
133	4.2 Pre-award Costs
134	4.3 Net Operating Expenses
134	4.4 Employee Benefits: Staff costs, Share-based payments and Directors' emoluments
137	4.5 Finance Income
138	4.6 Finance Costs
138	4.7 Earnings per Ordinary Share
139	Section 5 Taxation
139	5.1 Tax Strategy and Governance
140	5.2 Tax Charge/(Credit) on Loss for the Year
141	5.3 Income Tax Assets
142	5.4 Deferred Tax Assets and Liabilities
143	5.5 Contingent Liability – Indian Tax Assessment
144	Section 6 Capital Structure and Other Disclosures
144	6.1 Issued Capital and Reserves
145	6.2 Capital Management
145	6.3 Guarantees
146	6.4 Auditors' Remuneration
146	6.5 Post Balance Sheet Events
147	Company Balance Sheet
148	Company Statement of Cash Flows
149	Company Statement of Changes in Equity
150	Section 7 Notes to the Company Financial Statements
150	7.1 Basis of Preparation
150	7.2 Cash and Cash Equivalents
150	7.3 Other Receivables
150	7.4 Trade and Other Payables
151	7.5 Financial Instruments
151	7.6 Investments in Subsidiaries
153	7.7 Capital Management
154	7.8 Related Party Transactions

GROUP INCOME STATEMENT

For the year ended 31 December 2015

	Section	2015 US\$m	2014 US\$m
Continuing operations			
Pre-award costs	4.2	(35.2)	(54.8)
Unsuccessful exploration costs	2.1	(97.4)	(208.4)
Net operating expenses	4.3	(29.7)	(64.5)
Impairment of intangible exploration/appraisal assets	2.1	(17.9)	(46.9)
Impairment of property, plant & equipment – development/producing assets	2.2	(25.1)	–
Gain on disposal of oil and gas assets	2.3	26.6	2.3
Operating loss		(178.7)	(372.3)
Gain on disposal of available-for-sale financial assets	3.1	–	3.9
Impairment of available-for-sale financial assets	3.1	(318.6)	(194.3)
Finance income	4.5	19.8	38.3
Finance costs	4.6	(20.3)	(34.7)
Loss before taxation from continuing operations		(497.8)	(559.1)
Taxation			
Tax (charge)/credit	5.2	(17.7)	178.0
Loss for the year attributable to equity holders of the parent		(515.5)	(381.1)
Loss per ordinary share – basic (cents)	4.7	(90.26)	(66.51)
Loss per ordinary share – diluted (cents)	4.7	(90.26)	(66.51)

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

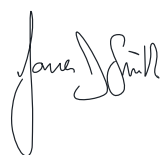
	Section	2015 US\$m	2014 US\$m
Loss for the year		(515.5)	(381.1)
Other comprehensive income – items that may be recycled to profit or loss			
Deficit on valuation of financial assets	3.1	(318.6)	(261.1)
Deferred tax credit on valuation of financial assets	5.2	9.5	56.6
Valuation movement recycled to Income Statement	3.1	318.6	189.2
Deferred tax credit on valuation movement recycled to Income Statement	5.2	(9.5)	(40.9)
Currency translation differences		(63.5)	(58.8)
Other comprehensive income for the year		(63.5)	(115.0)
Total comprehensive income for the year attributable to equity holders of the parent		(579.0)	(496.1)

GROUP BALANCE SHEET

As at 31 December 2015

	Section	2015 US\$m	2014 US\$m
Non-current assets			
Intangible exploration/appraisal assets	2.1	423.4	417.0
Property, plant & equipment – development/producing assets	2.2	579.6	467.8
Intangible assets – goodwill	2.6	131.9	145.1
Other property, plant & equipment and intangible assets		3.9	5.5
Available-for-sale financial assets	3.1	384.0	702.6
Deferred tax assets	5.4	–	106.2
		1,522.8	1,844.2
Current assets			
Income tax asset	5.3	33.0	60.3
Inventory		0.7	5.0
Other receivables	3.3	148.9	238.6
Cash and cash equivalents	3.2	602.8	869.3
		785.4	1,173.2
Total assets		2,308.2	3,017.4
Current liabilities			
Trade and other payables	3.4	120.1	278.2
Provisions – other		–	11.6
		120.1	289.8
Non-current liabilities			
Deferred tax liabilities	5.4	48.8	61.7
Provisions – decommissioning	2.4	37.1	–
Provisions – other		2.8	2.8
		88.7	64.5
Total liabilities		208.8	354.3
Net assets		2,099.4	2,663.1
Equity attributable to equity holders of the parent			
Called-up share capital	6.1	12.4	12.4
Share premium	6.1	487.1	487.0
Shares held by ESOP/SIP Trusts	6.1	(23.0)	(26.7)
Foreign currency translation	6.1	(146.2)	(82.7)
Capital reserves – non-distributable	6.1	40.8	40.8
Merger reserve	6.1	255.9	255.9
Retained earnings		1,472.4	1,976.4
Total equity		2,099.4	2,663.1

The financial statements on pages 112 to 154 were approved by the Board of Directors on 14 March 2016 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 2015

	Section	2015 US\$m	2014 US\$m
Cash flows from operating activities			
Loss before taxation		(497.8)	(559.1)
Unsuccessful exploration costs		97.4	208.4
Depreciation and amortisation		3.4	3.3
Share-based payments charge		15.2	21.4
Impairment of intangible exploration/appraisal assets		17.9	46.9
Impairment of property, plant & equipment – development/producing assets		25.1	–
Gain on disposal of oil and gas assets		(26.6)	(2.3)
Gain on disposal of available-for-sale financial assets		–	(3.9)
Inventory disposal/write down		(0.2)	8.4
Impairment of available-for-sale financial assets		318.6	194.3
Finance income		(19.8)	(38.3)
Finance costs		20.3	34.7
Interest paid		(0.2)	(0.5)
Income tax received from operating activities		23.6	30.0
Foreign exchange differences		(0.4)	8.8
Other receivables movement		4.3	4.3
Trade and other payables movement		6.1	(4.6)
Provisions movement		(2.4)	2.9
Net cash used in operating activities		(15.5)	(45.3)
Cash flows from investing activities			
Expenditure on intangible exploration/appraisal assets		(208.4)	(336.0)
Expenditure on property, plant & equipment – development/producing assets		(114.2)	(39.8)
Income tax received from investing activities		28.2	36.0
Proceeds on disposal of oil and gas assets		54.7	31.4
Movement on inventory		0.8	(3.9)
Purchase of other property, plant & equipment and intangible assets		(2.1)	(3.2)
Proceeds from disposal of available-for-sale financial assets		–	62.6
Movement in funds on bank deposits		–	0.2
Interest received		3.6	3.1
Net cash used in investing activities		(237.4)	(249.6)
Cash flows from financing activities			
Cost of shares purchased		–	(64.3)
Facility, arrangement fees and bank charges		(6.3)	(19.2)
Proceeds from exercise of share options		0.1	0.3
Repayment of borrowings		–	(53.4)
Net cash flows used in financing activities		(6.2)	(136.6)
Net decrease in cash and cash equivalents		(259.1)	(431.5)
Opening cash and cash equivalents at beginning of year		869.3	1,308.3
Exchange losses on cash and cash equivalents		(7.4)	(7.5)
Closing cash and cash equivalents	3.2	602.8	869.3

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Equity share capital US\$m	Shares held by ESOP Trust and SIP Trust US\$m	Foreign currency translation US\$m	Merger and capital reserves US\$m	Available- for-sale reserve US\$m	Retained earnings US\$m	Total equity US\$m
At 1 January 2014	499.7	(28.0)	(23.9)	296.3	56.2	2,387.5	3,187.8
Loss for the year	-	-	-	-	-	(381.1)	(381.1)
Deficit on valuation of financial assets	-	-	-	-	(261.1)	-	(261.1)
Deferred tax credit on valuation of financial assets	-	-	-	-	56.6	-	56.6
Valuation movement recycled to Income Statement	-	-	-	-	189.2	-	189.2
Deferred tax credit on valuation movement recycled to Income Statement	-	-	-	-	(40.9)	-	(40.9)
Currency translation differences	-	-	(58.8)	-	-	-	(58.8)
Total comprehensive income for the year	-	-	(58.8)	-	(56.2)	(381.1)	(496.1)
Share buy-back	(0.4)	-	-	0.4	-	(50.3)	(50.3)
Share-based payments	-	-	-	-	-	21.4	21.4
Exercise of employee share options	0.1	0.2	-	-	-	-	0.3
Cost of shares vesting	-	1.1	-	-	-	(1.1)	-
At 31 December 2014	499.4	(26.7)	(82.7)	296.7	-	1,976.4	2,663.1
Loss for the year	-	-	-	-	-	(515.5)	(515.5)
Deficit on valuation of financial assets	-	-	-	-	(318.6)	-	(318.6)
Deferred tax credit on valuation of financial assets	-	-	-	-	9.5	-	9.5
Valuation movement recycled to Income Statement	-	-	-	-	318.6	-	318.6
Deferred tax credit on valuation movement recycled to Income Statement	-	-	-	-	(9.5)	-	(9.5)
Currency translation differences	-	-	(63.5)	-	-	-	(63.5)
Total comprehensive income for the year	-	-	(63.5)	-	-	(515.5)	(579.0)
Share-based payments	-	-	-	-	-	15.2	15.2
Exercise of employee share options	0.1	-	-	-	-	-	0.1
Cost of shares vesting	-	3.7	-	-	-	(3.7)	-
At 31 December 2015	499.5	(23.0)	(146.2)	296.7	-	1,472.4	2,099.4

SECTION 1 – BASIS OF PREPARATION

This section contains the Group's going concern statement and significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note are included with that note. Accounting policies relating to non-material items are not included in these financial statements. The accounting policies have been consistently applied to all the years presented.

This section also includes new EU endorsed accounting standards, amendments and interpretations and their expected impact, if any, on the performance of the Group.

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 2015 were authorised for issue in accordance with a resolution of the directors on 14 March 2016. 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.

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 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 International Financial Reporting Standards ('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 International Accounting Standards Board ('IASB') as they apply to accounting periods ended 31 December 2015.

Effective 1 January 2015, Cairn has adopted the following standards:

- Annual improvements to IFRSs 2011-2013 Cycle

The adoption of these amendments will have no material impact on Cairn's results or financial statement disclosures.

The following amendments to standards issued by the IASB and endorsed by the EU have yet to be adopted by the Group:

- Annual improvements to IFRSs 2010-2012 Cycle (effective 1 February 2015)
- Amendments to IFRS11: Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)
- Annual improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016)
- Amendments to IAS 1: Disclosure Initiative (effective 1 January 2016)
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)
- Amendments to IAS 7: Statement of Cash Flows (effective 1 January 2017)

The adoption of these amendments will have no material impact on Cairn's results or financial statement disclosures. There are no other standards or amendments issued by the IASB and endorsed by the EU that will impact the Group.

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. Inter-company balances and transactions between Group companies are eliminated on consolidation, though foreign exchange differences arising on inter-company balances between subsidiaries with differing functional currencies are not offset.

The results of subsidiaries acquired 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 during the year are included in the Income Statement and Statement of Cash Flows to the date at which control passes from the Group.

1.1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

D) JOINT ARRANGEMENTS

Cairn is a partner (joint operator) in oil and gas exploration and development 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 156 and 157.

Costs incurred relating to an interest in a joint operation are capitalised in accordance with the Group's accounting policies for oil and gas assets as appropriate (Sections 2.1 and 2.2). All of the Group's Intangible exploration/appraisal assets and Property, plant & equipment – development/producing assets are related to interests in joint operations.

Cairn's working capital balances relating to joint operations are included in Other receivables (Section 3.3) and Trade and other payables (Section 3.4). Any share of finance income or costs generated or incurred by the joint operation is included within the appropriate Income Statement account.

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.

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 2015	YTD Average 2015	Closing 2014	YTD Average 2014
Sterling	0.679	0.654	0.642	0.640
Norwegian Kroner	8.842	8.048	7.474	6.282
Euro	0.921	0.901	0.827	0.753

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.

The directors have a reasonable expectation that the Group will continue in operational existence for a period of 12 months from the date of signing these financial statements and have therefore used the going concern basis in preparing the financial statements.

The Board and Audit Committees assessment of risk and mitigants to the Group's operational existence beyond this 12 month period is included in the viability statement on page 43.

