DISCOVERING HIDDEN VALUE THROUGH ENTREPRENEURIAL EXPLORATION

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Cairn Energy PLC Annual Report and Accounts 2011

DISCOVER MORE CAIRNENERGY.COM/AR2011

Cairn is one of Europe's leading independent oil and gas exploration and development companies. At Cairn, we believe in doing things the right way.

For us, that means developing the greatest value in our assets and operations, nurturing the talent of our people and building strong, open and lasting relationships with all of our stakeholders.

It also means we act with respect – for people and their communities, the environment, the rule of law and human rights. We believe in, and act upon, our responsibility to care for people, the environment and society.

Discover more on pages 2 to 20

DISCOVER CAIRN

From pages 2 to 20

DISCOVER OUR RESULTS

From page 21 onwards

Our strategy within a well-balanced oil and gas exploration and production portfolio is to focus on exploration opportunities with material growth potential to create and deliver shareholder value.

Our strong balance sheet and retained interest in the Indian business give us the financial flexibility to invest in assets that make commercial sense to our business.

We have a consistent record of returning capital to shareholders. The Cairn philosophy is about creating, then realising value – and then growing the business once again.

- 20-year track record of delivering transformational value for all our stakeholders
- Assets in Greenland, Spain, Nepal and Albania, held through Capricorn, a non-listed subsidiary, with principal exploration interests in Greenland
- Track record of successful discoveries – Cairn's interest in South Asia resulted in more than 40 oil and gas discoveries
- We retain a 22% interest in Cairn India – which has the potential to account for more than 30% of India's oil production
- We act with respect – for people and their communities, the environment, the rule of law and human rights
- Listed on the London Stock Exchange
- Based in Edinburgh; operational offices in Nuuk (Greenland), Madrid (Spain) and Kathmandu (Nepal)

How We Work

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OUR VISION OUR FOC R EDGE

Cairn is a dynamic, entrepreneurial company. Our agility and ability to forge strong, open and lasting relationships are essential to our success.

We aim to be pioneers within a balanced portfolio. We are partners: we work with Governments, joint venture associates, communities and suppliers to deliver value for all our stakeholders.

We are passionate, driven and determined. We embrace change and encourage collaboration and teamwork in all that we do. It is these qualities, along with skill, stamina and our ability to combine technical and commercial expertise, that are essential to the business.

Our Values

At Cairn, we believe in doing things the right way. Our values of building respect, nurturing relationships and acting responsibly are at the core of all that we do and inform how we work.

- Building Respect – We act with respect for people, their communities, the environment, human rights and the law.
- Nurturing Relationships – We act honestly, transparently and with integrity to develop strong, lasting relationships with all our stakeholders.
- Acting Responsibly – We behave fairly, ethically and are accountable for our actions. We believe in, and act on, our responsibility to care for people, society and the environment.

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How We Work
Continued

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Our aim is to discover, develop and deliver value in our assets and people for the benefit of all our stakeholders. We are passionate about enriching people's lives through energy exploration and development. For us, this includes nurturing the talent of our staff, developing safe and healthy work places, protecting the environment and supporting strong, vibrant communities.

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Our Approach
People are our most important asset and helping them develop their skills and abilities ensures we continue to work towards our goals. We encourage them to realise their potential and provide them with a supportive workplace in which diversity and equality are respected and valued.

The health and safety of our people and the environment is also vitally important to us. Throughout our global activities we ensure our people have a healthy, safe and secure workplace. Before operating in any new area, we assess the potential social and environmental impacts of our activities and identify ways to mitigate against these and design our plans accordingly.

Wherever we work, we aim to develop long-term partnerships with local communities and work with them where possible to develop sustainable economic, social and environmental initiatives. We encourage local people to contribute to, and benefit from, our projects and believe that by working together we can succeed together. The benefits our operations can include energy, infrastructure, employment and trade with local enterprises.

Simon Thomson
Chief Executive

OUR GOALS & PERFORMANCE

Cairn aims to deliver value for shareholders through exploration and development in the global oil and gas sector. This will be achieved by focusing on a combination of operational excellence and optimising the allocation of resources to deliver growth and execute corporate development plans, whilst at all times managing and developing our corporate reputation as responsible citizens. Our primary objective in 2012 is to strengthen Cairn's position in the oil and gas sector for the long-term as the business reshapes following the sale of the majority holding in Cairn India Limited (CIL).

The Key Performance Indicators (KPIs) underpinning our strategy in 2012 are outlined here.

1

Sustainability

What is the business plan?

- Maximise the value of the residual interest in CIL and complete the return of the cash received in December 2011
- Preserve cash for investments and ensure rigorous analysis of investment opportunities to ensure the optimum deployment of cash resources
- Work with partners to maximise the cost recovery and returns from Joint Venture (JV) alliances
- Organisational effectiveness where strategy is delivered from a fully resourced business with the right skills at the right time, highly functioning with clear roles and responsibilities, underpinned by leadership behaviours reflecting our core values
- Protect our license to operate where we manage and develop our corporate reputation by raising our Health, Safety and Environment (HSE) performance. This includes raising awareness of HSE risks and their management across the business and adopting and monitoring leading HSE indicators

2

Balanced Portfolio and Growth Potential

How we do it?

- Rebalancing the portfolio by seeking new business and commercial opportunities across key asset classes, including both near term and transformational exploration, appraisal, development and production opportunities
- Aiming to grow our reserves and resource base to provide a basis for future growth
- Rebalancing our financial exposure in Greenland with commercially attractive farm-out arrangements whereby industry partners contribute funding and knowledge towards future investment requirements and operations

3

Operational Excellence

Delivering results by:

- Conducting our operational programmes on approved timescales, on budget and without injuries or environmental incidents to the defined quality standards

Assets and Investments
Prinicipal Licence Interests

A WORLD OF OPPORTUNITY

Assets	Working interest
Greenland	
Exclusive Licence 2002/15 (Atammik)	87.5%
Exclusive Licence 2005/06 (Lady Franklin)	87.5%
Exclusive Licence 2008/10 (Sigguk)	87.5%
Exclusive Licence 2008/11 (Eqqua)	87.5%
Exclusive Licence 2008/13 (Saqqamiut)	92.0%
Exclusive Licence 2008/14 (Kingittoq)	92.0%
Exclusive Licence 2009/10 (Uummannarsuaq)	92.0%
Exclusive Licence 2009/11 (Salliitt)	92.0%
Exclusive Licence 2011/13 (Pitu)	56.875%
Exclusive Licence 2011/16 (Napariaq)	87.5%
Exclusive Licence 2011/17 (Ingoraq)	87.5%

Assets	Working interest
Albania	
Block Joni-5	85.0%
Spain	
Albufera, Alta Mar 1 and 2, Beninfayó, Gandía,	100.0%
Nepal	
Blocks 1, 2, 4, 6 & 7	100.0%

Investments	Working Interest
India	
Block PKGM-1 (Ravva)	22.5%
Block KG-DWN-98/2	10.0%
Block KG-ONN-2003/1	49.0%
Block KG-OSN-2009/3	100.0%
Block CB/OS-2 development areas	40.0%
Block RJ-ON-90/1 development areas	70.0%
Block KK-DWN-2004/1	40.0%
Block PR-OSN-2004/1	35.0%
Block MB-DWN-2009/1	100.0%
Block SL 2007-01-001	100.0%

Cairn Energy retains a 22% shareholding in Cairn India, following the completion of the sale of a 40% shareholding to Vedanta Resources in December 2011.

Our Track Record of Delivering Value

A RECORD OF CREATING GROWTH AND DELIVERING VALUE

Cairn has a proven track record of creating transformational growth and delivering significant value through exploration and development.

Throughout Cairn's time in South Asia, the Company has made more than 40 oil and gas discoveries onshore and offshore in its assets in Rajasthan, the Cambay Basin and the Bay of Bengal. The three largest Rajasthan fields alone (Mangala, Bhagyam and Aishwariya (MBA)) have gross recoverable reserves of one billion barrels of oil equivalent and the potential to produce more than 30% of India's domestic oil production.

Cairn's success stems from being pioneers and partners. We focus on identifying assets that are capable of providing significant and sustainable growth, capturing as high an equity position as possible in frontier areas, using our strong technical and commercial expertise and working with our partners to take our assets from discovery to development safely. Cairn's quick decision making, agility and the ability to form strong and lasting relationships has benefitted not only the business but all stakeholders.

Our Track Record of Delivering Value
Continued

Delivering Value Through Development

Cairn's projects in South Asia in both India and Bangladesh have helped meet both countries' energy demands. These developments demonstrate Cairn's ability to safely, rapidly and successfully deliver complex, large-scale oil and gas developments. The Rajasthan development in particular emphasises Cairn's capacity for managing unique operational challenges such as working in an environment with extreme temperatures and operating in a remote location with limited infrastructure.

The Mangala Processing Terminal (MPT) currently processes oil from the Mangala and Bhagyam fields. It covers an area equivalent to 200 football pitches and contains more than 80km of roads, comparable with the distance from London to Brighton. The MPT was planned, built and completed in a little over two years. Constructing the world's longest continuously heated pipeline, currently some 590km long with an additional 80km being built, has given the joint venture partners access to more than 75% of India's refining capacity. The success of Cairn's operations in India has enabled the Company to return approximately $4.5 billion to shareholders over the last five years.

Sustainability and Safety

EVERYTHING WE DO IS GUIDED BY THE 3Rs

Respect, Responsibility and Relationships – these values inform our day-to-day business activities and are promoted to staff, partners and contractors.

Building Sustainable Futures

Not only has Cairn delivered value for India and for shareholders, it has also worked with local communities to improve infrastructure, health, education and economic prospects. Together with its JV partners, Cairn has invested in projects that have focused on developing sustainable social capital and stimulating local economies in communities near our assets. Supporting local communities is one of the ways in which Cairn helps to ensure that a positive impact results from our presence in a country or region.

Specifically, in Rajasthan, Cairn has developed the following:

Economic and Skills Development Initiatives

- The Enterprise Centre promotes and supports local economic development in Rajasthan. More than 6,000 people have been trained to date with 80% finding employment opportunities.
- The Rural Dairy Development Programme developed a marketplace for farmers to sell their surplus milk, thus turning it into a marketable commodity. More than $800,000 in revenue has been generated to date through milk sales. ▶▶

Sustainability and Safety
Continued

Health Initiatives

- The Mobile Health Van provides diagnostic and preventative healthcare to remote communities in the Barmer region of Rajasthan. More than 100,000 people have been treated to date.
- The Child and Maternal Healthcare Programme for 25,000 vulnerable villagers in Andhra Pradesh has been instrumental in achieving reduced maternal and child mortality rates in five villages in the area.

Environmental Initiatives

- Access to fresh water. Cairn supported the construction of more than 1,300 rainwater harvesting structures, providing a storage capacity of over 10 million litres.
- Infrastructure Capacity – provided local authorities with extensive well database for mapping fresh water aquifers.