SECTION 2 – OIL AND GAS ASSETS, DECOMMISSIONING PROVISIONS AND RELATED GOODWILL

This section focuses on the assets in the Balance Sheet which form the core of Cairn's business. This section quantifies the financial impact of the operations for the year fully described in the Operational review on pages 26 to 31.

Included are details of the appraisal and exploration wells in Senegal, the farm-down of Catcher and the impairment reviews and tests performed on the Group's assets.

SIGNIFICANT ACCOUNTING JUDGEMENTS IN THIS SECTION:

IMPAIRMENT TESTING OF OIL AND GAS ASSETS

With the continued decline in the oil price over the year, Cairn has tested its oil and gas assets for impairment.

The impairment tests resulted in impairment charges of US\$43.0m against UK North Sea exploration and development assets. For details of the indicators and the subsequent impairment tests conducted on those assets, see Sections 2.1 and 2.2.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION:

IMPAIRMENT TESTING OF INTANGIBLE EXPLORATION/APPRaisal ASSETS AND PROPERTY, PLANT & EQUIPMENT – DEVELOPMENT ASSETS

Where an indicator of impairment is identified on an intangible exploration/appraisal asset or a development 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 discounted post-tax cash flow models over the field life of the asset.

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\$80 per boe (2014: US\$90 per boe) escalated at 2.0% (2014: 2.5%) per annum;
- Reserve estimates of discovered resource (2P and 2C) based on P50 reserve estimates;
- Production profiles based on Cairn's internal estimates which are not materially different from those of the operators;
- Cost profiles for the development of the field and subsequent operating costs supplied by the operator and escalated at 2.0% (2014: 2.0%) per annum; and
- Post-tax discount rates of 10% (2014: 10%) for the Group's UK and Norwegian North Sea assets.

IMPAIRMENT TESTING OF GOODWILL

The goodwill arising from past corporate transactions in the UK and Norwegian North Sea is tested for impairment by comparing the recoverable amount against the carrying value of the underlying oil and gas assets in the UK and Norwegian North Sea operating segment. As with the assets above, fair value less costs of disposal are based on discounted post-tax cash flow models where no recent third-party transactions exist on which a reliable market-based fair value can be established. The key assumptions are therefore consistent with those for testing intangible exploration/appraisal assets.

Where resource is prospective, fair value represents the expected net present value of the prospect, risk-weighted for future exploration success. Given the inherent risk associated with exploration activities, valuations of prospective resource are highly subjective.

DECOMMISSIONING ESTIMATES

Provisions for decommissioning are based on the latest estimates provided by operators, subject to review by Cairn and adjustment 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 and discounted at a risk-free rate of 2.0%.

2.1 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, ‘pre-award costs’, are expensed immediately to the Income Statement.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-licence basis. Costs are held, un-depleted, within intangible exploration/appraisal assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered. 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. Exploration/appraisal drilling costs are initially 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.

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated, 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). 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.

Proceeds from the disposal of part or all of an exploration asset should be 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 cash generating unit and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development/producing assets within the cash-generating unit, the excess of the carrying amount of exploration/appraisal asset over its recoverable amount are charged immediately to the Income Statement.

	Atlantic Margin					
	Senegal US\$m	Other Africa US\$m	Greenland and Republic of Ireland US\$m	North West Europe – UK and Norway US\$m	Other US\$m	Total US\$m
Net book value						
At 1 January 2014	41.6	31.1	38.2	380.9	6.8	498.6
Foreign exchange	–	–	(0.8)	(28.6)	(0.8)	(30.2)
Additions	145.7	99.8	19.1	108.8	5.5	378.9
Disposals	(20.5)	(0.3)	(5.5)	(0.3)	–	(26.6)
Transfers	–	–	–	(148.4)	–	(148.4)
Impairment	–	–	(22.7)	(24.2)	–	(46.9)
Unsuccessful exploration costs	–	(100.1)	(6.6)	(94.8)	(6.9)	(208.4)
At 1 January 2015	166.8	30.5	21.7	193.4	4.6	417.0
Foreign exchange	–	–	–	(19.2)	–	(19.2)
Additions	61.4	56.8	5.3	32.3	(3.3)	152.5
Disposals	–	–	–	(11.6)	–	(11.6)
Impairment	–	–	(1.2)	(16.7)	–	(17.9)
Unsuccessful exploration costs	–	(56.2)	(0.9)	(44.2)	3.9	(97.4)
At 31 December 2015	228.2	31.1	24.9	134.0	5.2	423.4

SECTION 2 – OIL AND GAS ASSETS, DECOMMISSIONING PROVISIONS AND RELATED GOODWILL CONTINUED

2.1 INTANGIBLE EXPLORATION/APPRaisal ASSETS CONTINUED

Atlantic Margin – Senegal

In September 2015, Cairn commenced a three well exploration and appraisal programme offshore Senegal, following the two successful exploration wells completed in 2014, the FAN-1 and SNE-1 wells. The SNE-2 and SNE-3 appraisal wells completed in Q1 2016. The third well, the BEL-1 well, with exploration and appraisal targets, is ongoing. Subsequent exploration and appraisal wells are subject to joint operator approval.

Further appraisal is required to determine the commerciality of the FAN-1 discovery and costs to date remain capitalised.

Capitalised costs of US\$228.2m at 31 December 2015 include the cost of the 2014 SNE-1 and FAN-1 wells and 2015 year-to-date costs of the current drilling programme.

Disposals of US\$20.5m in 2014 represent back costs received following the farm-down to ConocoPhillips, completed in January 2014.

Atlantic Margin – Other Africa

The Cap Boujdour well, offshore Morocco, completed in March 2015, failing to encounter commercial hydrocarbon volumes. Costs incurred in the current year on this well and other close-out costs on the Fom Draa and Jubu Maritime relinquished licences of US\$56.2m (2014: US\$100.1m) were charged to the Income Statement.

Costs of US\$31.1m remaining in exploration/appraisal at the year end represent costs to date in Mauritania.

Atlantic Margin – Greenland and Republic of Ireland

The costs of US\$24.9m remaining at the year end primarily relate to the Spanish Point appraisal prospect, offshore Republic of Ireland.

Cairn retains one licence in Greenland, containing the Pitu prospect. Cairn is looking to farm-down its interest before committing to further exploration work and at the year end all costs associated with this licence have been impaired. All other licences in Greenland have been or are currently in the process of relinquishment and all previously capitalised costs have been written off.

North West Europe – UK and Norway

UK and Norwegian North Sea

Additions in the current year of US\$32.3m (2014: US\$108.8m) relate to expenditure on exploration and appraisal wells drilled and ongoing licence costs. Two wells were drilled during 2015, the successful Kraken West appraisal well in the UK North Sea and the unsuccessful Crossbill exploration well in the Norwegian North Sea.

Disposal proceeds of US\$11.6m relate to the sale of a 10% working interest in the Catcher asset (refer to Section 2.3 for further details).

Unsuccessful exploration costs charged to the Income Statement in the year were US\$44.2m. Costs of the Crossbill exploration well were US\$12.7m. A further US\$23.7m related to the Bonneville satellite discovery in the Greater Catcher area, which, due to changes in UK tax legislation specific to oil and gas companies and the reduced oil price, is no longer commercial and will be relinquished. Finally, costs of US\$7.8m were expensed on licences where no further exploration activity is planned.

During 2014, two exploration wells were completed in the North Sea. Neither the UK Aragon well nor the Norwegian Atlas well discovered hydrocarbons. Unsuccessful exploration costs of US\$50.0m were charged to the Income Statement together with US\$2.2m relating to other licences. Costs of US\$25.2m were also charged to the 2014 Income Statement in respect of Skarfjell appraisal drilling. The appraisal wells confirmed the estimated reserve volumes of the discovery without materially increasing the future economic value of the field and it was considered unlikely that the costs relating to the wells would be recovered in full.

DECC approval of the Catcher FDP was received in June 2014. Costs of US\$148.4m were transferred from Intangible exploration/appraisal assets to Property, plant & equipment – development/producing assets during the prior year.

At the year end, Cairn reviewed its intangible exploration/appraisal assets for indicators of impairment. Indicators were identified where the fall in the oil price may impact the future commerciality of exploration and appraisal assets. Impairment tests identified impairment on the Group's intangible exploration assets, resulting in a charge of US\$16.7m to the Income Statement (2014: US\$24.2m). The charge relates to the impairment of satellite fields within the Catcher development area.

Exploration costs remaining at the year end include the net book value of the Catcher exploration prospects, Laverda and Sunbeam, the Skarfjell discovery and associated satellite prospects and the Kraken West exploration costs.

Norwegian Barents Sea

In 2014, Cairn farmed-in to Block PL393B in the Barents Sea. Farm-in and other costs and the unsuccessful Ensis exploration well costs of US\$17.4m were charged to the Income Statement in the prior year. No costs remain capitalised at the year end.

2.2 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 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 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 or part disposal of development/producing assets are credited against the 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 exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Impairment

Development/producing assets are reviewed for indicators of impairment at the Balance Sheet date. Indicators of impairment for the Group's development/producing 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 cash-generating unit containing the asset and tested against the carrying value of the assets and liabilities in the cash-generating unit for impairment. Where an asset can be tested independently for impairment, this test is performed prior to the inclusion of the asset into a cash-generating unit for further impairment tests.

If the carrying amount of the asset or cash-generating unit 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.

	North West Europe – UK and Norway US\$m	Total US\$m
Cost and net book value		
At 1 January 2014	299.9	299.9
Foreign exchange	(30.5)	(30.5)
Additions	50.0	50.0
Transfers from intangible exploration/appraisal assets	148.4	148.4
At 1 January 2015	467.8	467.8
Foreign exchange	(32.5)	(32.5)
Additions	230.6	230.6
Disposals	(61.2)	(61.2)
Impairment	(25.1)	(25.1)
At 31 December 2015	579.6	579.6

Disposals of US\$61.2m relate to the farm-down of a 10% working interest in Catcher, see Section 2.3. Subsequent additions during the year include US\$70.1m under the carry receivable as consideration in that transaction. Further additions include US\$32.3m for the decommissioning asset recognised, US\$127.7m of expenditure on the Kraken development project and other sole costs incurred.

SECTION 2 – OIL AND GAS ASSETS, DECOMMISSIONING PROVISIONS AND RELATED GOODWILL
CONTINUED

2.2 PROPERTY, PLANT & EQUIPMENT – DEVELOPMENT/PRODUCING ASSETS CONTINUED

In 2014 exploration and appraisal costs of US\$148.4m relating to the Catcher fields included in the FDP were transferred to development/producing assets.

Impairment tests were performed on the Group's development/producing assets at the Balance Sheet date, resulting in an impairment charge of US\$25.1m being recorded against the Catcher development asset. The impairment results from continuing low oil price environment, leading to a reduction in the Group's short term oil price assumption and a downward revision to the Group's long term assumption. Sensitivity analysis is provided in Section 2.7.

2.3 GAIN ON DISPOSAL OF OIL AND GAS ASSETS

In January 2015, Cairn completed the farm-down of 10% of the Group's working interest in the Catcher development, satellite fields and surrounding exploration acreage to Dyas. Under the terms of the deal, Dyas will fund Cairn's exploration and development costs in respect of the licences up to a cap of US\$182.0m, from an effective economic date of 1 January 2014.

On completion of the transaction, Cairn received cash proceeds of US\$54.7m (US\$36.5m under the carry, US\$18.2m as a refund of the 10% share of costs from 1 January 2014) and recognised the remaining carry as a receivable at its discounted, post-tax fair value of US\$44.7m. US\$11.6m of the proceeds received were allocated to exploration assets and credited against previously capitalised exploration costs. The remaining proceeds and carry receivable were allocated to development assets.

The disposal of 10% of the Group's working interest in the development asset (with related working capital adjustments) resulted in a gain on disposal of US\$26.6m and a tax credit of US\$4.6m.

2.4 PROVISIONS – DECOMMISSIONING
ACCOUNTING POLICY

At the end of the producing life of a field, costs are incurred in plugging and abandoning wells, removing sub-sea 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, calculated on a unit of production basis based on proved and probable reserves, is included in the 'Depletion and decommissioning charge' in the Income Statement, and the unwinding of discount of the provision is included within 'Finance costs'.

	Exploration well abandonment US\$m	Decommissioning of development assets US\$m	Total US\$m
At 1 January 2015	3.6	–	3.6
Foreign exchange	(0.4)	(1.4)	(1.8)
Provided in year	3.0	32.3	35.3
At 31 December 2015	6.2	30.9	37.1

Following the commencement of drilling and sub-surface activities on both Kraken and Catcher development projects during the year, decommissioning provisions have been estimated using existing technology at current prices discounted at 2% per annum. Provisions represent the obligation arising based on work undertaken at the balance sheet date. In the prior year exploration well abandonment costs as at 31 December 2014 of US\$3.6m were included within provisions included in current liabilities. The planned work has since been deferred beyond the end of 2016.

The decommissioning of the Group's development assets is forecast to occur between 2030 and 2039.

2.5 CAPITAL COMMITMENTS

	2015 US\$m	2014 US\$m
Oil and gas expenditure:		
Intangible exploration/appraisal assets	150.3	146.1
Property, plant & equipment – development/producing assets	887.9	1,271.4
Contracted for	1,038.2	1,417.5

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 primarily relate to operations in Senegal and the UK and Norwegian North Sea.

The Capital commitments for Property, Plant & Equipment – Development/Producing Assets include US\$572.7m relating to two lease commitments due within the next eight years. The lease terms for these assets have not yet commenced.

The Group has no further material capital expenditure committed at the Balance Sheet date.

2.6 INTANGIBLE ASSETS – GOODWILL

ACCOUNTING POLICY

Goodwill

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 cash-generating unit 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 cash-generating units representing the lowest level at which it will be monitored. Cairn's policy is to monitor goodwill at operating segment level before combining segments for reporting.

The recoverable amount of a cash-generating unit, or group of cash-generating units, 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 cash-generating unit is the result of future exploration drilling, which will determine the licence area's future economic potential.

	North West Europe – UK and Norwegian North Sea US\$m	Total US\$m
Net book value		
At 1 January 2014	163.4	163.4
Foreign exchange	(18.3)	(18.3)
At 1 January 2015	145.1	145.1
Foreign exchange	(13.2)	(13.2)
At 31 December 2015	131.9	131.9

Goodwill is fully allocated to the UK and Norwegian North Sea operating segment. At 31 December 2015, the goodwill impairment test did not identify any impairment.

SECTION 2 – OIL AND GAS ASSETS, DECOMMISSIONING PROVISIONS AND RELATED GOODWILL
CONTINUED

2.7 IMPAIRMENT TESTING SENSITIVITY ANALYSIS
NORTH WEST EUROPE OIL AND GAS ASSETS

At 31 December 2015, impairment tests were conducted on the Group's North Sea exploration/appraisal assets and development/producing assets resulting in an impairment charge of US\$25.1m. An impairment test was also conducted on goodwill allocated to the North Sea operating segment though no further impairment was identified.

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 oil price assumption, or reliant upon the performance of operational partners for delivering development projects on time and within approved budgets.

Cairn has run sensitivities on its long-term oil price assumption of US\$80, using alternate prices ranging from US\$75 to US\$60, and on the impact of a six month delay to the Group's development projects over the current first oil dates included in the impairment test models. A six month delay to either project has no material impact on the impairment test at the current long term oil price assumption.

The impact of these changes on the carrying value of the Group's assets at the Balance Sheet date is summarised below:

	Decrease in long term oil price assumption to:			
	US\$75 US\$m	US\$70 US\$m	US\$65 US\$m	US\$60 US\$m
Decrease in Property, plant & equipment – development assets				
No delay to first oil production from either Catcher or Kraken	(62.6)	(151.3)	(240.8)	(307.9)
Delay of six months to Kraken; Catcher on schedule	(62.4)	(151.2)	(246.7)	(321.1)
Delay of six months to Catcher; Kraken on schedule	(72.9)	(167.4)	(263.3)	(356.3)
Delay of six month delay to both Catcher and Kraken	(72.7)	(167.3)	(269.2)	(369.5)
Decrease in Goodwill				
No delay to first oil production from either Catcher or Kraken	-	-	-	(48.9)
Delay of six months to Kraken; Catcher on schedule	-	-	-	(46.4)
Delay of six months to Catcher; Kraken on schedule	-	-	-	(24.5)
Delay of six month delay to both Catcher and Kraken	-	-	-	(22.1)

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. Cairn's reserve estimates do not materially differ from those of the operators.

OTHER OIL AND GAS ASSETS

At the year end, an impairment charge was recognised on certain intangible exploration assets in Greenland as noted in Section 2.1. These assets are fully impaired in accordance with IFRS and the Group's accounting policies and therefore there is no meaningful sensitivity analysis to provide.

There are no reasonable changes in assumptions that would lead to a material impairment of any of the Group's remaining assets in the Atlantic Margin.

SECTION 3 – FINANCIAL ASSETS AND WORKING CAPITAL

Cairn's liquid cash resources supported by the undrawn secured borrowing facility ensure the Group is fully funded to meet its current exploration and development programme despite the current restriction on the sale of shares in Cairn India Limited.

This section focuses on those assets, together with the working capital position of the Group at the year end.

SIGNIFICANT ACCOUNTING JUDGEMENTS IN THIS SECTION: IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSET

The Group's ~10% shareholding in Cairn India Limited, classified as a non-current available-for-sale financial asset, suffered a significant fall in value during 2015. The size of the deficit was such that the mark-to-market valuation deficit recognised in 'Other Comprehensive Income' and classified as an available-for-sale reserve in equity, were recycled to the Income Statement as impairment.

The closing book value of the asset represents the quoted market price of the Group's residual holding. Although Cairn is currently not able to sell its 9.8% stake, there is no restriction in the wider market where Cairn India Limited shares trade freely at this price.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION:

There were no key estimations or assumptions in this section.

3.1 AVAILABLE-FOR-SALE FINANCIAL ASSETS ACCOUNTING POLICY

The Group's available-for-sale financial assets represent listed equity shares which are held at fair value (the quoted market price). Movements in the fair value during the year are recognised directly in equity and are disclosed in the Statement of Comprehensive Income. The cumulative gains or losses that arise on subsequent disposal of available-for-sale assets are recycled through the Income Statement.

At each reporting date, the fair value of the financial asset is compared to the value at the date of its initial recognition for signs of a prolonged or significant deficit in the valuation, which would indicate impairment. Where impairment is identified, cumulative losses recognised in Other comprehensive income are recycled to the Income Statement. In the event of a subsequent recovery in the valuation of the asset, there is no reversal of impairment; any such post-impairment gains are recognised as a surplus through Other comprehensive income. Any further impairment losses will be recognised through the Income Statement.

	Listed equity shares US\$m
Fair Value	
As at 1 January 2014	1,027.6
Deficit on valuation	(261.1)
Disposal	(63.9)
As at 1 January 2015	702.6
Deficit on valuation	(318.6)
As at 31 December 2015	384.0

Available-for-sale financial assets represent the Group's remaining investment in the fully diluted share capital of Cairn India Limited, listed in India, which by its nature has no fixed maturity or coupon rate. These listed equity securities present the Group with an opportunity for return through dividend income or trading gains.

At 31 December 2015, the value of the investment in Cairn India Limited had fallen to US\$384.0m. The significant accumulated deficit during 2015 of US\$318.6m (2014: US\$194.3m – the cumulative deficit from 1 July 2013 to 31 December 2014) was recycled to the Income Statement and recorded as impairment.

Cairn is currently restricted from selling its shares in Cairn India Limited. See Section 5.5. In January 2014, the Company disposed of 12,048,836 shares in Cairn India Limited, a 0.6% interest, prior to the restriction being enforced.

The Group is exposed to equity price risks arising from the listed equity investments it holds in Cairn India Limited.

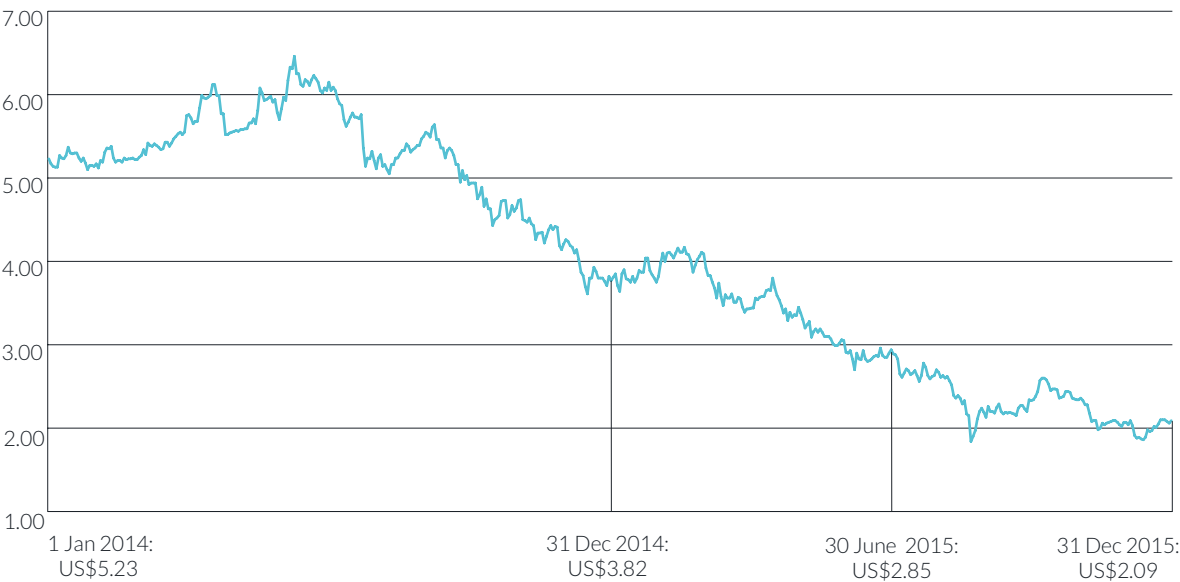
Movements in the fair value during the year are recognised directly in equity and are disclosed in the Statement of Comprehensive Income. The cumulative gain or loss that arises on disposal of available-for-sale financial assets is recycled through the Income Statement.

SECTION 3 – FINANCIAL ASSETS AND WORKING CAPITAL CONTINUED

3.1 AVAILABLE-FOR-SALE FINANCIAL ASSETS CONTINUED

Sensitivity analysis

At the year end the closing Cairn India Limited share price used to value the available-for-sale financial assets was INR 138.10 US\$2.09 (2014: INR 240.55/US\$3.82). The movement in the Cairn India Limited share price over the current and prior year is as follows:



The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date, assuming all other variables are held constant. Sensitivities have been run based on the highest and lowest share prices measured in the preceding 12-month period and on decreases of 10%, 20% and 30% on the share price at 31 December 2015. Those prices are determined using the closing INR share price converted to US\$ at the daily rate.

	Effect on loss for year US\$m	Effect on Equity US\$m
As at 31 December 2015		
Increase to the highest share price in 2015 – INR 259 (US\$4.17)	–	359.5
Decrease of 10% on closing share price in 2015 – INR 124 (US\$1.88)	(38.4)	(38.4)
Decrease to the lowest share price in 2015 – INR 123 (US\$1.84)	(45.2)	(45.2)
Decrease of 20% on closing share price in 2015 – INR 110 (US\$1.67)	(76.8)	(76.8)
Decrease of 30% on closing share price in 2015 – INR 97 (US\$1.46)	(115.2)	(115.2)
As at 31 December 2014		
Increase to the highest share price in 2014 – INR 383 (US\$6.46)	–	382.2
Decrease to the lowest share price in 2014 – INR 229 (US\$3.61)	(30.0)	(30.0)
Decrease of 10% on closing share price in 2014 – INR 216 (US\$3.43)	(60.8)	(60.8)
Decrease of 20% on closing share price in 2014 – INR 192 (US\$3.05)	(131.1)	(131.1)

3.2 CASH AND CASH EQUIVALENTS

	2015 US\$m	2014 US\$m
Cash and cash equivalents	602.8	869.3
	602.8	869.3

Cash and cash equivalents earn interest at floating rates. Short-term deposits are made for varying periods from overnight deposits to three months depending on the cash requirements of the Group.

3.2 CASH AND CASH EQUIVALENTS CONTINUED

Cairn limits the placing of deposits, certificates of deposit 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 an 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 CDS 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 5% of total investments.

On 18 July 2014, Cairn Energy PLC signed a seven year Reserve Based Lending facility with a syndicate of six international banks (BNP Paribas, Commonwealth Bank of Australia, DNB Bank ASA, HSBC Bank PLC, Societe Generale and Standard Chartered Bank) which was effective 1 August 2014. Until completion of the Catcher and Kraken developments, the facility can be utilised to fund development costs on those projects and facility finance costs. The facility may also be utilised to issue letters of credit and performance guarantees for the Cairn Group of up to US\$175.0m. Following completion, the facility can be used for general corporate purposes.