Cairn's approach elsewhere follows that which we have pursued in South Asia. Through Social Impact Assessments (SIAs) and a consultation process, Cairn learnt that increasing Greenlandic participation in oil and gas activities was important to local people. We also identified that the development of skills, employment, enterprise and infrastructure associated with the industry should be sustainable. In 2010 and 2011 Cairn worked with the Greenlandic Government to put in place Impact Benefit Agreements (IBAs) that addressed each of these issues. Should Cairn go on to discover a significant amount of hydrocarbons, the Company would then look to support local projects on a more permanent basis through a number of relevant, targeted and sustainable initiatives.

A Track Record for Safety

Cairn has consistently demonstrated our ability to develop and manage complex exploration, drilling, construction and production operations while also safeguarding people and the environment. Wherever possible, Cairn aims to avoid, mitigate, or at the very least manage, any impacts our operations may have. Cairn has successfully used Environmental Impact Assessments (EIAs) to consider the potential impacts of its activities on the environment.

Based on the EIAs conducted in advance of its drilling operations in Greenland, Cairn reduced its impact on the marine environment by using rigs that did not require anchoring to the seabed, while helicopter travel was also re-routed so minimising disturbance to coastal seabird colonies.

Prevention is also a key focus across all of Cairn's operations. Our drilling programmes are designed with the aim of reducing all the associated risks as much as reasonably practical.

The team responsible for the exploration campaign in Greenland has more than 1,000 years of combined experience of operating in challenging environments. To complement this in-house expertise, Cairn also partnered with companies who are leaders in their fields. In Greenland, Cairn has worked with a top ice management company and a leading organisation in global oil spill response.

Cairn has now completed four years of operations offshore Greenland without fatality, serious injuries or environmental incident.

Key Achievements

PIONEERS & PARTNERS

Rajasthan, India

- 3 of 7 landmark discoveries in India since 2000 made by Cairn
- Mangala discovery; largest onshore hydrocarbon find in India in 25 years
- Current discovered resource potential ~6.5 billion boe
- Rajasthan development (MPT and heated pipeline) one of the largest oil and gas projects in India
- Potential to produce > 30% of India's current crude production
- Pipeline capable of accessing > 75% of India's refining capacity
- Discovery to production in just over five years
- Will generate more than $100 billion for the Indian authorities

Ravva, India

- Reserves taken from 100 million barrels of oil equivalent (mmboe) to 300 mmboe post investment by Cairn
- Production increased ~14 times over
- Produced at plateau rate in excess of 50,000 barrels of oil per day (bopd) for more than nine years
- Direct operating cost per barrel amongst lowest in world
- > 230 million barrels produced to date – more than double the initial expectation

Greenland

- Largest acreage holder and, to date, the most active operator in Greenland
- Acreage position of 102,000km^2, equivalent to almost half the size of the UK
- Eight of the 14 wells drilled to date offshore Greenland completed by Cairn
- Team with combined total of > 1,000 years experience in frontier/challenging environments
- Safely operated in Greenland for four years without fatality, serious injury or adverse impact on communities
- Acquired extensive knowledge and data on Greenland – hold a 2D seismic database ~85,000km
- Impact benefit agreement for Greenland providing $575,000 for 21 projects
- 84 Greenlanders employed in 2011 (2010: 55)

Highlights

"Cairn has delivered on its key objectives for 2011: completion of the sale of 40% of Cairn India, the return of $3.5 bn to shareholders and the farm-down of the Pitu block in Greenland to Statoil.

With full cycle capabilities and balance sheet strength, Cairn is well positioned to create significant value from transformational exploration, within a well balanced portfolio of exploration and production assets."

Simon Thomson, Chief Executive

Highlights

The completion of the transaction with Vedanta Resources plc (Vedanta) crystallises the value creation Cairn has delivered from the Indian business, returning approximately (~)$4.5 billion (bn) to shareholders over the past five years

Record profit after tax of ~$4.6 bn

At 31 December 2011, the Group had cash of ~$4.7 bn

In February 2012, the Group returned $3.5 bn of cash to shareholders, retaining ~$1.2 bn to fund future growth opportunities

Cairn retains a 22% investment in CIL currently valued at ~$2.9 bn. Rajasthan production from Mangala and Bhagyam fields targeted to reach 175,000 bopd in H1 2012

Significant part of currently envisaged potential of 240,000 bopd to be met from MBA fields in 2013

Farm-down of 30.625% interest in the Pitu block in Greenland to Statoil ASA

Processing of 3D seismic on Pitu and Southern blocks in Greenland ongoing

First phase of Cairn's exploration programme in Greenland encountered oil and gas shows across multiple basins

Chairman's Statement

We can now look forward with confidence, excitement and ambition to building the future of the Company in new strategic directions from a position of significant strength.

SIR BILL GAMMELL
CHAIRMAN

Last year represented a watershed in Cairn's corporate history. The sale of the majority of our holding in CIL to Vedanta in December 2011 marked the culmination of an effective twenty year association with the economic growth of the sub-continent. We can now look forward with confidence, excitement and ambition to building the future of the Company in new strategic directions from a position of significant strength.

Following the Rajasthan discoveries in 2004, Cairn elected to float its Indian business on the Bombay Stock Exchange and National Stock Exchange of India in 2007, thereby establishing CIL as a majority owned but listed subsidiary of Cairn. Proceeds from the IPO enabled approximately $1 billion to be returned to shareholders, demonstrating the Company's focus on not just creating, but also crystallising value, while a further $1 billion was re-invested in the business. The Company ceded control of its Indian business late in 2011, when we completed the sale of 40% of CIL to Vedanta. The net proceeds of the Vedanta sale were approximately $5.4 billion, allowing a cash return of $3.5 billion to shareholders in February 2012. This brings the total cash returned to shareholders in the past five years to approximately $4.5 billion.

The remaining 22% shareholding in CIL, currently valued at ~$2.9 billion by the Indian market, along with current cash of ~$1.2 billion, provides financial flexibility and an excellent platform for Cairn to pursue future growth opportunities.

India

Cairn's success in South Asia has created significant value for shareholders and Cairn India has one of the fastest growing production profiles of any company in the world. In particular, the desert site at Mangala has been transformed by the construction of the MPT, hundreds of wells have been drilled and infrastructure is now in place, including the longest heated pipeline in the world, to take the Mangala and other crude to market.

A significant consequence of concluding the Vedanta transaction is that the Rajasthan JV is now aligned around a vision to increase substantially production from the Rajasthan fields. Achieving this vision will require further capital investments, partner and regulatory approvals as well as the cooperation of the Government of India (GoI).

It is a great source of pride that Cairn has made a difference wherever it has operated across the sub-continent and its success is testament to a longstanding vision that a well-balanced exploration and production portfolio could be built in South Asia.

The oil output from Rajasthan helps the Indian economy as it reduces imports and generates revenue for the Government, while the investment made by CIL and its partner, ONGC, into the exploration and development of the area has provided work for thousands of people, and provided significant community investment and support.

Greenland

Cairn operates approximately 40% of the currently contracted exploration acreage in Greenland. Several of the world's major oil companies now have a presence in the country (including Shell, Exxon, Statoil, Chevron, Conoco, Maersk and GdF). Of the 14 wells that have been drilled by the industry in Greenland to date, eight have been drilled by Cairn.

Whilst we have to date not established commercial quantities of hydrocarbon, we remain convinced that all of the ingredients for success in Greenland are present and we are delighted to welcome Statoil as a partner in the Pitu Block.

All of the first stage work programme commitments have been fulfilled on our acreage throughout Greenland and we are well placed to seek partners in selected areas in the future.

Board

A number of changes to the composition of the Board of Directors took effect from 1 July 2011.

Norman Murray decided to stand down and turn his energies and attention to new challenges following 12 years on the Board, nine as Chairman. Norman contributed enormously to the growth of Cairn during this time, providing constructive challenges, wise counsel and valuable guidance.

Malcolm Thoms, Chief Operating Officer, and Philip Tracy, Group Engineering and Operations Director, also stepped down from the Board. Both Malcolm and Phil made substantial contributions to the success of Cairn over the last 22 years.

In Norman's place, the Board decided that I should become Chairman and Simon Thomson should be appointed Chief Executive.

Simon has been with Cairn for more than 15 years and has played an instrumental role in the delivery of Cairn's strategy, including accessing the opportunities that Greenland offers as well as delivering value from Cairn's interests in South Asia. Simon's energy and abilities are of outstanding value to Cairn and he has made a hugely positive impact in leading the business in his new role.

Jann Brown became Managing Director and Chief Financial Officer in light of widening responsibilities including Human Resources, Corporate Affairs and Company Secretarial.

Dr Mike Watts continues in his role as Deputy Chief Executive.

The executive team of Simon, Jann and Mike is well-placed to lead the Group into the future and continue the strategic focus of delivering significant growth potential in new directions. The Cairn Board continues to pursue diversity among its directors and senior executives: currently two of its nine board members are female.

Outlook

Cairn's vision is to become the exploration company of choice for governments and investors by offering transformational exploration potential within a well balanced exploration and production portfolio.

The completion of the transaction with Vedanta crystallises the significant value we have delivered from the Indian business, allowing us to return approximately $4.5 billion to shareholders over the last five years. With a strong balance sheet and the first Greenland farm-down completed, Cairn is well-positioned to access new opportunities and further growth in 2012 and beyond.

Sir Bill Gammell
Chairman
23 March 2012

Chief Executive's Review

Cairn wishes to offer investors exposure to transformational organic growth potential through securing high equity exploration positions in prospective frontier geological basins.

SIMON THOMSON
CHIEF EXECUTIVE

Cairn is in a process of evolution, triggered by the sale of a majority shareholding in CIL to Vedanta. The Company's strategy remains the same: to focus on exploration-led organic growth.

Cairn wishes to offer investors exposure to transformational organic growth potential through securing high equity exploration positions in prospective frontier geological basins. Exploration in these basins, if successful, can have a material impact on the Company's net worth because of the prospective volumes and the normally attractive commercial terms appropriate for the risk. This exploration activity, however, needs to be funded from within a balanced portfolio of assets capable of generating sustainable cash flow from producing properties and augmented with industry farm-downs.

As has previously been demonstrated, Cairn aims to return value to shareholders at the appropriate time through mechanisms such as one off special dividends, following the grow-and-shrink, or 'saw-tooth', exploration-led strategy, which has served the Company well in the past.

The Vedanta transaction has been one of the key strategic goals for the Company to complete in the last twelve months. It allowed a return of $3.5 billion of cash to shareholders and provides the Company with the financial flexibility and strength to pursue new opportunities in areas where the Company believes it has the ability to build and grow.

The Rajasthan project is of national importance and, at current prices, can be expected to generate well over $100 billion of revenues for the GoI and the Rajasthan State. The residual 22% shareholding Cairn now holds in CIL is viewed by the Company as an important investment asset from which further value can be realised at the appropriate time.