Interest on outstanding debt will be charged at the appropriate LIBOR for the currency drawn plus an applicable margin. The facility is subject to bi-annual 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 2018 to the final maturity date of 30 June 2021.

Details of guarantees granted under the facility can be found in Note 6.3.

3.3 OTHER RECEIVABLES

	2015 US\$m	2014 US\$m
Prepayments	18.4	19.1
Other receivables	81.1	105.8
Joint operation receivables	49.4	113.7
	148.9	238.6

Prepayments include US\$14.6m (2014: US\$14.6m) of facility fee arrangement fees which will be amortised over the expected useful life of the facility.

Other receivables include US\$27.4m for the remaining Dyas carry relating to the 10% Catcher disposal (see Section 2.3). The carry was recorded at its initial fair value at the date of the transaction and is released to development assets based on the payments made by Dyas on Cairn's behalf.

Also included in other receivables are costs incurred by Cairn on behalf of joint operations of US\$6.9m (2014: US\$64.6m) for which the Group will be reimbursed. The balance includes dividends receivable of US\$43.1m (2014: US\$35.2m) from Cairn India Limited. While the restriction over Cairn's investment remains, Cairn India Limited is unable to remit these dividends to the Group. See Section 3.1.

Joint operation receivables include Cairn's working interest share of the receivables relating to joint operations and amounts recoverable from partners in joint operations.

At 31 December 2015 no material amount within the Group's other receivables or joint operation receivables was past due or impaired (2014: US\$nil). In determining the recoverability of other receivables the Group carries out a risk analysis based on the type and age of the outstanding receivable.

3.4 TRADE AND OTHER PAYABLES

	2015 US\$m	2014 US\$m
Trade payables	2.6	28.5
Other taxation and social security	1.5	6.4
Other payables	1.6	3.0
Joint operation payables	99.5	235.6
Accruals	14.9	4.7
	120.1	278.2

Joint operation payables include Cairn's share of the trade and other payables of operations in which the Group participates. Where Cairn is operator of the joint operation, joint operation payables also include amounts that Cairn will settle and recover from partners.

SECTION 3 – FINANCIAL ASSETS AND WORKING CAPITAL CONTINUED

3.5 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		Fair value	
	2015 US\$m	2014 US\$m	2015 US\$m	2014 US\$m
<i>Loans and receivables</i>				
Cash and cash equivalents	602.8	869.3	602.8	869.3
Joint operation receivables	49.4	113.7	49.4	113.7
Other receivables	81.1	105.8	91.9	105.8
<i>Available-for-sale financial assets</i>				
Listed equity shares	384.0	702.6	384.0	702.6
	1,117.3	1,791.4	1,128.1	1,791.4

All of the above loans and receivables are current and held at amortised cost. There are no material impairments of loans and receivables. The impairment of the available-for-sale financial asset recycled to the Income Statement does not impact the carrying amount in the Balance Sheet.

FINANCIAL LIABILITIES

Carrying amount and fair value	2015 US\$m	2014 US\$m
<i>Amortised cost</i>		
Trade payables	2.6	28.5
Joint operation payables	99.5	235.6
Accruals	14.9	4.7
Other payables	1.6	3.0
	118.6	271.8

The fair value of financial assets and liabilities, other than available-for-sale financial assets, has been calculated by discounting the expected future cash flows at prevailing interest rates.

Maturity analysis

All of the Group financial liabilities other than provisions have a maturity of less than one year.

Fair value

The Group holds listed equity shares as a non-current available-for-sale financial asset. The Group determines and discloses the fair value of these by reference to the quoted (unadjusted) prices in active markets for those shares at the measurement date.

At 31 December 2015 the Group held the following financial instruments measured at fair value:

Assets measured at fair value – Level 1	2015 US\$m	2014 US\$m
<i>Available-for-sale financial assets</i>		
Equity shares – listed	384.0	702.6
	384.0	702.6

3.6 FINANCIAL RISK MANAGEMENT: OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and foreign currency risk. The Board of Cairn Energy PLC through the Treasury Sub-Committee reviews and agrees policies for managing each of these risks and these are summarised below. The Group is also exposed to market risk arising from equity price fluctuations on available-for-sale financial assets (see Section 3.1 for details).

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 whilst 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, notice accounts, certificates of deposit, money market liquidity funds, listed equity shares (Cairn India Limited only), 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 and bank borrowings. Other alternatives such as equity issues and other forms of non-investment-grade debt finance are reviewed by the Board, when appropriate.

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 and delays of development projects. The Group's forecasts show that the Group will be able to operate within its current debt facilities and have financial headroom for the 12 months from the date of approval of the 2015 Annual Report and Accounts.

Details of the Group's debt facilities can be found in Section 3.2. The Group is subject to quarterly forecast liquidity tests as part of the debt facility agreement. The group has complied with the capital requirements of this test at all times during the year. 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 43.

The Group currently has surplus cash that is invested in a combination of money market liquidity funds, notice accounts 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 and joint operations.

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 and maturity 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 2015 the Group had investments with 24 counterparties (2014: 22) to ensure no concentration of counterparty investment risk. The maturity of these investments ranged from instant access to three months.

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

SECTION 3 – FINANCIAL ASSETS AND WORKING CAPITAL CONTINUED

3.6 FINANCIAL RISK MANAGEMENT: OBJECTIVES AND POLICIES CONTINUED
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. Generally the exposure has been limited given that receipts and payments have mostly been in US dollars and the functional currency of most companies in the Group is US dollars.

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

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

The following table demonstrates the sensitivity to movements in the US\$:GBP exchange rates, with all other variables held constant, on the Group's monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	2015		2014	
	Effect on loss before tax US\$m	Effect on Equity US\$m	Effect on loss before tax US\$m	Effect on Equity US\$m
10% increase in Sterling to US\$	0.8	69.0	28.3	80.1
10% decrease in Sterling to US\$	(0.8)	(69.0)	(28.3)	(80.1)

SECTION 4 – RESULTS FOR THE YEAR

This section includes the results and performance of the Group, with segmental disclosures highlighting the core areas of the Group’s operations in its three regions of the Atlantic Margin, North West Europe and the Mediterranean.

This section also includes details of employee benefits paid in the year and finance income and costs.

4.1 SEGMENTAL ANALYSIS OPERATING SEGMENTS

Cairn holds a balanced portfolio of exploration and development assets focused in three geographical regions: North West Europe; the Atlantic Margin; and the Mediterranean.

The operations of the Group are organised on a country-by-country basis; countries form the Group’s operating segments. For management reporting purposes, operating segments are combined into regional business units. Cairn monitors the results of each regional unit separately for the purposes of making decisions about resource allocation and performance assessment.

The Group’s Atlantic Margin exploration region contains two units. Assets in Greenland and the Republic of Ireland are combined into one unit while the Group’s African operating segments in Senegal, Morocco and Mauritania also form a separate unit. There were no profit or loss items incurred during the year for Senegal or Mauritania.

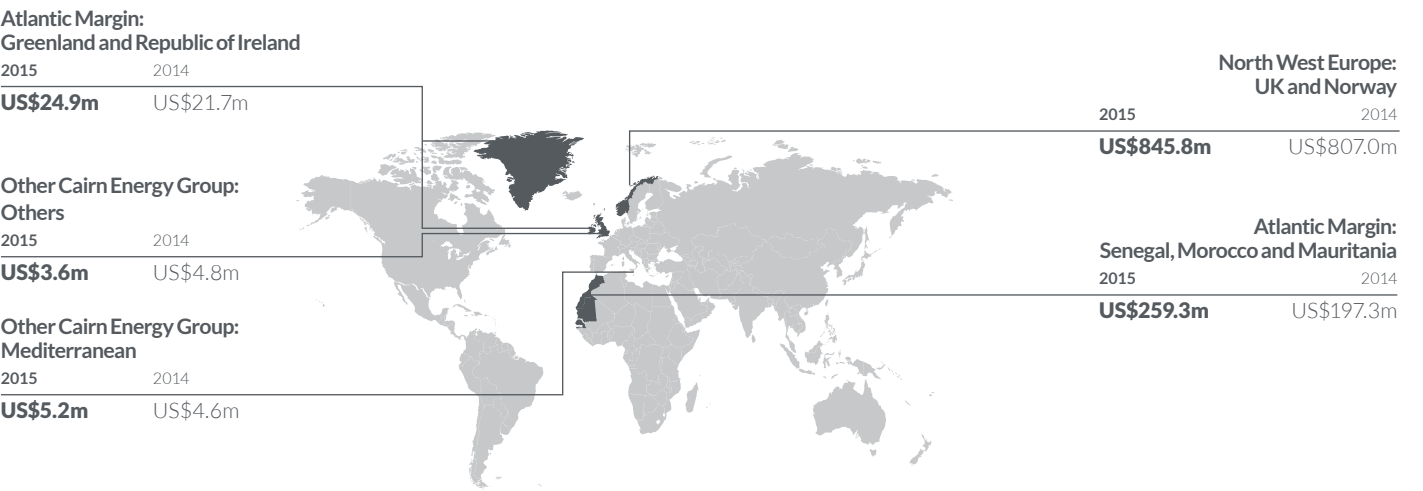
The North West Europe regional unit holds the UK and Norway operating segments. Currently the segment contains the Group’s North Sea assets including the Skarffjell discovery in Norway and the UK Catcher and Kraken developments.

The results of the Mediterranean region are reported along with the Group’s corporate assets within ‘Other Cairn Energy Group’.

Subsequent to the year end, the Group reorganised its Atlantic Margin and Mediterranean business units into two new units: Senegal and International. This change is not reflected in the analysis provided in these financial statements.

GEOGRAPHICAL INFORMATION: NON-CURRENT ASSETS

Non-current assets for this purpose consist of intangible exploration/appraisal assets; property, plant & equipment – development/producing assets; intangible assets – goodwill; and other property, plant & equipment and intangible assets.



SECTION 4 – RESULTS FOR THE YEAR CONTINUED

4.1 SEGMENTAL ANALYSIS CONTINUED

The segment results for the year ended 31 December 2015 are as follows:

	Atlantic Margin			Other Cairn Energy Group US\$m	Total US\$m
	Africa US\$m	Greenland and Republic of Ireland US\$m	North West Europe – UK and Norway US\$m		
Pre-award costs	(1.9)	(1.9)	(27.6)	(3.8)	(35.2)
Unsuccessful exploration costs	(56.2)	(0.9)	(44.2)	3.9	(97.4)
Inventory disposal/write down	–	–	–	(0.2)	(0.2)
Depreciation	(0.1)	–	(0.3)	(0.6)	(1.0)
Amortisation	–	–	–	(2.4)	(2.4)
Other income and administrative expenses	–	(0.3)	(2.1)	(23.7)	(26.1)
Impairment of oil and gas assets	–	(1.2)	(41.8)	–	(43.0)
Gain on disposal of oil and gas assets	–	–	26.6	–	26.6
Operating loss	(58.2)	(4.3)	(89.4)	(26.8)	(178.7)
Impairment of available-for-sale financial assets	–	–	–	(318.6)	(318.6)
Interest income	–	–	1.4	2.2	3.6
Interest expense	–	–	(0.3)	–	(0.3)
Other finance income and costs	–	–	1.1	(4.9)	(3.8)
Loss before taxation	(58.2)	(4.3)	(87.2)	(348.1)	(497.8)
Tax (charge)/credit	–	–	(27.2)	9.5	(17.7)
Loss for the year	(58.2)	(4.3)	(114.4)	(338.6)	(515.5)
Capital expenditure	118.2	5.3	263.1	(1.4)	385.2
Total assets	291.9	26.6	977.9	1,011.8	2,308.2
Total liabilities	52.4	0.1	139.5	16.8	208.8

4.1 SEGMENTAL ANALYSIS CONTINUED

The segment results for the year ended 31 December 2014 are as follows:

	Atlantic Margin			Other Cairn Energy Group US\$m	Total US\$m
	Africa US\$m	Greenland and Republic of Ireland US\$m	North West Europe – UK and Norway US\$m		
Pre-award costs	–	(0.7)	(45.1)	(9.0)	(54.8)
Unsuccessful exploration costs	(100.1)	(6.6)	(94.8)	(6.9)	(208.4)
Inventory disposal/write down	–	–	–	(8.4)	(8.4)
Depreciation	–	(0.1)	(0.3)	(0.7)	(1.1)
Amortisation	–	–	–	(2.2)	(2.2)
Other income and administrative expenses	–	(0.4)	(2.1)	(50.3)	(52.8)
Impairment of oil and gas assets	–	(22.7)	(24.2)	–	(46.9)
Gain on disposal of oil and gas assets	–	–	2.3	–	2.3
Operating loss	(100.1)	(30.5)	(164.2)	(77.5)	(372.3)
Gain on disposal of available-for-sale financial assets	–	–	–	3.9	3.9
Impairment of available-for-sale financial assets	–	–	–	(194.3)	(194.3)
Interest income	–	–	1.2	1.9	3.1
Interest expense	–	–	(0.1)	–	(0.1)
Other finance income and costs	0.8	(0.4)	3.5	(3.3)	0.6
Loss before taxation	(99.3)	(30.9)	(159.6)	(269.3)	(559.1)
Tax (charge)/credit	(1.3)	–	134.0	45.3	178.0
Loss for the year	(100.6)	(30.9)	(25.6)	(224.0)	(381.1)
Capital expenditure	245.5	19.1	159.5	8.0	432.1
Total assets	358.1	28.0	988.8	1,642.5	3,017.4
Total liabilities	203.7	0.8	119.2	30.6	354.3

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

4.2 PRE-AWARD COSTS

During the year, the Group incurred total pre-award costs of US\$35.2m (2014: US\$54.8m) as Cairn looked at new opportunities in North West Europe and elsewhere. US\$12.3m (2014: US\$30.3m) relates to pursuing new opportunities in the Norwegian Barents Sea and US\$15.5m (2014: US\$14.8m) relates to new opportunities in the UK and Norwegian North Sea, including licensing round applications. Further costs of US\$7.4m (2014: US\$9.7m) were incurred in pursuit of new opportunities in other regions. These expenses include a combined US\$17.1m (2014: US\$22.0m) of seismic data acquisition.

In the recent 2015 APA Norwegian licencing round, Cairn was awarded non-operated interests in four licences – PL828 (Cairn 40%), PL747B (Cairn 40%), PL840 (Cairn 20%), PL844 (Cairn 20%) and operatorship in PL842 (Cairn 40%).

In the Norwegian 2014 APA Licensing Round, Cairn was awarded non-operated interests in five licences: PL788 (Cairn 50%), PL787 (Cairn 30%), PL790 (Cairn 25%), PL159 (Cairn 18%) and PL800 (Cairn 35%).

SECTION 4 – RESULTS FOR THE YEAR CONTINUED

4.3 NET OPERATING EXPENSES

	2015 US\$m	2014 US\$m
Other income	-	(3.1)
Administrative expenses	29.5	59.2
Inventory disposal/write down	0.2	8.4
	29.7	64.5

Administration expenses in 2015 include charges of US\$4.3m (2014: US\$8.5m) incurred to defend the Group's tax position in India.

The reduction in administration expenses partly reflects the Group re-organisation completed in 2014. Administrative expenses to December 2014 include US\$7.6m relating to the Group reorganisation, US\$1.6m of which were accelerated share-based payment charges. There were no such re-organisation costs in 2015.

4.4 EMPLOYEE BENEFITS: STAFF COSTS, SHARE-BASED PAYMENTS AND DIRECTORS' EMOLUMENTS
(A) STAFF COSTS

	2015 US\$m	2014 US\$m
Wages and salaries	30.2	43.2
Social security costs	7.0	5.6
Redundancy costs	-	4.7
Other pension costs	2.4	3.4
Share-based payments charge	15.2	21.4
	54.8	78.3

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

During 2014, the Company carried out a programme of restructuring which included redundancy costs of US\$4.7m.

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	
	2015	2014
UK	135	164
Norway	18	14
Morocco	2	1
Spain	-	4
Greenland	2	15
Group	157	198

4.4 EMPLOYEE BENEFITS: STAFF COSTS, SHARE-BASED PAYMENTS AND DIRECTORS' EMOLUMENTS CONTINUED

(B) SHARE-BASED PAYMENTS

Income Statement Charge

	2015 US\$m	2014 US\$m
Included within gross staff costs:		
2010 SIP	0.8	0.8
2009 Approved Plan	0.3	1.0
2009 Unapproved Plan	1.9	4.4
2009 LTIP	11.8	15.0
2012 Share awards	-	0.2
2015 Share awards	0.4	-
	15.2	21.4

Details of those awards with a significant impact on the results for the current and prior year are given below together with a summary of the remaining awards.

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'):

	2015 WAFV £	2015 WAGP/WAEP £	2015 Number of shares	2014 WAFV £	2014 WAGP/WAEP £	2014 Number of shares
2010 SIP – free shares	1.45	1.70	245,458	1.40	1.68	264,810
2010 SIP – matching shares	1.45	1.73	209,952	1.40	1.86	197,097
2009 Approved Plan	0.17	1.82	393,879	0.28	1.68	589,320
2009 Unapproved Plan	0.17	1.84	3,705,901	0.28	1.68	6,479,802
2009 LTIP	1.01	1.85	8,818,917	1.06	1.68	10,986,850
2015 Share awards	1.75	1.79	186,780	1.81	1.81	55,096
			13,560,887			18,572,975

The awards existing under the 2009 LTIP with the weighted average grant price ('WAGP') are as follows:

	2015		2014	
	Number	WAGP (£)	Number	WAGP (£)
Outstanding as at 1 January	18,024,165	2.28	12,710,604	3.04
Granted during the year	8,818,917	1.85	10,986,850	1.68
Vested during the year	(486,886)	2.87	-	-
Lapsed during the year	(4,587,358)	2.62	(5,673,289)	2.84
Outstanding at 31 December	21,768,838	2.02	18,024,165	2.28

Weighted average remaining contractual life of outstanding awards	1.4 years	1.5 years
---	-----------	-----------

SECTION 4 – RESULTS FOR THE YEAR CONTINUED

4.4 EMPLOYEE BENEFITS: STAFF COSTS, SHARE-BASED PAYMENTS AND DIRECTORS’ EMOLUMENTS CONTINUED
(B) SHARE-BASED PAYMENTS CONTINUED

The awards existing under all share schemes other than the 2009 LTIP with the weighted average of the grant price, exercise price and notional exercise prices ('WAGP/WAEP') are as follows:

	2015		2014	
	Number	WAGP/WAEP (£)	Number	WAGP/WAEP (£)
Outstanding at 1 January	15,778,749	2.26	11,011,826	2.82
Granted during the year	4,741,970	1.82	7,586,125	1.69
Vested/exercised during the year	(347,629)	1.87	(363,053)	2.10
Lapsed during the year	(5,256,613)	2.56	(2,456,149)	3.00
Outstanding at 31 December	14,916,477	2.03	15,778,749	2.26
Weighted average remaining contractual life of outstanding awards	7.9 years		8.0 years	

Assumptions and Inputs

The fair value of the Cairn Energy PLC 2009 LTIP scheme awards are 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 pages 81 to 104.

The other Cairn Energy PLC share awards during 2015 were valued using a Monte Carlo model with the exception of the SIP awards which were valued using a Black-Scholes 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 at certain times by the Company. The weighted average share price during the year was £1.653 (2014: £1.877).

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 2015, 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 pages 81 to 104, over a 10-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
2010 Share Incentive Plan	29% – 52%	0% – 1.91%	5%
2009 Approved and Unapproved Plans	29% – 52%	0.29% – 2.71%	5%
2009 LTIP	29% – 52%	0% – 2.33%	–
2015 Employee Share Awards	–	–	5%

Employee exercise trigger point assumptions

For 2015 awards, the assumption used for the 2009 Approved and Unapproved awards is that employees will exercise half of the awards on the vesting date and the remaining half will be exercised equally each year over the following seven years. This assumption is modified for the 2009 LTIP awards such that awards are assumed to be exercised 10% on the three-year anniversary of the award date and 22.5% each year thereafter up until the seventh anniversary date. The assumption used for the valuation of the SIP is that employees will withdraw shares five years after the award date.

4.4 EMPLOYEE BENEFITS: STAFF COSTS, SHARE-BASED PAYMENTS AND DIRECTORS' EMOLUMENTS CONTINUED

(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 81 to 104. Directors' remuneration, their pension entitlements, and any share awards vested during the year is provided in aggregate in Section 7.8.

Remuneration of key management personnel

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

	2015 US\$m	2014 US\$m
Short-term employee benefits	6.4	9.8
Termination benefits	0.7	0.3
Post-employment benefits	0.6	0.6
Share-based payments	4.4	6.8
	12.1	17.5

In addition employer's national insurance contributions for key management personnel in respect of short-term employee benefits were US\$0.9m (2014: US\$1.4m).

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 2015, 295,186 shares awarded to key management personnel vested under the 2009 LTIP scheme (2014: nil).

4.5 FINANCE INCOME

	2015 US\$m	2014 US\$m
Bank and other interest receivable	3.6	3.1
Dividend income	11.6	35.2
Unwinding of discount – Other receivables	4.6	–
	19.8	38.3

Dividend income is receivable from Cairn India Limited. See Section 3.1.

SECTION 4 – RESULTS FOR THE YEAR CONTINUED

4.6 FINANCE COSTS

	2015 US\$m	2014 US\$m
Bank loan and overdraft interest	0.3	0.3
Other finance charges	5.9	3.1
Exchange loss	14.1	31.3
	20.3	34.7

4.7 EARNINGS PER ORDINARY SHARE

Basic and diluted earnings per share are calculated using the following measures of loss:

	2015 US\$m	2014 US\$m
Loss and diluted loss attributable to equity holders of the parent	(515.5)	(381.1)

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

	2015 '000	2014 '000
Weighted average number of shares	576,336	578,845
Less weighted average shares held by ESOP and SIP Trusts	(5,244)	(5,730)
Basic and diluted weighted average number of shares	571,092	573,115
Anti-dilutive shares:		
2009 LTIP awards	15,885	–
2009 Approved and Unapproved Plans	365	33
2015 Employee Share Awards	166	–
Anti-dilutive number of shares	16,416	33

SECTION 5 – TAXATION

This section highlights the Group's taxation policies, including both the accounting policy and wider strategy and governance policies.

Analysis is provided of the Group's Income Statement charges and credits and deferred tax movements through the Balance Sheet.

SIGNIFICANT ACCOUNTING JUDGEMENTS IN THIS SECTION: DEFERRED TAXATION

In prior years, Cairn recognised a deferred tax asset in respect of UK North Sea oil and gas assets. This deductible temporary difference represented eligible field allowances on the Kraken and Catcher assets and tax losses available to offset future taxable profits from those assets offset by other taxable temporary differences.

At each reporting date, Cairn reviews the carrying value of deferred tax assets to assess whether it is probable that taxable profits will be available against which the Group can utilise unused tax losses and allowances which give rise to the asset.

Given the low oil price, Cairn no longer believes that it is probable that UK North Sea assets will generate the taxable profits necessary to allow the temporary differences reflected in the deferred tax asset to be utilised in full. The Group's deferred tax asset remaining at 31 December 2015 of US\$22.2m has therefore been reversed.

CONTINGENT LIABILITY – INDIAN TAX

Cairn has been resolutely defending the Group's tax position in India following the tax issue raised and subsequent demand notice issued by the Indian Taxation department. Cairn has filed a notice of dispute with the Indian Government and international arbitration proceedings have commenced. Based on the strengths of Cairn's legal arguments, no provision is made in the financial statements for any claim made by the Indian Tax Department.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION:

There were no key estimates or assumption in this section.

ACCOUNTING POLICY

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

The current tax credit is based on the taxable 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 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.

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.

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

5.1 TAX STRATEGY AND GOVERNANCE

The Group's tax strategy is fully aligned with its overarching business objectives and principles. Cairn commits to managing its tax affairs in a transparent and responsible manner and ensuring that all statutory obligations and disclosure requirements are met. Cairn's aim is to comply with both the letter and spirit of the law in the relevant jurisdictions in which we operate, to ensure that the right amount of tax is paid, at the right time, within the right jurisdiction.

As the Group's UK activities are focused on assets in development, with no saleable production at present, there are currently no taxable profits in the UK. Taxable profits in other jurisdictions, where Cairn's assets are in the early stages of the value creation cycle, are also minimal and as a result there were no cash payments of corporation taxes made during the year (2014: nil).