Cairn will aim to maintain its focus on balance sheet strength which provides an engine for future growth. At all times, we seek to apply strategic and capital discipline across the business in both existing operations and in reviewing new opportunities. Our growth strategy is to seek exposure for shareholders to transformational exploration potential but to deliver this within a sustainable and balanced portfolio. In practice, this means we will seek to build cash flow from near term exploration, development and producing properties. The management focus is on delivering growth and corporate development opportunities in line with robust corporate development criteria.

Greenland

Cairn has built a strategic and leading early entry position offshore Greenland, a country which we believe has the necessary geological ingredients for oil and gas exploration success.

Commercial quantities of hydrocarbons have yet to be discovered, but the first phase of our exploration programme in Greenland has demonstrated that all of the geological ingredients necessary for success are present. We remain encouraged by the prospects and opportunities presented by exploration offshore Greenland and our understanding of where to direct future activity continually evolves as we interpret our extensive and growing database, allowing us to focus on where we best see material and transformational potential. After pioneering four years of active exploration operations across several basins of Western Greenland, the Company has a unique data base from which it is well positioned to be selective and focused in high grading certain areas. Future exploration drilling activity will initially be focused on prospects within the Pitu block in the undrilled Baffin Bay Basin. Statoil's farm-in to the Pitu block confirms Cairn's view of its potential and supports the industry view of the Baffin Bay potential, as exemplified by the presence of Shell, Conoco, GdF, Maersk and Statoil in adjacent acreage.

A number of exciting play types have been identified on the Pitu block, which is geologically separate from other parts of West Greenland. The extensive shallow coring programme undertaken by Cairn across the block in 2011 confirms the presence of micro oil seeps above structural closures already identified. All of the exploration evidence acquired to date points to the Baffin Bay Basin being oil generative and having multi-billion barrel potential.

The 3D seismic acquired over Pitu in H1 2011 is currently being processed, with final results expected in May/June 2012. Subject to the final interpretation of those results, exploration wells will be planned for the Pitu prospects. We are delighted to be working with Statoil on this block given their extensive knowledge and track record in exploration, development and production in the Arctic.

In Disko and other basins to the South, we have already fulfilled our work obligations. We continue to evaluate the data acquired across these basins, but will not be proposing further exploration activity until we have partners in selected areas, including the undrilled southern Greenland basin where we are currently processing the 3D seismic acquired in 2011.

Mediterranean

The Company was awarded two exploration permits in Spain in January 2011. These permits comprise five blocks at 100% interest in the Gulf of Valencia, which is underexplored. It is planned to acquire a 3D seismic survey (1,500km²) over part of the acreage in 2012.

Commercial terms in Spain are attractive as the authorities try to stimulate exploration activity in frontier areas. Cairn has recently opened a small office in Madrid and is currently pursuing other acreage in Spain because of the perceived exploration potential.

As previously reported, Cairn also intends to participate, along with our consortium partners, CC Energy Development S.A.I (an associated company of CCC, a Lebanese private company) and Cove Energy PLC, in the upcoming bid rounds expected this year in both offshore Lebanon and Cyprus, subject to commercially suitable terms. The Cyprus round has recently been announced and bids are to be submitted in May 2012 with awards expected towards the end of the year. The Lebanon round has not yet been formally announced but it is currently anticipated mid-year.

Conclusion

In the last year, we committed to delivering four strategic priorities: first of all, completing the sale of our Indian business; secondly, returning cash to shareholders; thirdly, beginning the 'farm-out' process in Greenland; and, finally, opening up new business opportunities.

We have delivered on the first three strategic priorities and management's focus is now on corporate development and future growth opportunities.

I look forward, along with the rest of the management team, to leading Cairn as we seek to create and deliver value for shareholders. Cairn's key strength of entrepreneurial exploration remains the focus of the Group, offering investors significant growth potential in combination with underlying asset value and balance sheet strength.

Simon Thomson
Chief Executive
23 March 2012

Industry Overview

High oil prices continued to support exploration activity, reversing the trend of falling expenditure since the onset of the financial crisis.

DR JULIAN FENNEMA
ENERGY ACADEMY,
HERIOT-WATT UNIVERSITY

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 and through the pan-university **Energy Academy**, research excellence ranges from solar energy and energy-focused materials through to energy economics, use, policy and logistics.

Uncertain Prospects

The signs of an economic recovery were muted through 2011, with global growth dropping to 3.8% last year after having registered in excess of 5% in 2010[1]. GDP growth rates in the advanced economies halved to 1.6% as a result of slower than anticipated recovery in investment and private sector demand. Even the emerging economies cooled to 6.2% growth, from 7.3% in 2010, partially due to government macro-economic tightening.

Global growth in demand for oil products slowed as a result; having bounced back more than 3% in 2010 it grew by less than 1% over 2011, to 89.1 million barrels of oil per day (mmbopd)[2]. Resilient demand growth, driven by energy-intensive industrial development and demand for transport services, in non-OECD economies such as China and India continued to push consumption of oil products higher, in the same direction as the wider economy. However economic uncertainty in the advanced economies, particularly Europe, meant that despite positive economic growth their overall demand for oil products fell.

Even in the presence of these downward pressures, the price for Brent crude averaged \$111.4/barrel (bbl) in 2011, up 40% on the 2010 average of \$79.5/bbl. A major reason for this increase was the supply side disruptions through the second quarter of 2011 as a result of the 'Arab Spring'[3], (although overall OPEC supply and delivery increased over the year). Indeed the majority of the expansion in world oil supply, from 87.4 mmbopd in 2010 to 88.5 mmbopd in 2011, was met by OPEC, where non-OPEC supply expanded year-on-year by only 0.1 mmbopd.

Gas Markets in Evolution

The unconventional gas 'revolution'[4] that drove the US gas price down in 2010, opposing the trend of rising prices elsewhere, continued into 2011 as the price fell below $4 per thousand cubic feet. This has developed into a more complicated dynamic, with the same drilling infrastructure also able to exploit unconventional oil reservoirs and switching between the two to exploit price differences[5].

These price differences also influenced the European markets, but for a different reason. The price at which gas is traded in long-term, pipeline-based, contracts is usually indexed to the price of oil – when one rises so does the other – and is a main factor as to why European gas prices are two to three times higher than those in the US.

The de-coupling of the two prices within the US, experiencing a fall in the gas price despite increases in the price of oil, and weak demand in Europe due to economic uncertainty and weather conditions, have increased the pressures on the main suppliers, Russia and Norway, to alter the flexibility of their pricing structure. This downward pressure may not, however, be maintained as the current glut in global Liquefied Natural Gas (LNG) supply is not anticipated to last, with increases in demand, in particular from Asia and a post-Fukushima Japan, outstripping growth in supply.

Exploration in 2011

High oil prices continued to support exploration activity, reversing the trend of falling expenditure since the onset of the financial crisis. Although total reported volumes were lower than in 2010, the highest year in a decade, estimates suggest the discovery of in excess of 26 billion barrels of oil equivalent (boe) with the potential for upwards revision[6].

The most prolific area for additions was Brazil (5.3 billion boe), where the deepwater resources already discovered off its east coast are forecast to propel the country into the top five producers in the world over the next decade. Two frontier areas, however, came increasingly to the fore in 2011; East Africa and the Eastern Mediterranean. These influenced the balance between newly discovered reserves that are subject to political and economic constraints and those open to collaboration with independent oil companies, shifting it in favour of the latter over 2011.

Large deepwater gas discoveries by international oil companies off Mozambique meant that this area was ranked third globally (3.4 billion boe) in terms of overall additions to reserves, with extensive further operations planned into 2012. The Eastern Mediterranean area had provided the largest find by an independent in 2010: Noble continued this success discovering similar volumes again in the basin.

M&A Wavering

The significant rise in M&A activity in the upstream sector in 2010 also faltered through 2011, as although the overall volume of transactions remained stable the total value declined to $86 bn, from $170 bn in 2010[7]. The major driver of this was a decline in large assets changing hands, where both previous years had seen deals in excess of $40 bn occurring.

Given the earlier comments on the changing game in North America, coupled with its more liquid capital markets, it is not surprising that the largest area for deals in 2011 was the US. Almost 60% of announced transactions related to this arena, particularly associated with production acreage in shale gas.

The main difference with respect to the previous year was the relative decline in acquisitions by the National Oil Companies (NOCs), albeit that the Chinese NOCs continued their aggressive international expansion. These accounted for more than 50% of the total value of transactions, albeit against a level of 18% of transaction value.

UK – a Barrel of Contrasts

In the North Sea the story was more mixed, where exploration activity in the UK sector continued to fall to levels not seen in more than a decade. This drop is in part attributable to the surprise supplementary tax increase on oil production in the 2011 Budget, used to fund a decrease in fuel duty, as well as ongoing concerns about the costs of abandonment in the North Sea. These two factors also buoyed the resurgent M&A market in the North Sea, supplied by companies who consider the area as not core to their strategy putting their assets up for sale in order to raise revenue to invest elsewhere.

Although this casts doubt on the potential of the UK Continental Shelf oil production to reverse its decline, falling by 17% over 2011[8] due to production shutdowns and long-term depletion, the overall picture was one of increasing capital investment, with firms choosing to develop existing fields further rather than invest in new ones. Investment in new fields did occur, however, such as the high-profile announcement in October 2011 by BP and partners to invest almost £10 billion in the UK continental shelf over the next five years.

Shareholder Value

In the light of conflicting macro-economic signals, the FTSE 100 index lost more than 5% of value over 2011 but the oil and gas producers outperformed, generating more than 6% growth. Whilst this aggregates over divergent individual performances, it also demonstrates the continued attraction of the sector for investors – especially in the light of indications of a sustained high oil price relative to the historic average.

1. IMF World Economic Outlook Update, January 2012
2. IEA Oil Market Report, February 2012
3. Libya, for example, produced more than 2% of world oil prior to the political upheaval of 2011. Its subsequent recovery has surprised analysts and optimistic forecasts suggest that these levels can be reached again by mid-2012.
4. Gas extracted from shale, tight sands or coalbeds.
5. The sustained high oil price has, therefore, increased the value of this second proposition, with an associated expansion in US supply. This effect, coupled with reductions in demand brought about both by policy changes and price impacts, is expected to reduce reliance on oil imports in the USA over the next decade, as well as offering the potential for becoming a significant exporter of natural gas once again.
6. A boe is the quantity of gas with the same energy content as one barrel of oil, allowing direct comparison of the size of oil and gas fields.
7. Ernst & Young 'Global Oil and Gas Transactions Review 2011'
8. 'UK Energy Statistics – 2011 Provisional Data', DECC, February 2012

Operational Review

Rajasthan has become a world class development with a potential resource base of at least 6.5 million barrels of oil and has the potential to provide more than 30% of India's crude oil production.

DR MIKE WATTS
DEPUTY CHIEF EXECUTIVE

Cairn has been involved in building a business in South Asia since the farm-in to the Holland Sea Search position in Bangladesh in 1993. Over the intervening years, Cairn acquired the Ravva oilfield through the acquisition of Command Petroleum, made more than 40 oil and gas discoveries, developed and brought onto production major offshore fields such as Sangu, Ravva, Lakshmi, Gauri and some of the onshore Rajasthan fields, including Mangala, the largest oil find in India for 25 years. This 'home grown and full cycle' business grew from a zero gross production base in 1993 to one that operated more than 168,000 barrels of oil equivalent per day (boepd) by the end of 2011.

Today, Rajasthan has become a world class development with a potential resource base of at least 6.5 mmbbls and has the potential to provide more than 30% of India's crude oil production. Recoverable reserves are estimated to total in excess of one billion barrels of oil and will support production of 175,000 bopd being achieved in 2012. Subject to GoI and partner approval, and also additional investment, it is estimated that these production levels could increase to at least 240,000 bopd and potentially to 300,000 bopd.

Investment in Cairn India

Rajasthan: Production and Development

Since August 2010, the Mangala field has been producing at the currently approved plateau rate of 125,000 bopd and, subject to regulatory approval, production is expected to increase to 150,000 bopd. The plant uptime stands at more than 99%, making it one of the best performing facilities in the world. A total of 148 Mangala development wells have been drilled, of which 85 wells are currently producing and 30 injector wells are injecting water into the reservoirs. The other wells will be brought on-stream in a staged manner.

Future growth work continues at the MPT to exit H1 2012 at 175,000 bopd. The Bhagyam field, the second largest of the 25 discoveries, commenced production on 19 January 2012. The reservoir and facilities will entail a gradual and safe ramp up to reach the currently approved plateau of 40,000 bopd. Well results from the Bhagyam development drilling have been as per expectations. Development work is currently underway on the Aishwariya field. All key contracts have now been awarded. A significant part of the envisaged basin production of 240,000 bopd is to be met from the MBA fields by 2013.

The continuously heated and insulated pipeline from the MPT to Salaya (~590km) is currently operational. The construction work on the remaining ~80km Salaya to Bhogat section of the pipeline, including the Bhogat terminal and marine facility, is ongoing. The completion of this section of the pipeline will give access to more than 75% of India's refining market. The current pipeline capacity is 175,000 bopd. The pipeline can, however, handle much higher volumes in line with the basin potential through incremental investments and augmentation of facilities, subject to regulatory approvals.

The MBA fields (including Enhanced Oil Recovery (EOR) potential) have gross recoverable oil reserves and resources of approximately one billion barrels. The EOR pilot continues to progress well from the current polymer injection phase. The results to date are encouraging and, based on these results, a Field Development Plan (FDP) for a full field application of polymer flood in the Mangala field is under preparation and is expected to be submitted by end of H1 2012. This will be the start of the process for monetising the full EOR potential of the block.

A hydraulic fracturing programme to optimise the development of the Barmer Hill Formation is planned at the Mangala and Aishwariya fields, subject to regulatory approvals. This programme will allow evaluation of the appropriate cost effective technology for a fully optimised development of this widespread low permeability oil resource base. A Declaration of Commerciality for the Barmer Hill was submitted to the GoI in March 2010 and an FDP is under preparation. FDP revisions for two fields, Bhagyam and Aishwariya, to increase production are being prepared in conjunction with ONGC and will be submitted for regulatory approvals in due course. In addition, we believe there is a significant undeveloped and unexplored potential in the Barmer Basin.

CIL Sri Lanka
SL 2007-01-001 Block

The first phase of exploration in the frontier Mannar Basin has completed with a three well drilling campaign resulting in two successive discoveries, establishing a working hydrocarbon system.

Cairn Lanka (Private) Limited, a wholly owned subsidiary of CIL, has notified the Government of Sri Lanka of its intention to enter Phase Two of the exploration period in the block.

Operational Review
Continued

Greenland

Cairn currently operates 11 blocks in Greenland, with a combined area of 102,000km², which is equivalent to 15 quadrants or 450 blocks in the UK North Sea. This acreage position is split between the four distinct Geological Provinces of West Greenland from north to south: Baffin Bay, Disko, South Ungava and South Greenland. All of Cairn's drilling operations to date have been carried out in the Disko and South Ungava Geological Provinces. Cairn acquired 3D seismic surveys in the Baffin Bay and South Greenland Provinces in the summer of 2011, but to date both these frontier basins remain undrilled.

Drilling in the Arctic is not new, recent studies by IHS (Information Handling Services) show that more than 2,500 exploration wells have been drilled in this region since the 1940s. Cairn has, however, always recognised that drilling offshore Greenland would present logistical challenges and has approached the campaign with a focus on safety in terms of people, the environment and equipment. In 2010 and 2011, Cairn used two rigs for its drilling and exploration programme. Up to 14 further vessels were used to support the drilling programme to provide cover for re-supply, rig standby, ice management and emergency oil spill response. In addition, Cairn also deployed specialist aviation to support activities including extensive Search and Rescue capability.

Cairn was awarded the Pitu Licence covering 8,170km² on 1 January 2011, following the 2010 Baffin Bay Bid Round. 1,750km² of proprietary 3D seismic was successfully acquired in the Block in the summer of 2011. This data is currently being processed with fully migrated results expected in Q2 2012. In addition, Cairn acquired a seabed geochemical sampling survey which identified compelling evidence of oil micro seepage above the prospective areas identified on the valuable multi-client 2D seismic.

In January 2012, Cairn entered into a farm-down agreement with Statoil in respect of the Pitu Licence in the Baffin Bay Basin, West Greenland. Under the terms of the agreement, Statoil will acquire, subject to final approval from the Government of Greenland, a working interest of 30.625% in the Pitu Licence. Cairn will retain operatorship (56.875% interest in the block) of the exploration and Statoil will operate any future development. Nunaoil has an ongoing 12.5% interest in the block. The exact terms of the agreement are confidential, however Statoil will pay a signature bonus, back costs on the Block and promoted terms of future exploration expenditure.

Disko and South Ungava

Cairn's earliest Greenland acreage acquisitions, dating back to 2007, were made in these two Provinces and were thus the first to be drilled. The eight exploration wells drilled in 2010-2011 did not result in any commercial hydrocarbon discoveries but did demonstrate the presence of oil, wet gas condensate and biogenic gas petroleum systems and the other geological ingredients necessary for success (reservoir, seal and trap). Further analysis and evaluation of the data and samples acquired from these wells will continue through 2012. Depending on the results of these studies, future exploration programmes, which could include 3D seismic and further drilling operations, will be planned.

South Greenland
The 1,390km², 3D seismic survey acquired over parts of Southern Greenland in the summer of 2011 is currently being processed and fully migrated results are expected in Q2 2012. In addition, Cairn acquired a seabed geochemical sampling survey which identified good evidence of hydrocarbon micro seepage above one of the main prospects identified on the proprietary 2D seismic acquired in 2009-10. Evaluation of the extensive 2D and 3D seismic data will continue through 2012 with the objective to mature prospects for potential drilling in 2014 and beyond.

2012
The main exploration focus in 2012 will switch to the Pitu Licence in the Baffin Bay area over which 3D seismic and geochemical seabed sampling surveys were acquired in the summer of 2011. The Licence occupies a prime acreage position of 8,170km², covering a large part of the undrilled Melville Bay Basin and adjacent ridge. Seismic amplitude anomalies from the existing 2D seismic data have been confirmed on the early processed products from the 3D seismic survey, which, together with the newly identified geochemical anomalies, clearly indicate that the ridge is a focus for oil and gas migration.

A large dip closure is mapped over the crest of the ridge with an associated, structurally conformable seismic amplitude anomaly, further reducing the risk on the presence of hydrocarbons. The fully processed 3D seismic, scheduled for delivery in end Q2 2012, will be used to mature prospects for drilling both over the mapped closure and over several satellite structures identified downflank. Other plays, in axial and flank fan systems, possible Paleozoic reef structures and rotated fault blocks will be evaluated. Further geochemical seabed sampling is planned to cover an independent Tertiary inversion play identified on the eastern flank of the basin.

Cairn is also participating in a Shell-operated consortium to drill up to ten shallow stratigraphic cored bore holes in the extreme northern part of Baffin Bay where the entire prospective Mesozoic and Paleozoic section appears to sub crop the seabed. These cored holes will provide critical information for de-risking the prospects in the Pitu block prior to drilling and for optimising future well design.

In the West Disko and Ungava areas, rigless well abandonment operations will be carried out on the wells from the 2010 and 2011 drilling campaigns whilst interpretation will continue on integrating the results from the wells. In Southern Greenland, work will focus on prospect generation on the large structures identified in the 3D seismic survey acquired in 2011.

Mediterranean
Cairn entered the Mediterranean in 2008 because it considered many parts of the Basin to be underexplored with potential for new plays to emerge. Cairn has focused some of its activities in the offshore parts of the Spanish Mediterranean in a basin where there are indications of the potential for hydrocarbon discoveries. Moreover, Cairn considers that the need for energy diversification in support of economic policy, which is allied to good fiscal terms for exploration make Spain an attractive country in which to invest.

The Spanish Government awarded Cairn two hydrocarbon exploration permits in January 2011. The permits comprise five contiguous blocks in the Gulf of Valencia area offshore Spain and cover an area of approximately 3,992km², where the water depths range from 50 metres to more than 1,000 metres. Cairn has a 100% interest in these blocks and is actively pursuing other acreage in Spain.

We also intend to participate, along with our consortium partners, CC Energy Development S.A.I and Cove Energy PLC, in the upcoming bid rounds expected during 2012 in both offshore Lebanon and Cyprus, subject to suitable commercial terms.

Albania
The Government of Albania has approved a one year extension to our first exploration period under the Joni-5 production sharing contract; this amendment is pending ratification.

Nepal
We are in discussions with the Government of Nepal in respect of our Petroleum Agreements and the execution of our work programmes.

Dr Mike Watts
Deputy Chief Executive
23 March 2012

Financial Review

Cairn's financial strategy continues to focus on preserving our balance sheet strength and allocating our capital in line with robust investment criteria.

JANN BROWN
MANAGING DIRECTOR
AND CHIEF FINANCIAL OFFICER

Financial Strategy

Cairn's financial strategy continues to focus on preserving our balance sheet strength and allocating our capital in line with robust investment criteria. The completion of the sale of a 40% interest in Cairn India to Vedanta generated post-tax cash inflows of $5.4 billion, realising an accounting gain on disposal of $4.4 billion. After returning ~$3.5 billion (£1.60 per share) to shareholders in February 2012, Cairn has retained over $1 billion in cash and cash equivalents to fund the ongoing capex programme and new business opportunities. The remaining 22% interest in Cairn India is now accounted for on a mark-to-market basis. At the balance sheet date, our shareholding was valued at 314 INR per share, $2.5 billion in total. The Group had no debt at the year end.

The format and content of the financial statements have been revised from previous years following recommendations made in the Financial Reporting Council's discussion papers 'Louder than words' and 'Cutting clutter', published June 2009 and April 2011 respectively.

Cairn has made these revisions in an effort to make the accounts and related disclosures more focused, more relevant to the drivers of the business, clearer and more understandable.