SECTION 5 – TAXATION CONTINUED

5.1 TAX STRATEGY AND GOVERNANCE CONTINUED

Cairn's policy is to not enter into any artificial tax avoidance schemes and to build and maintain strong collaborative working relationships with all relevant tax authorities, based on honesty, integrity and proactive cooperation. 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 are operating. In such circumstances Cairn will seek external advice where appropriate and ensure that the approach adopted in any relevant tax return is supportable and includes full disclosure of the position taken.

5.2 TAX CHARGE/(CREDIT) ON LOSS FOR THE YEAR
ANALYSIS OF TAX CHARGE/(CREDIT) ON LOSS FOR THE YEAR

	2015 US\$m	2014 US\$m
Current tax credits:		
Norwegian tax refunds receivable	(37.1)	(67.3)
Withholding taxes deducted at source	-	1.4
	(37.1)	(65.9)
Deferred tax charge/(credit):		
Norwegian deferred tax charges	4.7	(13.4)
Reduction in UK supplementary charge tax rate	45.6	-
Recognition of eligibility to future field allowances on UK development asset	-	(71.2)
Reversal of eligibility to future field allowances on disposal of UK development asset	13.7	-
Release of provision on disposal of UK development asset	(18.7)	-
Release of provision on impairment of UK intangible exploration/appraisal asset	-	(15.0)
Reversal of UK deferred tax asset	22.4	-
Release of provision on carried interests due to change in tax rate	(3.4)	-
Other UK deferred tax charges	-	28.4
Recycled from other comprehensive income on impairment of financial assets	(9.5)	(42.0)
Recycled from other comprehensive income on sale of financial assets	-	1.1
	54.8	(112.1)
	17.7	(178.0)
Tax included in Other Comprehensive Income:		
Deferred tax credit on valuation of financial assets	(9.5)	(56.6)
Deferred tax credit on valuation movement recycled to Income Statement	9.5	40.9
Total tax charge in Other Comprehensive Income	-	(15.7)

Norwegian deferred tax charges includes a charge of US\$5.2m (2014: credit of US\$6.9m) on temporary differences in respect of non-current assets and a credit of US\$0.5m (2014: credit of US\$6.5m) on losses and other temporary differences.

Deferred tax liabilities on the Group's available-for-sale financial asset fully reversed in the year as the valuation of the Group's residual interest in Cairn India Limited declined. As the deficit on the valuation of the financial asset was recycled to the Income Statement as impairment, the US\$9.5m (US\$40.9m) of deferred tax credits relating to the deficit were also recycled.

5.2 TAX CHARGE/(CREDIT) ON LOSS FOR THE YEAR CONTINUED

FACTORS AFFECTING TAX CHARGE/(CREDIT) FOR THE YEAR

A reconciliation of income tax charge applicable to loss before income tax at the UK statutory rate to income tax credit at the Group's effective income tax rate is as follows:

	2015 US\$m	2014 US\$m
Loss before taxation	(497.8)	(559.1)
Loss before tax multiplied by the UK statutory rate of corporation tax of 20.25% (2014: 21.5%)	(100.8)	(120.2)
Effect of:		
Special tax rates and reliefs applying to oil and gas activities	(71.5)	(145.5)
Impact of change in tax rate on opening deferred tax	89.5	–
Impact of field allowances on deferred tax	–	(47.8)
Temporary differences not recognised	100.5	147.2
Deferred tax credit on disposal of available-for-sale financial asset	–	(3.3)
Release of provision on carried interests due to change in tax rate	(3.4)	–
Foreign exchange movements	(1.7)	(1.6)
Other	5.1	(6.8)
	17.7	(178.0)

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2015 of 20.25% (2014: 21.5%).

The UK main rate of corporation tax was 21% prior to 1 April 2015, and 20% from that date onwards. The reduction in the tax rate from 21% to 20% has resulted in an average rate of corporation tax of 20.25% for the year ended 31 December 2015, as shown above.

The applicable UK statutory tax rate applying to North Sea oil and gas activities is 50%. The applicable rate applying to the prior year was 62%. The reduction in rate was effective from 1 January 2015. The applicable Norwegian rate applying to oil and gas activities is 78%.

Temporary differences not recognised represents the reversal of the UK deferred tax asset during the year and other temporary differences originating during the year on which no deferred tax asset has been recognised.

5.3 INCOME TAX ASSETS

Income tax assets of US\$33.0m (2014: US\$60.3m) relate 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. This refund will be received in 2016.

SECTION 5 – TAXATION CONTINUED

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 2014	(50.6)	109.3	–	58.7
Foreign exchange	(0.2)	(5.5)	–	(5.7)
Deferred tax credit though Income Statement	(31.3)	84.5	–	53.2
At 1 January 2015	(82.1)	188.3	–	106.2
Foreign exchange	6.4	(9.8)	–	(3.4)
Deferred tax credit though Income Statement	(35.0)	(24.6)	–	(59.6)
Deferred tax movement on acquisition of development assets in respect of carried interests	(43.2)	–	–	(43.2)
At 31 December 2015	(153.9)	153.9	–	–
Deferred tax liabilities				
At 1 January 2014	(156.2)	1.0	7.2	(148.0)
Foreign exchange	14.5	4.2	(6.9)	11.8
Deferred tax credit though Income Statement	52.3	3.9	2.6	58.8
Deferred tax credit through Other Comprehensive Income	15.7	–	–	15.7
At 1 January 2015	(73.7)	9.1	2.9	(61.7)
Foreign exchange	10.2	(1.7)	(0.4)	8.1
Deferred tax credit though Income Statement	4.2	3.1	(2.5)	4.8
At 31 December 2015	(59.3)	10.5	–	(48.8)

Analysis by country:

	2015 US\$m	2014 US\$m
Deferred tax assets:		
UK	–	106.2
	–	106.2
Deferred tax liabilities:		
Norway	(48.8)	(52.2)
India	–	(9.5)
	(48.8)	(61.7)

RECOGNISED DEFERRED TAX ASSETS

As at the Balance Sheet date, no net deferred tax asset or liability has been recognised in the UK as other temporary differences and tax losses are recognised to offset the UK deferred tax liability arising on business combinations and carried interests attributable to UK Ring Fenced trading activity as it is no longer deemed probable that future profits will be available to recover the value of the asset given the detrimental change in market conditions impacting the oil and gas industry. At 31 December 2014 a deferred tax asset of US\$106.2m was recognised.

A deferred tax asset in respect of Norwegian tax losses of US\$10.5m (2014: US\$9.1m) is offset against a Norwegian deferred tax liability arising from business combinations and expenditure on assets for which current tax refunds have been claimed.

5.4 DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

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:

	2015 US\$m	2014 US\$m
UK fixed asset temporary differences	294.2	244.5
UK Ring Fence trading losses	260.1	167.8
UK non-Ring Fence trading losses	3.7	3.9
UK non-Ring Fence pre-trade losses	5.5	5.3
UK excess management expenses	288.6	311.9
UK non-trade deficits	64.3	39.8
UK temporary differences on share based payments	21.0	4.7
UK other temporary differences	0.3	2.9
Greenlandic tax losses	1,031.3	1,301.5
Temporary differences in respect of available for sale financial asset	274.8	–

At the Balance Sheet date, the Group has US\$567.9m (2014: US\$471.5m) UK Ring Fence trading losses available to offset against future UK Ring Fence trading profits. A deferred tax asset has been recognised in respect of US\$307.8m (2014: US\$303.7m) of these losses, offsetting in full a deferred tax liability on Ring Fence fixed asset temporary differences. No deferred tax asset has been recognised on the remaining UK Ring Fence losses of US\$260.1m (2014: US\$167.8m) as it is not considered probable that this amount will be utilised in future periods.

The deferred tax liability recognised on UK Ring Fence fixed asset temporary differences of US\$153.9m (2014: US\$82.1m) includes temporary differences in respect of investment allowances (previously field allowances) of US\$722.2m (2014: US\$833.3m) on the Catcher and Kraken developments which will reduce future Ring Fence profits subject to Supplementary Charge.

5.5 CONTINGENT LIABILITY – INDIAN TAX ASSESSMENT

Cairn UK Holdings Limited ('CUHL'), a direct subsidiary of Cairn Energy PLC, is in receipt of an assessment order from the Indian Income Tax Department ('IITD') relating to the intra-group restructuring undertaken in 2006 prior to the IPO of CIL in India, which cites a retrospective amendment to Indian tax law introduced in 2012. Cairn strongly contests the basis of this attempt to retrospectively tax the group for an internal restructuring.

The assessment order is in the amount of INR 102 billion (approximately US\$1.6bn) plus interest back dated to 2007 totalling INR 188bn (approximately US\$2.8bn). The total assets of CUHL have a current value of US\$477.5m (comprising principally the group's 9.8% shareholding in CIL) and any recovery by the Indian authorities would be limited to such assets.

CUHL is pursuing its rights under Indian law to appeal the assessment, both in respect of the basis of taxation and the quantum assessed. CUHL's 9.8% shareholding in CIL was originally attached by the IITD in January 2014 and CUHL continues to be restricted by the IITD from selling such shares. See Section 3.1.

Furthermore, Cairn has also commenced international arbitration proceedings against the Republic of India under the UK-India Bilateral Investment Treaty (the 'Treaty'), on the basis that India's actions have breached the Treaty by (1) expropriating Cairn's property without adequate and just compensation, (2) denying fair and equitable treatment to Cairn in respect of its investments and (3) restricting Cairn's right to freely transfer funds in connection with its investment. Based on detailed legal advice, Cairn is confident that it will be successful in such arbitration. Cairn's claim will seek relief by way of indemnification in respect of the tax demand, plus full compensation for its losses (including the loss of the value in the CIL shares).

SECTION 6 – CAPITAL STRUCTURE AND OTHER DISCLOSURES

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

Other disclosures include details on auditors’ remuneration and post balance sheet events. 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 and on the Group’s web site.

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.

6.1 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 2014	595,057	12.8
Issued and allotted for employee share options	94	–
Shares repurchased and cancelled by the Company	(18,887)	(0.4)
At 1 January 2015	576,264	12.4
Issued and allotted for employee share options	80	–
At 31 December 2015	576,344	12.4

SHARE PREMIUM

	2015 US\$m	2014 US\$m
At 1 January	487.0	486.9
Arising on shares issued for employee share options	0.1	0.1
At 31 December	487.1	487.0

SHARES HELD BY ESOP TRUST

Shares held by the ESOP Trust represent the cost of shares held by the Cairn Energy PLC Employees’ Share Trust at 31 December 2015 of US\$16.7m (2014: US\$19.3m). The number of shares held by the Cairn Energy PLC Employees’ Share Trust at 31 December 2015 was 3,721,956 (2014: 4,284,055) and the market value of these shares was £5.9m/US\$8.7m (2014: £7.6m/US\$11.9m).

SHARES HELD BY SIP TRUST

Shares held by the SIP Trust represent the cost of shares held by the Cairn Energy PLC Employees’ Share Incentive Plan Trust at 31 December 2015 of US\$6.3m (2014: US\$7.4m). The number of shares held by the Cairn Energy PLC Share Incentive Plan Trust at 31 December 2015 was 1,158,137 (2014: 1,351,203) and the market value of these shares was £1.8m/US\$2.7m (2014: £2.4m/US\$3.8m).

FOREIGN CURRENCY TRANSLATION

Unrealised foreign exchange gains and losses arising on consolidation of 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.

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. Capital reserves – non-distributable include non-distributable amounts arising on various Group acquisitions and the capital redemption reserve arising from the 2013/2014 share buy-back programme.

AVAILABLE-FOR-SALE RESERVE

The available-for-sale reserve represents fair value movements on the available-for-sale financial assets (see Section 3.1). At 31 December 2015, the deficit for the year was recycled to the Income Statement as impairment.

6.2 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 Reserve Based Lending 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 (see Section 3.2) 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 2015.

Capital and net debt were made up as follows:

	2015 US\$m	2014 US\$m
Continuing operations		
Trade and other payables	120.1	278.2
Less cash and cash equivalents	(602.8)	(869.3)
Net funds less payables	(482.7)	(591.1)
Equity	2,099.4	2,663.1
Capital and net funds less payables	1,616.7	2,072.0
Gearing ratio	0%	0%

6.3 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 senior secured borrowing facility can be found in Section 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 2015:

- Various guarantees under the borrowing facility for the Group's operational commitments for the current year of US\$7.6m (2014: US\$7.8m)
- A guarantee under the borrowing facility for the Group's Associate Membership of Oil Spill Response Limited (OSRL) of US\$100.0m (2014: US\$nil)
- Parent company guarantees for the Group's obligations under joint operating agreements and other contracts.