The contents of the financial statements have been reviewed and all non-material disclosures have been removed. Notes have been regrouped and re-ordered to highlight those areas which are judged to be key to the ongoing business. Significant accounting policies relating to individual notes have been embedded within the notes; non-significant accounting policies which remain unchanged from prior years have been removed and can be found on the Group's website.

Assets and Investments

Oil and Gas Assets

Oil and gas assets at 31 December 2011 were $80.8m (2010: $262.8m).

Greenland

Following completion of the five-well drilling programme offshore Greenland in 2011, all drilling costs associated with the wells on the Lady Franklin, Atammik, Sigguk and Napariaq blocks have been charged to the Income Statement. In addition, costs capitalised as unsuccessful exploration costs in accordance with the Group's accounting policies relating to the Alpha-1 Well, (drilled and suspended in 2010) have also been charged to the Income Statement as it is now considered unlikely that this well will be re-entered. Total unsuccessful exploration costs charged in the year were therefore $942m.

All general exploration costs capitalised, not directly attributed to individual wells, are reviewed for indicators of impairment at the balance sheet date. Cairn remains encouraged that all components for commercial success are in evidence and exploration/appraisal activities are continuing to evaluate and interpret the results of the wells drilled. However, as there are no current plans in place to drill on those blocks, Cairn has reviewed the carrying value of those costs and recognised an impairment charge of $75m in the Income Statement.

During 2011, 3D seismic was acquired over the Pitu block in Northern Greenland and the Saqqamiut block, South Greenland. These costs form the majority of the $81m which remains capitalised in the Group's intangible exploration/appraisal assets at the year end. In January 2012, Cairn completed the farm-down of 30.625% of the Group's working interest in the Pitu block to Statoil. This farm-down has no direct impact on the carrying value of the Group's assets at the year end.

Other Exploration Assets

Minimal costs have been incurred to date on the licences acquired offshore Spain while costs incurred on the Group's Nepal acreage have been charged to the Income Statement during the year as the unstable political environment continues to prevent meaningful exploration activity.

Available-for-Sale Financial Assets, Net Funds and Working Capital

Following the sale of a 40% shareholding in Cairn India to Vedanta, Cairn now holds a 22% stake in Cairn India. Cairn has no significant influence over Cairn India post-sale and, therefore, the remaining shareholding has been accounted for as an investment rather than an associate. Under International Financial Reporting Standards (IFRS) the investment is accounted for as an available-for-sale financial asset.

This investment is marked-to-market at 31 December with a closing value in the Group's balance sheet of $2.5 billion, with deferred taxation of $254m provided against this investment.

Movements in the value of the shares and the related deferred tax are recorded in the Group Statement of Other Comprehensive Income, not charged to the Income Statement. Subsequent increases in the CIL share price to 16 March have increased the value of this investment to ~$2.9 billion.

A resolution will be proposed at the Group's Annual General Meeting (AGM) to renew the authority granted at the Company's General Meeting on 30 January 2012, to dispose of the remaining CIL interest on market and close to market price. The resolution, if passed, will be valid for 12 months.

At 31 December 2011, the Group had net cash of ~$4.7 billion. In February 2012, the Group returned $3.5 billion of cash to shareholders, retaining $1.2 billion to fund future activities.

Other Assets and Liabilities

Goodwill of $63m allocated to the Greenland operating segment following the buy-out of non-controlling interests in prior years has been fully impaired at the year end following the completion of the 2011 drilling campaign.

During the year, the Cairn Group, excluding CIL, drew $200m from its $900m bank facilities. This amount was fully repaid in July on receipt of the first tranche of Vedanta proceeds, and the facility was cancelled.

Financial Review Continued

Performance for the Year

Operating Loss

During the year, the Group recorded an operating loss from continuing operations of $1.1 billion.

Unsuccessful exploration costs charged during the year of $942m include $732m in relation to the 2011 drilling campaign and $210m from the 2010 campaign relating to the Alpha-1 well drilled on the Eqqua block. A further $141m was charged as an impairment relating to non-drilling costs and goodwill as noted above.

Administration costs were $33m, down from $35m in 2010. Non-cash items within administrative expenses include $3.7m (2010: $2.5m) of depreciation and amortisation costs and $6.5m (2010: $9.2m) of share-based payment charges. Exceptional administration costs of $6.7m relate to share-based payments arising on the replacement Long-Term Incentive Plan (LTIP) awards made following the Extraordinary General Meeting on 21 December 2009 and are presented as such for consistency with prior years. No future charges relating to these share awards will occur.

Following receipts from the sale of the 30% tranche in December, ~$3.5 billion was converted to £2.3 billion to allow the cash return to shareholders to be made in Sterling. This Sterling cash balance generated accounting exchange losses of $39m out of a group total of $41m to the year end, although these losses have reversed in 2012. Finance costs incurred of $14m relate to charges associated with the Group's facilities which were cancelled during the year.

The Group made a profit from discontinued operations of $5,755m. This consists of the year-to-date profits of CIL to the date of disposal on 7 December of $1,362m and a $4,392m gain on disposal.

Profits for the year to date of disposal for CIL ($1,362m) reflect gross production in the year of 168,010 boepd (2010: 126,360 boepd) at an average price realised of $106.02 per boe (2010: $69.17 per boe). Prior to completing the sale to Vedanta, Cairn had agreed to allow Royalty paid by its JV partner in Rajasthan to be recovered as a contract cost, which reduced CIL's revenues by $629m. As the assets of Cairn India were classified as held-for-sale throughout the period, no depletion or decommissioning charges were recognised in the CIL profit.

The gain on disposal ($4.4 billion) is calculated by deducting the net assets of the Cairn India Group from the net proceeds received plus the fair value of the remaining interest retained by the Group. The Group received net proceeds of $6,023m, from which withholding tax in India of $590m had been deducted. Expenses of $57m incurred in connection with the sale are also deducted. The net assets of the Cairn India Group at the date of disposal were $4,704m, of which $1,487m was attributable to non-controlling interests and $84m of related currency translation differences were recycled to the Income Statement in accordance with International Accounting Standard (IAS) 21. Finally, the fair value and related deferred taxation liability of the Group's remaining 21.8% shareholding in CIL at 7 December of $2,317m was credited to the gain.

Cash Flow

The Group generated operating cash flows of $1,913m during the year (2010: $837m). The Cairn India Group generated operating cash flows to the date of disposal of $1,922m (2010: $875m) offsetting the operating outflows of the Group's continuing operations.

Investing cash inflows of $2,671m (2010: outflow of $1,388m) include the net cash impact of the Vedanta transaction of $4,722m reduced by expenditure of $963m on exploration/appraisal activities and a further $407m of development expenditure in CIL. Net proceeds received from the Vedanta transaction were $5,433m while $712m of cash and cash equivalents of CIL were derecognised on disposal. Exploration expenditure includes $831m largely related to Greenland drilling costs in the continuing Group and $132m in CIL. Financing cash outflows of $394m (2010: $19m) reflect repayments of borrowings and debentures in CIL prior to disposal.

Closing cash and cash equivalents of the Group at the year end were $4,731m. There were no amounts on deposits greater than three months (2010: $626m with $453m on bank deposits; $438m and $453m relating to discontinued operations).

Post year end, $3,530m of cash has been returned to shareholders in February 2012 through a B share scheme, with a further $23m expected to be returned in April 2012.

Principal Risks and Uncertainties

With the completion of both the disposal of a majority shareholding in CIL and the Greenland Drilling Project at the end of 2011, Cairn's risk profile has changed considerably in early 2012. The Company is now entering a new phase during which it will be looking to develop a more balanced portfolio with additional investment opportunities. As we commence delivering this next phase of investments, the principal risks and uncertainties facing the Company in relation to the Group's financial and operational performance, are as follows:

- Challenges of accessing the right opportunities at the right price to deliver our growth strategy;
- Assessment of timing of monetising our remaining stake in CIL; and
- Management of stakeholder relationships.

Going Concern and Liquidity Risk Management

The directors have considered the financial and operational risks relevant to support a statement of going concern. The Group's liquidity is carefully and routinely monitored through cash forecasts, which are prepared using a number of different scenarios. These forecasts show that the Group will be able to operate with significant financial headroom for the 12 months from the date of approval of the 2011 Annual Report and Accounts.

Outlook

The completion of the sale of a 40% interest in CIL to Vedanta in December 2011 brought to a successful conclusion Cairn's direct involvement in India built up over a period of 15 years. Over the last five years, Cairn has now returned a total of ~$4.5 billion to shareholders from this success. The combination of cash on the balance sheet and our residual holding in CIL now provides a strong platform from which to enter a new phase of growth opportunities in 2012 and beyond.

Jann Brown
Managing Director
and Chief Financial Officer
23 March 2012

Principal Risks and Uncertainties

Managing Business Risks
Getting risk management right is an essential component of business success at Cairn. The identification, evaluation and management of risk, together with the way we respond to changes in the external operating environment, are key to our success and underpin the safe delivery of our business plans and strategic objectives, protect our licence to operate and reputation, and help to create long-term competitive advantage.

In pursuing its strategy, Cairn considers investment opportunities that provide the right mix of political, commercial and technical risks. Cairn's success in South Asia over the past fifteen years has been achieved through having the confidence in our technical and commercial acumen and ability to identify, assess and effectively manage uncertainties. We knowingly accept business risks which are appropriate for the component parts of our business in pursuit of our vision.

Risk Identification and Management
Risk management is embedded in Cairn's organisation structure, operations and management systems. Business risks across the Group are addressed in a systematic way through the risk management structure shown below. This ensures the Board's assessment of risk is informed by risk factors and mitigating controls originating from and identified by the Group's assets, functional departments and in-country operations, including CIL, the Company's majority owned subsidiary in India (until 8 December 2011).

Cairn has a detailed risk management system and procedures in place to support risk evaluation across the Group. The risks associated with the delivery of the business plan and annual work programmes, and the associated mitigation measures are maintained in asset or project risk matrices and registers. Functional departments also maintain their own risk matrices and registers. The project delivery process requires that each new project or new business opportunity also maintains a risk register. These are consolidated into the Group risk matrix and register which is regularly reviewed by the joint Management and Corporate Teams.

The Risk Management Committee is chaired by the Chief Executive and meets ahead of every Board meeting to review the consolidated Group risk matrix and register, and the effectiveness of the risk management process. They also consider any 'black swan' risks which though low probability could have a major impact on the company. Risk management updates are provided at each Audit Committee and Board meeting.

More details on Cairn's approach to risk management is provided in the Internal Control section of the Corporate Governance Statement on page 67.

Responding to Changing Risk Environment in 2011

We operate in a dynamic environment where the risks associated with internal and external changes need to be effectively managed if we are to deliver the Company's business strategy and objectives. There were significant changes to the business and external environment in 2011 and the following summarises a number of the key steps taken to manage these risks:

- Following the re-organisation in July 2011, responsibility for reviewing business risks outside of CIL was taken over by the joint Management and Corporate Teams.
- Oversight of the risk management process in CIL was achieved through the provision of Cairn India Risk Reports and availability of CIL risk managers at the Company's Risk Management Committee meetings to answer questions. Well design, drilling and HSE operational experiences gained from the 2010 Greenland drilling project were shared with CIL and a joint risk review held with the CIL drilling team during the preparations for the Sri Lanka drilling project.
- Cairn's management system works to identify the potential for major accident hazards and to formulate measures to prevent these hazards from being realised.
- Application of the project delivery process and drilling risk management system to the Greenland Drilling Project. This included performing a Hazard Identification Study (HAZID) assessment to identify and mitigate potential major accident and HSE risks throughout the design and operation of the drilling activities.
- Application by CIL of the 'Ready For Start Up' (RFSU) assurance process on the Bhagyam Field in Rajasthan, which ensures that the facilities are built to applicable national and international standards and the risks of injury and/or release of hydrocarbons to the environment are minimised during the start up and commissioning phase. The basic objective of RFSU is to ensure a smooth and safe transition from a 'project construction' phase to an 'operational' phase. This is achieved through a systematic review of a range of critical HSE and operational aspects by a multi-disciplinary team of competent professionals.
- Enhancements to the business risk management system in 2011 included:
  - use of 'bow ties' to better define the risk interdependencies, causes and consequences and to identify appropriate actions, responsibilities and timelines; and
  - amending the level of financial impact criteria for the period post the return of cash to shareholders.
- With the completion of the Vedanta transaction in December 2011, the following enhancements to the business risk management system are currently underway:
  - re-articulation of our risk appetite in light of the change in portfolio and new business plan;
  - re-considering the methodology for determining the impact of a risk; and
  - putting greater emphasis on evaluating gross risks and controls to provide input to internal audits on key controls over high gross risks.

Principal Risks and Uncertainties

The Company has gone through significant change in 2011 and as a consequence the principal risks and uncertainties facing the Company have changed on a regular basis. With the completion of both the disposal of a majority shareholding in CIL and the Greenland Drilling Project at the end of 2011, Cairn's risk profile has changed considerably in early 2012. The Company is now entering a new phase during which it will be looking to develop a more balanced portfolio with additional investment opportunities. As we commence delivering this next phase of investments, the principal risks and uncertainties facing the Company in relation to the Group's financial and operational performance and the mitigating actions, are as follows:

Risk:	Potential Impact:	Mitigation:
Assessment of timing of monetising our remaining stake in Cairn India	Sub optimal extraction of value from the remaining shareholding in Cairn India	Maintain options for realising value from Cairn India shareholding at the appropriate time
Challenges of accessing the right opportunities at the right price to deliver our growth strategies	Limited or inappropriate investment opportunities	Source and screen investment opportunities, proceeding with the evaluation of those that meet Cairn's investment objectives
	Incorrect decisions leading to non realisation of value adding opportunities	Rigorous application of Project Delivery Process and Investment Procedures, including due diligence processes on new business investment opportunities
Ineffective management of stakeholder relationships	Actions by third parties or organisations (including non-governmental organisations (NGOs) potentially impacting business activities and reputation	Maintaining effective Corporate and Asset stakeholder management and communications plans

Principal Risks and Uncertainties
Continued

In our 2010 Annual Report and Accounts we presented the strategic, financial, operational and external risks which we believed could adversely impact our business at the time. During 2011 we regularly reviewed these risks and the following table updates these key risks, their potential impacts, the systems that we have in place, the mitigation measures, the KPIs that we use to monitor them and the progress in 2011. The list is not exhaustive and are not set out in any order or priority, and are likely to change at any time.

Strategic Risks

Risk:
Strategy fails to create shareholder value or meet shareholder expectations

Potential Impact:
- Loss of investor confidence and reduction in the share price, which reduces the ability to access finance and increases vulnerability to hostile takeover

Policies and Systems:
- Business Plan
- Investor Relations Strategy
- Relationship Agreement with Cairn India

Risk:
Inadequate portfolio management or ineffective capital allocation

Potential Impact:
- Non optimum realisation of value to shareholders
- Inappropriate level of risk investment

Policies and Systems:
- Business Plan
- Investment Procedures
- Project Delivery Process
- Business Risk Management System

Risk:
Inadequate resource and succession planning

Potential Impact:
- Inability to recruit and retain staff with the right skills, and to implement succession plans for senior positions resulting in disruption to the business

Policies and Systems:
- Business Plan
- Annual Work Programme and Budgeting Process
- Succession Plan Framework

Financial Risks

Risk:
Inability to fund exploration and development work programmes

Potential Impact:
- Asset financial performance and access to funding may not be matched, leading to an inability to meet the Group's financial obligations
- In the extreme case this could impact Group's ability to continue as a going concern

Policies and Systems:
- Business Plan
- Financial Strategy
- Cash flow forecasting

Mitigation:
- Strategy is to pursue material growth opportunities with the aim of creating and realising value through a balanced portfolio and strong balance sheet
- Strategic alignment with listed subsidiary, Cairn India, managed (up to 8 December 2011) through controlling shareholding and representation on the Cairn India Board, which is underpinned by a formal Relationship Agreement
- Effective engagement with investors and other stakeholders

KPIs:
- TSR Performance

Progress in 2011:
- Completion of the sale of 40% of Cairn India to Vedanta in December 2011 allowed for the return of $3.5 billion to shareholder and retention of ~$1.2 billion to pursue other material growth opportunities with the aim of creating and realising further value to shareholders in the future
- Strategic and leading early entry position built offshore Greenland. Five exploration wells and further seismic during 2011 has confirmed our belief that it has the necessary geological ingredients for oil and gas exploration success
- Regular, open and transparent communications with all stakeholders to ensure there is a clear understanding of the Group, strategy, and its risks and potential rewards

Mitigation:
- Regular reviews are undertaken of the existing portfolio and new opportunities with the potential to add to shareholder value

KPIs:
- Quarterly Valuation Reports (QVRs)
- Number of asset opportunities in portfolio
- Prospect Inventory
- Level of Resources/ Reserves

Progress in 2011:
- Completion of sale of 40% of Cairn India to Vedanta in December 2011
- New investment opportunities evaluated, but not implemented due to different view of values
- New offshore exploration blocks awarded in Spain
- Farm-out to Statoil of interest in Pitu Block in Greenland

Mitigation:
- Resource planning annual work programme and budgeting exercise
- Staff supplemented by consultants and/or contractors during periods of high activity or where additional specialists are required
- Regular reviews to ensure Cairn retains competitive remuneration and incentivisation policies
- Staff appraisal, training and development programmes, along with executive and senior management succession plans

KPIs:
- Staff Turnover
- Proportion of Staff/ Consultants
- Training spend/hours

Progress in 2011:
- Staff recruitment led to 22% increase to support business growth
- Succession plan framework developed
- Total rewards statements detailing full compensation and benefits issued to all staff
- Annual development reviews, tailored training programmes
- Introduction of mentoring and coaching programme

Mitigation:
- Prudent approach applied in budgeting and business planning to ensure sufficient equity capital is available to meet commitments on exploration drilling, whilst maintaining appropriate leverage to enhance returns from development and production assets

KPIs:
- Cash flow forecast
- Capital expenditure targets

Progress in 2011:
- Completion of the sale of the 10% tranche of Cairn India to Vedanta in July 2011. Part of the proceeds were used to fund the 2011 Greenland Drilling Project and to repay outstanding amounts from stand-by secured revolving debt facility of US$900 million, which was entered into at the end of 2010
- ~$1.2 billion from the sale of the 30% tranche of Cairn India to Vedanta in December 2011 has been retained to provide funding for future exploration and development opportunities
- The remaining 22% interest in Cairn India provides a source of additional future cash for investing in opportunities

Principal Risks and Uncertainties
Continued

Financial Risks (continued)

Risk:
Cost and capital discipline

Potential Impact:
- Ineffective cost control leads to reduced margins and profitability, reduced cash flow and ability to fund its business
- Non cost recovery of expenditures due to non-compliance with JV and/or Government agreements

Policies and Systems:
- Business Plan
- Annual Work Programme and Budgeting Process
- DOA and approval process
- Investment Procedures
- Project Delivery Process
- Compliance Matrices

Risk:
Delays in government/ regulatory approvals and/or legal or regulatory disputes

Potential Impact:
- Disputes resulting from different interpretations of fiscal legal agreements or regulations leading to additional costs, increased taxation and failure to achieve cost recovery

Policies and Systems:
- Project Delivery Process
- Financial Procedures
- Legal Procedures
- Stakeholder Management Plans
- Compliance Matrices

Operational Risks

Risk:
Health, safety, security and environmental incidents

Potential Impact:
- Major incident on seismic, drilling, construction or production operations impacting staff, contractors, communities or the environment, leading to loss of reputation and/or revenue, increased capital expenditure, project delay and possible fines

Policies and Systems:
- CR Policies and Management System
- Drilling Management System
- Project Delivery Process
- Operating Procedures
- HSE Leadership Team
- Emergency Response Plan
- Crisis Response Plan
- Oil Spill Prevention and Contingency Plan

Risk:
Maintaining regulatory approval for projects/ operations

Potential Impact:
- Actions by regulators, leading to reputational damage, possible additional cost and schedule impact and fines

Policies and Systems:
- Project Delivery Process
- Compliance Matrices

Risk:
Inadequate systems to prevent bribery and corruption

Potential Impact:
- Criminal case against Cairn and/or our employees leading to reputational damage, possible imprisonment and fines

Policies and Systems:
- Business Principles
- Anti-Bribery and Corruption Management System
- Investment Procedures
- Supply Chain procedures

Mitigation:

- Comprehensive business planning and annual work programme and budgeting process
- Rigorous application of Project Delivery Process and Investment Procedures
- Accounting procedures that comply with JOA and/or PSC requirements

KPIs:

- Capital expenditure targets
- Cost recovery and audit exception targets

Progress in 2011:

- Total capital expenditure in 2011 of $835 million, principally focused on Greenland exploration activities

Mitigation:

- Compliance matrices and legal, financial, supply chain and operational due diligence reviews to ensure that our understanding of our contractual rights and obligations is clear and robustly defended; and to minimise the potential for inadequate processes or interpretations that could lead to disputes

KPIs:

- N/A

Progress in 2011:

- Cairn India shareholder acceptance of the GoI conditions on the sale by Cairn Energy PLC of a majority shareholding in Cairn India to Vedanta, removed several areas of dispute with the Rajasthan Partners and Government of India

Mitigation:

- Implementation of management systems, processes and procedures
- Health, safety, security and environmental risks evaluated during project screening processes and protective measures regularly tested
- Internal and independent external assurance and review processes covering the design and operation of facilities, pipelines and well drilling operations
- Maintenance and regular testing of emergency organisation, procedures and equipment in order to be able to respond appropriately to an emergency
- Participation in industry initiatives to ensure capture of lessons learnt from elsewhere in the industry

KPIs:

- Health, safety, security and environmental indicators
- Environmental and safety targets
- HSE Leading Performance Indicators

Progress in 2011:

- No major incidents in 2011 in Greenland drilling or Cairn India drilling, construction and production activities
- One third party contractor fatality in road traffic accident in Rajasthan
- Safety target Total Recordable Injury Rate (TRIR) achieved in Cairn India, but exceeded in Cairn's assets outside of Cairn India
- Effective ice management operations implemented during Greenland drilling operations
- Updated Corporate Responsibility Management System (CRMS) developed – to be rolled out in early 2012
- HSE Leadership Team established to lead initiatives aimed at enhancing the way HSE is managed
- Emergency response facilities and equipment (including oil spills procedures) regularly tested
- Active participation in international industry and Greenland operators initiatives aimed at enhancing management of HSE risks

Mitigation:

- Compliance matrices established in each asset/project covering legal and regulatory requirements. Regular monitoring of compliance measures
- Regular engagement with government and regulators to maintain understanding of requirements of existing or potential new laws and/or regulations

KPIs:

- Actions Register
- Fines/sanctions

Progress in 2011:

- Compliance matrices and action tracking register maintained on all projects across the Group in 2011
- No fines or sanctions for non compliance with regulations in 2011

Mitigation:

- Consistent application of the anti-bribery and corruption procedures in all business activities and throughout supply chain and new venture due diligence processes

KPIs:

- Anti-bribery and corruption training
- Fines/sanctions

Progress in 2011:

- Anti-bribery and corruption processes updated in line with guidance issued by the Ministry of Justice to meet the requirements of the UK Bribery Act, rolled out and implemented on existing and new venture opportunities
- No fines or sanctions in 2011

Principal Risks and Uncertainties
Continued

External Risks

Risk:	Potential Impact:	Policies and Systems:
Corporate Responsibility	➤ Changes in political, industry and market expectations negatively impacting ability to deliver the strategy	➤ Business Principles ➤ CR Policies and Management System ➤ Anti-Bribery and Corruption Management System ➤ Project Delivery Process
Ineffective management of stakeholder relationships	➤ Ineffective cost control leads to reduced margins and profitability, reduced cash flow and ability to fund its business ➤ Non cost recovery of expenditures due to non-compliance with JV and/or Government agreements	➤ Actions by third parties or organisations (including NGOs) potentially impacting business activities and reputation
Changes in regulatory and fiscal environment affecting delivery of strategy or value	➤ Delivery of strategy affected by changes in political, regulatory or market conditions	➤ Stakeholder Management Procedures ➤ Compliance Matrices
Inadequate response to natural disasters affecting Group assets or staff	➤ Impact on staff, contractors or assets, leading to loss of revenue, increased capital expenditure, and/or project delay	➤ CR Policies & Management System ➤ Project Delivery Process ➤ Emergency Response Plan ➤ Crisis Response Plan ➤ Disaster Recovery and Business Continuity Plans
Corporate Oil and Gas price volatility	➤ Impact on revenue and project profitability	➤ Investment Procedures
Acquisition of Company at a discount	➤ Losing independence ➤ Shareholders not receiving the appropriate return on their investment	➤ Defence Strategy ➤ Investor Relations Strategy

Mitigation	KPIs	Progress in 2011
Mitigation: ➤ Regular review of Business Principles, with input provided through engagement with key stakeholders to understand expectations ➤ Consistent application of management systems and project delivery process ➤ Regular review of compliance requirements in countries in which we operate	**KPIs:** ➤ TSR Performance	**Progress in 2011:** ➤ Business Principles updated (to be issued in early 2012) ➤ Updated Stakeholder Management and Human Rights procedures prepared ➤ Regular engagement with regulators in countries in which we operate
Mitigation: ➤ Corporate and asset level stakeholder management and communication plans ➤ Robust response procedures for addressing complaints or grievances ➤ Cairn respects the rights of individuals and organisations to express their views in a safe and peaceful manner but would be concerned with any action that represents a breach of security and that may pose a risk to the safety of people and/or equipment. When this position has been compromised legal remedies have been or will be sought	**KPIs:** ➤ N/A	**Progress in 2011:** ➤ Environmental and Social Impact Assessment process completed as part of the Greenland Drilling Project approval process ➤ Corporate and Greenland stakeholder management and communications plans implemented ➤ Legal injunctions in place to minimise the potential for further direct action by an NGO
Mitigation: ➤ While the Group cannot predict the impact of future changes in fiscal policy in the countries and markets in which it operates, building successful relationships with governments, regulators, local community representatives and industry associations allows the Company to keep abreast of potential changes and allows appropriate lobbying ➤ Robust response procedures for addressing complaints or grievances	**KPIs:** ➤ TSR performance	**Progress in 2011:** ➤ Regular engagement with regulators in Cairn India and Greenland and any changes to regulations managed through Compliance matrices and action tracking registers
Mitigation: ➤ Risks evaluated during project screening processes and appropriate precautionary steps identified ➤ Insurance in place for assets ➤ Emergency and crisis response organisation and procedures in place and regularly tested ➤ Disaster recovery facility in place and regularly tested	**KPIs:** ➤ TSR performance	**Progress in 2011:** ➤ Emergency and crisis response organisation and procedures maintained and regularly tested
Mitigation: ➤ Scenarios for oil price and production volumes are rigorously prepared and monitored on a regular basis	**KPIs:** ➤ Realised prices	**Progress in 2011:** ➤ CIL mitigated risk through regular scenario planning for changes in oil price and production levels
Mitigation: ➤ Maintaining robust defence strategy against hostile acquisitions ➤ Effective engagement with investors and other stakeholders	**KPIs:** ➤ Remaining independent	**Progress in 2011:** ➤ Regular engagement with existing and potential investors ➤ Defence strategy reviewed with key advisors ➤ Independent review of reserves/resources ongoing

Corporate Responsibility

Cairn has a longstanding commitment to identifying, understanding and responding to sustainability issues; and supports this process through active engagement with stakeholders.

0
Number of lost time injuries on drilling rigs during 2011 Greenland drilling project

0.18
Cairn India's 2011 lost time injury frequency rate (LTIFR), lower than industry average

$800,000
Revenue raised from dairy development programme in Rajasthan

$575,000
Funds to be distributed to education and cultural programmes in Greenland

Overview

Cairn always aims to manage the potential health and safety, environmental and social impacts of our activities in a clear and transparent way. Corporate Responsibility (CR) is important to Cairn because it contributes significantly to the sustainability of our business and how we maintain our 'licence to operate'.

Our approach to CR and 2011 performance is described below. More detailed information and performance data is available as a downloadable pdf from our website www.cairnenergy.com/CRR2011. The independent sustainability consultant and assurance firm Environmental Resources Management (ERM) has provided limited assurance on selected information within the 2011 CR Report and delivered their work in accordance with the AA1000 Assurance Standard (AA1000 AS – 2008). Full details of their assurance work can be viewed in the 2011 CR report.

2011 CR Overview

- Permission to drill a further five wells offshore Greenland (after three in 2010). The application was supported by detailed environmental and social impact assessments (ESIAs) during which 40 stakeholder groups were consulted over eight towns and settlements. The results of the ESIAs were presented through a public hearing process including four public meetings.
- A second IBA was signed in 2011 providing employment and business participation in Cairn's activities; development of education initiatives towards skills required by the oil and gas industry and support for cultural activities and the development of young people though sport in Greenland. Awards totaling $0.575 million are to be distributed to 21 projects.
- Community development projects in Rajasthan run by CIL in 2011 included the Enterprise Centre which trained more than 6,000 youths, 80% of whom have already found employment; the dairy development programme which has generated revenue of more than $800,000 for farmers; and mobile health vans that have provided diagnostic and preventative healthcare to more than 100,000 people in remote communities in the Barmer and Bhogat regions of Rajasthan and Gujarat.

- Regrettably there was one fatality of a contractor working in CIL as a result of a motor vehicle accident. This tragic accident was fully investigated and corrective steps taken to minimise the likelihood of a similar accident happening again.
- CIL's LTIFR reduced by 57% to 0.18 per million years (2010: 0.40). Cairn's (excluding Cairn India) LTIFR was 3.67 (2010: 0.6). This was due to seven lost time incidents occurring on support services during our exploration activities offshore Greenland.
- There were no lost time injuries on the drilling rigs and the Leiv Eiriksson achieved two years of lost time injury free operations during the drilling operations in Greenland.
- Cairn's CR Policies, Business Principles and CRMS were reviewed and updated, along with the anti-bribery and corruption procedures to reflect legislation, such as the UK Bribery Act 2010 which came into effect in July 2011.
- The Stakeholder Management and Human Rights Guidelines were updated to incorporate new guidance from the IFC and UN's 'Protect, Respect, Remedy' Framework on Business and Human Rights.
- External reviews were undertaken of Cairn's approach to climate change, including the potential impact of the outcome of the Durban Conference in December 2011.
- More than 52,800 hours of training and development were delivered across the Group.

Our Responsible Approach

At Cairn, our approach to CR involves carefully managing the interaction between economic growth, the environment and the communities where we operate. This is guided by the expectations of our shareholders and other stakeholders regarding our financial performance, as well as risk management and relevant environmental and societal issues.

We seek to create value and provide an essential source of energy while improving the lives of the societies where we work by integrating economic prosperity, social development and environmental protection.

Improving our CR management means reducing potential negative impacts while generating and sustaining value. Cairn's Business Principles outline our fundamental values and approach to managing the business in line with the Company's policies. They identify the international standards we aspire to meet; set out goals for our behaviour, and govern our work as well as relationships with contractors and other business partners.

These Business Principles are based on our three core values, the 3Rs:

- Respect: for people, communities, the environment, the rule of law and human rights;
- Relationships: we believe that building strong, open and lasting relationships with our stakeholders is not merely a social responsibility but is vital to achieving our business goals; and
- Responsibility: we recognise our responsibility to ensure our actions do not harm people, the environment or society.

These values inform our day-to-day business activities and are promoted to staff, partners and contractors. We set annual performance objectives and targets, and measure and report our performance against them. The CRMS is aligned with the ISO 26000 Guidelines for Social Responsibility and ensures that our objectives are consistently delivered.

Full details of our approach to CR can be found in the 2011 CR report.

2011 Performance

As part of our commitment to continual improvement, CR objectives and KPIs are set annually and progress against these is measured and reported.

Group KPIs

Cairn assesses business performance and measures progress towards its corporate goals by using KPIs. Selected KPIs are 'high graded' to monitor business progress and contribute to the annual cash bonus scheme.

The Company's overall performance in 2011 was reported using a weighting system, which balances corporate strategic goals, CIL and Cairn (excluding Cairn India) KPIs, and individual performance.

Our annual performance relating to targeted, organisational-level CR KPIs is summarised on page 53.

Corporate Responsibility
Continued

Materiality

We regularly conduct materiality assessments to determine the CR issues of most relevance to our business and stakeholders. The materiality process involves input from internal and external stakeholders relating to the key economic, environmental and social issues that arise in our activities; and supports our strategic approach to CR.