SECTION 6 – CAPITAL STRUCTURE AND OTHER DISCLOSURES CONTINUED

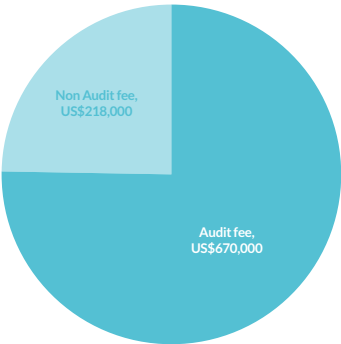
6.4 AUDITORS’ REMUNERATION

	2015 US\$'000	2014 US\$'000
Fees payable to the Group's auditors and its associate firms for:		
Audit Fees:		
Auditing of the accounts of the Group and the Company	367	346
Auditing of the accounts of subsidiaries	303	250
Audit-related assurance services	50	94
Other fees:		
Tax advisory services	12	20
Other assurance services relating to corporate finance transactions	133	83
Non-audit services not included above	23	6
	888	799

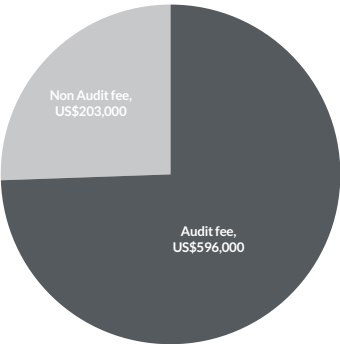
The Group has a policy in place for the award of non-audit work to the auditors which, in certain circumstances, requires Audit Committee approval (see the Audit Committee report on pages 76 to 80).

Fees payable to the Group auditors in 2015 include US\$46,000 within Auditing of the accounts of subsidiaries and US\$49,000 within Other assurance services relating to 2014 work, billed in the current year and not included in prior year disclosures. The split of audit fees to non-audit fees payable to the auditors is as follows:

2015 Fees to Auditors



2014 Fees to Auditors



6.5 POST BALANCE SHEET EVENTS

ACQUISITION OF 4.5% WORKING INTEREST IN KRAKEN

On 22 February 2016, Cairn entered into an agreement to acquire a further 4.5% working interest share in the Kraken development asset in the UK North Sea from First Oil Limited, bringing Cairn's total working interest in the development to 29.5%.

The 4.5% working interest was acquired for a nominal value. Under the agreement Cairn have settled First Oil Limited's outstanding cash calls from January and February 2016 of US\$2.9m and are liable for working capital balances relating to the 4.5% working interest of ~US\$15m. The acquisition increases the Group's capital commitments by US\$95.1m over those disclosed at 31 December 2015.

COMPANY BALANCE SHEET

As at 31 December 2015

	Section	2015 US\$m	2014 US\$m
Non-current assets			
Investments in subsidiaries	7.6	2,815.5	2,804.7
Current assets			
Other receivables	7.3	17.0	18.9
Cash and cash equivalents	7.2	0.7	24.0
		17.7	42.9
Total assets		2,833.2	2,847.6
Current liabilities			
Trade and other payables	7.4	54.4	68.4
Total liabilities		54.4	68.4
Net assets		2,778.8	2,779.2
Equity			
Called-up share capital	6.1	12.4	12.4
Share premium	6.1	487.1	487.0
Shares held by ESOP/SIP Trusts	6.1	(23.0)	(26.7)
Capital reserves – non-distributable	6.1	0.7	0.7
Merger reserve	6.1	255.9	255.9
Retained earnings		2,045.7	2,049.9
Total equity		2,778.8	2,779.2

The financial statements on pages 147 to 154 were approved by the Board of Directors on 14 March 2016 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 2015

	Section	2015 US\$m	2014 US\$m
Cash flows from operating activities			
Loss before taxation		(15.7)	(14.9)
Share-based payments charge		2.5	4.6
Finance income		(0.4)	(0.9)
Finance costs		5.7	2.9
Other receivables movement		3.6	307.4
Trade and other payables movement		(13.0)	(1,075.5)
Net cash used in operating activities		(17.3)	(776.4)
Cash flows from investing activities			
Interest received		0.1	0.7
Net cash from investing activities		0.1	0.7
Cash flows from financing activities			
Cost of shares purchased		-	(64.3)
Facility, arrangement fees and bank charges		(6.2)	(19.2)
Proceeds from exercise of share options		0.1	0.3
Net cash flows used in financing activities		(6.1)	(83.2)
Net decrease in cash and cash equivalents		(23.3)	(858.9)
Opening cash and cash equivalents at beginning of year		24.0	882.9
Closing cash and cash equivalents	7.2	0.7	24.0

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Equity share capital US\$m	Shares held by ESOP Trust and SIP Trust US\$m	Merger and capital reserves US\$m	Retained earnings US\$m	Total equity US\$m
At 1 January 2014	499.7	(28.0)	256.2	2,094.8	2,822.7
Loss for the year	-	-	-	(14.9)	(14.9)
Total comprehensive income for the year	-	-	-	(14.9)	(14.9)
Share buy-back	(0.4)	-	0.4	(50.3)	(50.3)
Share-based payments	-	-	-	21.4	21.4
Exercise of employee share options	0.1	0.2	-	-	0.3
Cost of shares vesting	-	1.1	-	(1.1)	-
At 31 December 2014	499.4	(26.7)	256.6	2,049.9	2,779.2
Loss for the year	-	-	-	(15.7)	(15.7)
Total comprehensive income for the year	-	-	-	(15.7)	(15.7)
Share-based payments	-	-	-	15.2	15.2
Exercise of employee share options	0.1	-	-	-	0.1
Cost of shares vesting	-	3.7	-	(3.7)	-
At 31 December 2015	499.5	(23.0)	256.6	2,045.7	2,778.8

SECTION 7 – 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 Section 6.1 of the Group Financial Statements.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION:
IMPAIRMENT TESTING OF INVESTMENTS IN SUBSIDIARIES

The Company’s investments in subsidiaries have been tested for impairment by comparison against the underlying value of the subsidiaries’ exploration/appraisal assets based on fair value less costs of disposal calculated using the same assumptions as noted for the testing of goodwill impairment in Section 2.6.

7.1 BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Company applies consistent accounting policies as 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 loss attributable to the Company for the year ended 31 December 2015 was US\$15.7m (2014: US\$14.9m).

7.2 CASH AND CASH EQUIVALENTS

	2015 US\$m	2014 US\$m
Cash and cash equivalents	0.7	24.0
	0.7	24.0

7.3 OTHER RECEIVABLES

	2015 US\$m	2014 US\$m
Prepayments	14.8	15.0
Other receivables	2.2	3.9
	17.0	18.9

Prepayments relate to facility fee incurred during 2014 which will be amortised over the expected useful life of the facility.

As at 31 December 2015 and 31 December 2014, no amount of the Company’s other receivables were past due or impaired.

7.4 TRADE AND OTHER PAYABLES

	2015 US\$m	2014 US\$m
Trade payables	0.1	0.2
Amounts payable to subsidiary undertakings	52.2	57.6
Other taxation and social security	0.2	1.3
Accruals	1.9	9.3
	54.4	68.4

7.5 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.

	2015 US\$m	2014 US\$m
Financial assets: Carrying amount and fair value		
<i>Loans and receivables</i>		
Cash and cash equivalents	0.7	24.0
Other receivables	2.2	3.9
	2.9	27.9

All of the above financial assets are current and unimpaired.

	2015 US\$m	2014 US\$m
Financial liabilities: Carrying amount and fair value		
<i>Amortised cost</i>		
Trade payables	0.1	0.2
Accruals	1.9	9.3
Amounts payable to subsidiary undertakings	52.2	57.6
	54.2	67.1

The fair value of financial assets and liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates.

MATURITY ANALYSIS

All of the Company's financial liabilities have a maturity of less than one year (2014: less than one year).

FINANCIAL RISK MANAGEMENT: RISK AND OBJECTIVES

The Company's financial risk management policies and objectives are consistent with those of the Group detailed in Section 3.6.

The Company's sensitivity to foreign currency risk is as follows:

	2015		2014	
Company	Effect on loss before tax US\$m	Effect on Equity US\$m	Effect on loss before tax US\$m	Effect on Equity US\$m
10% increase in Sterling to US\$	86.0	86.0	89.8	89.8
10% decrease in Sterling to US\$	(86.0)	(86.0)	(89.8)	(89.8)

7.6 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 is based on 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\$80 per boe (2014: long-term oil price of US\$90 per boe), escalation for prices and costs of 2.0% (2014: 2.5%), and a discount rate of 10% (2014: 10%). Full details on the assumptions used for valuing oil and gas assets can be found in Section 2.

SECTION 7 – NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

7.6 INVESTMENTS IN SUBSIDIARIES CONTINUED

	Subsidiary undertakings US\$m	Total US\$m
Net book value		
At 1 January 2014	1,649.7	1,649.7
Additions	1,155.0	1,155.0
At 1 January 2015	2,804.7	2,804.7
Additions	10.8	10.8
At 31 December 2015	2,815.5	2,815.5

Additions during the year of US\$10.8m (2014: US\$16.1m) relate to the Company's investment in Capricorn Oil Limited. These represent the award of share options of the Company to the employees of Capricorn Energy Limited (a principal subsidiary of Capricorn Oil Limited).

In 2014 there were further additions of US\$1,138.9m for the issue of 731,262,214 shares of £1 each at par by Capricorn Oil Limited which reduced the amounts owed to the Company by Capricorn Oil Limited.

At the year end, investments in subsidiaries were reviewed for indicators of impairment and impairment tests conducted where indicators found. Given that the market capitalisation of Cairn is less than its net book value, impairment tests were conducted on all investments in subsidiaries held by the Company. Impairment tests confirmed that no impairments of the Company's investments in its subsidiaries were required.

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:

	Principal activity	Country of incorporation	Country of operation
Direct Holdings			
Capricorn Oil Limited	Holding company	Scotland	Scotland
Cairn UK Holdings Limited	Holding company	Scotland	Scotland
Indirect holdings – Capricorn Oil Limited Group			
Capricorn Energy Limited	Holding company	Scotland	Scotland
Capricorn Spain Limited	Exploration	Scotland	Spain
Capricorn Malta Limited	Exploration	Scotland	Malta
Capricorn Greenland Exploration 1 Limited	Holding company	Scotland	Scotland
Capricorn Greenland Exploration A/S	Exploration	Greenland	Greenland
Capricorn Exploration and Development Company Limited	Exploration	Scotland	Morocco
Capricorn Mauritania Limited	Exploration	Scotland	Mauritania
Capricorn Senegal Limited	Exploration	Scotland	Senegal
Capricorn Ireland Limited	Exploration	Scotland	Republic of Ireland
Capricorn Norge AS	Exploration	Norway	Norway
Nautical Petroleum Limited	Exploration	England	UK
Nautical Petroleum AG	Exploration and development	Switzerland	UK
Agora Oil and Gas (UK) Limited	Exploration	Scotland	UK
Alba Resources Limited	Exploration	Scotland	UK
Transunion Petroleum Italia SRL	Exploration	Italy	Italy
Nautical Italia SRL	Exploration	Italy	Italy
Nautical Holdings Limited +	Holding company	England	UK
UAH Limited +	Holding company	England	UK

7.6 INVESTMENTS IN SUBSIDIARIES CONTINUED

	Principal activity	Country of incorporation	Country of operation
Indirect holdings – Capricorn Oil Limited Group (continued)			
Capricorn Energy Search Limited	Exploration	Scotland	India
Capricorn Resources Management Limited	Royalty interest	Scotland	Mongolia
Capricorn Petroleum Limited	Holding company	Scotland	Scotland
Capricorn Oil and Gas Tunisia GmbH	Non-trading	Switzerland	None
Avannaa Exploration Limited	Exploration	England	Greenland
Command Petroleum (Gulf) Limited (in liquidation)	Non-trading	Papua New Guinea	None
Capricorn Minerals Limited (in liquidation*)	Holding company	Scotland	Scotland
Avannaa Resources Limited (in liquidation*)	Holding company	England	Scotland
Avannaa Diamonds Limited (in liquidation*)	Non-trading	England	None
Cairn Energy Nepal Holdings Limited (in liquidation)	Holding company	Scotland	Nepal
Cairn Energy Dhangari Limited (in liquidation)	Exploration	Scotland	Nepal
Cairn Energy Karnali Limited (in liquidation)	Exploration	Scotland	Nepal
Cairn Energy Lumbini Limited (in liquidation)	Exploration	Scotland	Nepal
Cairn Energy Malangawa Limited (in liquidation)	Exploration	Scotland	Nepal
Cairn Energy Birganj Limited (in liquidation)	Exploration	Scotland	Nepal
Capricorn Greenland Exploration 7 Limited (in liquidation)	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 8 Limited (in liquidation)	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 9 Limited (in liquidation)	Exploration	Scotland	Greenland
Mountwest 560 Limited (in liquidation)	Exploration	Scotland	UK
Alba Resources (Holdings) Limited (in liquidation)	Holding company	Scotland	UK

* In liquidation from January 2016.
+ Exempt from audit under Section 480 of the Companies Act.

7.7 CAPITAL MANAGEMENT

Capital and net debt were made up as follows:

	2015 US\$m	2014 US\$m
Trade and other payables	54.4	68.4
Less cash and cash equivalents	(0.7)	(24.0)
Net debt	53.7	44.4
Equity	2,778.8	2,779.2
Capital and net debt	2,832.5	2,823.6
Gearing ratio	2%	2%

SECTION 7 – NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

7.8 RELATED PARTY TRANSACTIONS

The Company’s principal subsidiaries are listed in Section 7.6. The following table provides the Company’s balances which are outstanding with subsidiary companies at the Balance Sheet date:

	2015 US\$m	2014 US\$m
Amounts payable to subsidiary undertakings	(52.2)	(57.6)
	(52.2)	(57.6)

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

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

	2015 US\$m	2014 US\$m
Amounts invoiced to subsidiaries	10.4	17.3
Amounts invoiced by subsidiaries	10.8	7.2

DIRECTORS’ REMUNERATION

The remuneration of the directors of the Company is set out below. Further information about the remuneration of individual directors is provided in the audited part of the Directors’ Remuneration report on pages 81 to 104.

	2015 US\$m	2014 US\$m
Emoluments	3.3	5.8
Share-based payments	0.3	–
	3.6	5.8

Pension contributions were made on behalf of directors in 2015 of US\$0.2m (2014: US\$0.4m).

120,297 LTIP share awards to directors vested during 2015 (2014: none). Share-based payments shown above represent the market value at vesting date of these awards.

OTHER TRANSACTIONS

During the year the Company did not make any purchases in the ordinary course of business from an entity under common control (2014: US\$nil).

GROUP BOOKED RESERVES AND RESOURCES

A total of 49.5 mmboe were booked as 2P Reserves and 196.5 mmboe as 2C Resources at 31 December 2015 on a net working basis.

	31.12.14 mmboe	Revisions mmboe	Discoveries & Extensions mmboe	Acquisitions & Disposals mmboe	Production mmboe	31.12.15 mmboe
Net 2P Reserves						
UK	56.1	2.3	0.0	(8.9) ¹	(0.001)	49.5
Totals	56.1	2.3	0.0	(8.9)¹	(0.001)	49.5
Net 2C Contingent Resources						
UK	1.1	0.0	1.0	(0.6)	0.0	1.5 ²
Ireland	23.4	(8.8) ³	0.0	0.0	0.0	14.6
Norway	26.9	(1.6) ⁴	0.0	0.0	0.0	25.3
Senegal	120.1	34.9 ⁵	0.0	0.0	0.0	155.1
Totals	171.6	24.6	1.0	(0.6)	-	196.5

(1) Catcher reserves have revised due to the 10% equity sale to Dyas, which was completed in January 2015. Kraken reserves will increase by 5.9 mmboe in 2016 following the acquisition of an additional 4.5% interest from First Oil.

(2) Revisions on Carnaby and relinquishment of Bonneville, plus additions from West of Kraken discovery.

(3) Spanish Point's bookings have been revised as a proportion of Contingent Resources have been re-classified as Prospective Resources.

(4) Revision to Skarfjell.

(5) Senegal resources increased by 20 mmboe.

LICENCE LIST
AS AT 31 DECEMBER 2015

Country	Asset name	Licence	Block(s)	Operator	Cairn interest (%)
Senegal					
Senegal	RUFISQUE OFFSHORE, SANGOMAR OFFSHORE AND SANGOMAR DEEP OFFSHORE	PSC Sangomar-Rufisque	RUFISQUE OFFSHORE, SANGOMAR OFFSHORE AND SANGOMAR DEEP OFFSHORE	Cairn	40
UK and Norway					
UK	KEDDINGTON	PEDL005	TF/38b (PEDL005-2), TF/49b (PEDL005-3)	Egdon	10
UK	EAKRING/DUKESWOOD	PEDL118	SK/65c, SK/66d	Egdon	15
UK	KIRKLINGTON	PEDL203	SK/65b	Egdon	15
UK	GAMMA	P218	15/21a	MOL	21
UK	KRAKEN	P1077	9/2b	Enquest	25(1)
UK	CATCHER	P1430	28/9a	Premier	20
UK	NORFOLK	P1887	12/16b, 12/17b	First Oil	26.67(2)
UK	WAYLAND'S SMITHY	P1976	8/5, 9/1b	Enquest	40
UK	TULLA	P1995	210/25b, 211/21b, 211/26b	TAQA	50
UK	LAVERDA	P2070	28/4a	Premier	36
UK	SUNBEAM	P2077	28/8a	Premier	36
UK	DOYLE EXTENSION	P2124	113/22a	Centrica	10
UK	KRAKEN EXTENSION	P2148	9/2c	Enquest	25(1)
UK	SCYLLA	P2149	9/6	Cairn	100
UK	EKLAND	P2184	22/18c, 22/19d	E. ON	25
UK	THUNDER EXTENSION	P2198	210/29b, 210/30c	TAQA	50
Norway	KLARA	PL159C	6507/3a	Statoil	18
Norway	LANGBEIN	PL159E	6507/3	Statoil	18
Norway	XYSTICUS	PL248C	35/11g, 35/11h	Statoil	20
Norway	GROSBEAK	PL378	35/12a	Wintershall	20
Norway	GROSBEAK	PL378C	35/12a	Wintershall	20
Norway	SKARFJELL	PL418	35/8f, 35/9e	Wintershall	20
Norway	ATLAS	PL420	35/9d	RWE Dea	20
Norway	HARDEN	PL630	35/10b, 31/1b	Statoil	20
Norway	CARAMELLO	PL665S	2/2d, 2/3b, 3/1a	Faroe Petroleum	20
Norway	ALOPECOSA (SATURN)	PL682	35/9b	Bayerngas	10
Norway	LAPETUS	PL747	35/8	Bayerngas	40
Norway	LIMAX	PL748	34/2, 34/5	DNO	20
Norway	GROSETKOLLEN	PL758	6508/1, 6608/10, 6608/11	Enquest	35
Norway	CROSSBILL	PL787	35/9	Bayerngas	30
Norway	MORKEL	PL788	34/9, 35/4, 35/5, 35/7, 35/8 & 35/10	Wintershall	50
Norway	OFTENASEN	PL790	34/2, 34/5	Det Norske	25
Norway	TINGHAUG	PL800	6508/1, 6508/2	Lundin	35

LICENCE LIST

AS AT 31 DECEMBER 2015

CONTINUED

Country	Asset name	Licence	Block(s)	Operator	Cairn interest (%)
International					
Greenland	PITU	2011/13	N/A	Cairn	87.5
Ireland	SPANISH POINT	FEL 2/04	35/8, 35/9	Cairn	38
Ireland	SPANISH POINT NORTH	FEL 4/08	35/2b, 35/3b, 35/4a	Cairn	38
Ireland	FEL 1/14	FEL 1/14	35/13, 35/14, 35/15 (p), 35/18, 35/19	Cairn	38
Malta	BLOCKS 1, 2 and 3	Area 03	N/A	Cairn	60
Mauritania	C-19	PSC C-19	N/A	Chariot	35
Morocco	CAP BOUJDOUR I – XV	Cap Boujdour	N/A	Kosmos	20

Notes:

(1) Cairn received an additional 4.5% interest in P1077 and P2148 on 22 February 2016.

(2) Licence P1887 expired on 31 January 2016.

Cairn has received five new licences in the 2015 APA Licensing Round (PL747B, PL828, PL 840, PL842 and PL844).

Cairn has received a new licence in the UK 14th Onshore Licensing Round (PEDL339).

GLOSSARY

The following are the main terms and abbreviations used in this report:

Corporate	
AGM	Annual General Meeting
Board	the Board of Directors of Cairn Energy PLC
Cairn	Cairn Energy PLC and/or its subsidiaries as appropriate
Cairn India/CIL	Cairn India Limited and/or its subsidiaries as appropriate
Capricorn	Capricorn Oil Limited and/or its subsidiaries as appropriate
Company	Cairn Energy PLC
CR	Corporate Responsibility
CRMS	Corporate Responsibility Management System
ELT	Exploration Leadership Team
ESOP	employee share trust
Group	the Company and its subsidiaries
LTIP	long term incentive plan
MT	Management Team
RMC	Risk Management Committee
SIP	Share incentive plan
SLT	Senior Leadership Team

Other	
2C	best estimate of contingent resources
2D/3D	two dimensional/three dimensional
2P	proven plus probable
ABC	anti-bribery and corruption
ALARP	as low as reasonably practicable
APA	awards in predefined area
bbl	barrel
boe	barrel(s) of oil equivalent
boepd	barrel(s) of oil equivalent per day
BOP	blow out preventer
bopd	barrels of oil per day
CIS	Commonwealth of Independent States
DC	drill centre
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment Food & Rural Affairs
E&P	exploration and production
EAA	environmental area assessment
ESA	exploration study agreement
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ESIA	Environmental and Social Impact Assessment
FDP	field development plan
FEED	front end engineering design
FEL	frontier exploration licence
FID	final investment decision
FPSO	floating production, storage and offloading
GHGs	Greenhouse gases
GMT	Greenwich Mean Time
GRI	Global Reporting Initiative
HSE	Health, safety and environment

IFRS	International Financial Reporting Standards
IOGP	International Association of Oil & Gas Producers
JV	Joint Venture (referring to industry term, not IFRS definition)
KPI	Key Performance Indicator
LPI	leading performance indicator
LTi	lost time incident/injury
LTIF	lost time injury frequency
mmbbls	million barrels of oil
mmboe	million barrels of oil equivalent
mmbopd	million barrels of oil per day
MMO	marine mammal observer
mmscfd	million standard cubic feet of gas per day
NCS	Norwegian Continental Shelf
NGO	Non-governmental organisation
NOC	National Oil Company
OECD	Organisation for Economic Co-operation and Development
ONHYM	Office National des Hydrocarbures et des Mines
OPEC	Organisation of Petroleum Exporting Countries
PCDP	Public Consultation and Disclosure Plan
PDP	Project Delivery Process
PSC	production sharing contract
Q1/2/3/4	quarter 1/2/3/4
STOIIP	stock-tank oil initially in place
TRIR	total recordable injuries rate
TD	target depth
TVDSS	total vertical depth sub sea
UKCS	UK Continental Shelf
US\$	US dollar
WEC	well engineering and construction
WI	working interest

NOTES

NOTES

COMPANY INFORMATION

FINANCIAL ADVISERS

N M Rothschild & Sons Limited
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
141 Bothwell Street
Glasgow
G2 7EQ

STOCKBROKERS

Jefferies
Vintners Place
68 Upper Thames Street
London
EC4V 3BJ

Morgan Stanley

20 Bank Street
Canary Wharf
London
E14 4AD

REGISTRARS

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
T 0871 384 2030

OVERSEAS SHAREHOLDER HELPLINE NUMBER

T +44 121 415 7047

www.shareview.co.uk



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.





Head Office

50 Lothian Road
Edinburgh
EH3 9BY
T: +44 131 475 3000
F: +44 131 475 3030
E: pr@cairnenergy.com
www.cairnenergy.com

London

6th Floor
20 Berkeley Square
London
W1J 6EQ

Norway

Jåttåvågveien 7
Blokk C
3 etasje (2nd floor)
4020 Stavanger
Norway

Senegal

Immeuble EPI
Blvd du Sud x Rue des Ecrivains
3eme etage
Point E
Dakar
Senegal
BP. 25087 Dakar Fann

WWW.CAIRNENERGY.COM/AR2015