At the end of 2011, our senior managers held a materiality workshop, led by a third party, which highlighted and ranked the most significant issues for both stakeholders and the Company, as follows:

- Arctic operations
- Major accidents
- Business ethics
- Occupational health and safety
- Local communities
- Emissions and waste
- Operational integrity
- Supply chain
- Governance and transparency
- Biodiversity

Management of these CR priorities is guided by our business practices, principles and policies.

Further details are provided in the 2011 CR report.

Our Objectives

Our 2012 CR Objectives are based on the combined outcome of the 2011 materiality process, our CR Road Maps, evaluations of lessons learnt from 2011, potential CR issues arising in 2012 and a review of changes to key external international standards.

Our 2012 CR objectives focus on strengthening our HSE management, leadership and culture; and improving our recruitment and induction processes. In addition, they include a renewed emphasis on security, as well as developing and implementing Public Consultation and Disclosure Plans (PCDPs) for existing and new assets.

2012 Objectives

Approach to Managing HSE

- Complete roll out and training in use of updated CRMS and implement on new projects.
- Review Business Principles and CR Policies in light of changing stakeholder expectations.
- Finalise and implement ongoing process for CR Management review.
- Strengthen HSE leadership and culture in the company.

Behaving Responsibly in all our Business Relationships

- Complete review of anti bribery and corruption procedures in early 2012. Update, roll out and provide further training as appropriate.
- Adopt AA1000 Assurance Standard (AA1000 AS – 2008), for 2011 CR report.
- Update CR Contractor Management Procedure and Guidance.
- Incorporate updated CR Contractor Management Procedure and Guidance into the Company's Project Delivery Process.

Behaving Responsibly Towards our People

- Strengthen Cairn's recruitment and induction processes.
- Continue with measures aimed at enhancing leadership capabilities.
- Review and update Edinburgh Office security systems and procedures.
- Enhance the travel security risk management process.

Behaving Responsibly Towards Society and Communities

- Roll out new Human Rights Guidelines and provide training in applying procedure for assessing and managing human rights in our business.
- Develop and implement PCDPs for existing and new assets in 2012.

Behaving Responsibly Towards the Environment

- Incorporate detailed guidance for climate change management into current procedures; align with Project Delivery Process and integrate within the CRMS.
- Issue biodiversity guidance. Align with Project Delivery Process and integrate within the CRMS.

Stakeholder Engagement

Stakeholder engagement is essential to delivery of our CR strategy and is embedded in our Business Principles and our core values. Through ongoing dialogue with stakeholders, we demonstrate responsible business behaviour while achieving our business goals.

Comprehensive stakeholder engagement strategies enable us to manage a wide range of interests and expectations successfully, guided by the CR Policy, CRMS and Stakeholder Engagement Guidance.

Cairn engages with a wide range of stakeholders. In 2011, we engaged with communities, governments, NGOs, shareholders, suppliers, customers, employees, and others. Cairn respects the rights of individuals and organisations to express their views in a safe and peaceful manner, but is concerned with any action that represents a breach of security and that may pose a risk to the safety of people and/or equipment. Such incidents occurred in 2011 with the actions of the NGO Greenpeace both offshore Greenland and at Cairn's Edinburgh office and legal remedies were taken.

The Company-wide CRMS sets out guidelines for determining significant stakeholders both at the Corporate level and for individual projects. The Corporate stakeholder matrix is reviewed and updated regularly by the Corporate Team.

We have revised in 2011 the Stakeholder Engagement Guidance, used by all country, asset and project managers to shape their own engagement strategies.

Every project starts with a PCDP, which includes specific engagement strategies. These cover those stakeholders affected by the Company's activities and others who influence or have an interest in our operations at an asset or company level.

All PCDPs follow a Group Public Consultation and Disclosure Plan Framework that is aligned with International Finance Corporation (IFC) guidance. Clear stakeholder grievance procedures form an essential part of each PCDP.

In 2011, we updated the PCDP for our activities in Greenland using the experience gained during operations in 2010. Another PCDP was completed to anticipate potential future activities offshore Spain.

Corporate Responsibility
Continued

Governance
Overall responsibility for defining the Group CR Policies and Business Principles rests with the Board. The Board consists of the Chairman, the Chief Executive, two Executive Directors and five independent Non-Executive Directors.

The Board oversees the implementation of effective CR management systems to manage any CR risks effectively. Jann Brown (Managing Director and Chief Financial Officer (CFO)) provides assurance to the Board on HSE (including climate change), community, human rights, employee and security issues.

In 2011, Cairn established two new non-Board committees:
- The Management Team (MT), which delivers the Company's strategic objectives and ensures an effective risk management system is implemented.
- The Corporate Team (CT), which focuses on external communications, CR, investor relations strategy, security and internal control and assurance.

Further information relating to Corporate Governance is available on page 59.

Financial Sustainability
Cairn employs an annual process for strategic and business planning, which defines our mission and objectives while prioritising the actions needed to accomplish them. The business plan uses a five year planning horizon and is accompanied by a financial plan that sets out our projected expenditure and income under multiple scenarios. This is used to assess whether sufficient resources are available in the short to medium term to meet our strategic objectives.

Progress against the business and financial plans is monitored throughout the year. Both plans are updated regularly, usually every three months.

In 2011, we completed the sale of a 40% stake in CIL to Vedanta. This allowed Cairn to return $3.5 billion to shareholders and, we believe, retain financial resources sufficient to meet our short and medium term objectives.

Remuneration
The Directors' Remuneration Report on page 69 of this report, outlines how we meet all relevant requirements of the Listing Rules of the Financial Services Authority and consistently apply the Principles of Good Governance relating to directors' remuneration. The Report also describes Cairn's policy on executive directors' remuneration and the responsibilities of the Remuneration Committee.

Environment

We recognise that our exploration and production activities have an impact on the environment, so we aim, wherever possible, to avoid, mitigate or manage any adverse impacts arising from our operations.

In 2011 we completed EIAs and an SIA for the drilling programme and approval was given for the 2011 drilling programme offshore Greenland. EIAs and Preliminary Environmental Impact Assessments (PEIAs) were also carried out for seismic surveys and site surveys.

We manage our environmental impacts by:

- understanding environmental impacts and managing potential biodiversity risks across our activities;
- complying with all applicable legal, regulatory and licence requirements;
- designing our wells and facilities to a high standard and putting strong emphasis on preventing risks from occurring;
- avoiding and minimising our air emissions, effluents and wastes, energy use and water consumption;
- developing and regularly reviewing robust oil spill contingency plans for our production and drilling activities; and
- monitoring and reviewing our performance and any incidents and implementing improvements.

Climate change is a complex issue and the relative contributions of human activities and natural causes to global warming are still debated. However, there is a broad international consensus that efforts should be made to limit global temperature rise to less than 2°C, which will involve fundamental changes in the way society sources and uses energy.

Cairn's Climate Change strategy, described in our Business Principles, consists of four elements:

- Greenhouse Gas (GHG) measurement, verification and reporting;
- maintaining energy and emissions efficiency;
- demonstrating informed and transparent action on climate change; and
- contributing to programmes that address the environmental and social impacts of climate change.

In 2011 our environmental performance is summarised as follows:

- The intensity of GHG emissions from the production operations in CIL was lower compared to 2010 (2011: 84.5 tonnes CO_2E per million tones of hydrocarbon produced), (2010: 90.6 tonnes CO_2E per million tonnes of hydrocarbon produced).
- Following the sale of assets in Bangladesh at the end of 2010, Cairn (excluding CIL) had no production operations in 2011, hence the GHG intensity from producing fields was zero.
- Three spills to the environment were recorded in our Greenland operations totaling ten litres of diesel oil and approximately eight barrels of hydraulic oil.
- Five spills were recorded by CIL from its production, pipeline and drilling operations totaling 100 barrels of oil and 63 barrels of oil-based drilling mud. The spills were fully investigated and all of the spills sites were cleaned up.

Read more on our environmental performance in 2011 at www.cairnernergy.com/CRR2011.

Corporate Responsibility Continued

People

In total, Cairn and CIL employed 1,320 staff in six different countries in 2011 and their efforts drive our success. As a responsible employer, we seek to provide a safe and healthy workplace and an environment in which our employees are motivated and able to develop their full potential.

Cairn promotes a supportive culture that values diversity and equality and offers our staff every opportunity to progress their careers. We are committed to safeguarding our people's health, safety and security, while keeping them informed and engaged in company activities.

We work hard to maintain positive employee relations at all levels of the Company. In 2011 we rewarded staff with a competitive benefits package including childcare vouchers, a share incentive plan and a new gym allowance. We continued to offer training and development opportunities to enhance the skills of employees, and across the Group, delivered over 52,800 hours of training.

We achieved Investors in People reaccreditation in 2010. This award recognises our commitment to developing our employees' skills, which in turn advances our business goals.

We are committed to eliminating all work-related injuries and illnesses and protecting our employees and contractors through a comprehensive and proactive approach to health and safety.

However, despite these efforts, 2011 saw a fatality in CIL of one of our contractors in a motor vehicle accident. This tragic accident was fully investigated and corrective steps taken to minimise the likelihood of a similar accident happening again.

Within Cairn's (excluding CIL) operations we had seven lost time injuries in our 2011 exploration activities in Greenland. Five of these were on seismic and support vessels and two were in the supply base. Lessons learned from these incidents and our 2011 operations have been recorded and are being addressed in the planning for future operations.

For more information relating to our performance in this area, visit www.cairnernergy.com/CRR2011.

Supply Chain

The nature of oil and gas exploration and production means that Cairn outsources many of its activities to contractors, suppliers, vendors and other stakeholders, collectively referred to as 'contractors', who make up the supply chain. As a result, we place a very high priority on selecting and managing our relationships with contractors. We use local contractors where practical, working with them to ensure that they understand our standards and comply with our Group CR Policies, Business Principles and Code of Business Ethics before being awarded contracts.

Our Business Principles apply to all stages of our supply chain and we aim to behave honestly, fairly and with integrity at all times. Our operations are subject to risk assessments to ensure adherence to international and local laws and standards, and to avoid complicity in any wrongful behaviour. We work to ensure fair and transparent tendering of supplies and services and contractors may be subject to specific audits of their capabilities, equipment and CR performance.

We conduct a risk-based due diligence process on contractors regarding their anti-corruption and bribery process and in 2011, our zero tolerance approach towards bribery and corruption included requesting all contractors to provide copies of their own anti-corruption and bribery policies.

For further details of our performance in this area, please see www.cairnenergy.com/CRR2011.

Communities

We are committed to maximising the many benefits that our work can bring to local communities. These can be economic, in terms of creating new jobs or engaging with local suppliers, both of which boost the local economy, or they can be societal, such as developing new infrastructure and community facilities.

Before setting up community initiatives, we carry out detailed consultations with local and national authorities, NGOs and other organisations. This ensures that we provide focused social investment and community development programmes that have a real impact.

Consultations are informed both by Group and project-specific PCDPs, which outline engagement programmes and measures for recording grievances as well as providing feedback.

We conduct SIAs and social baseline studies to assess potential social impacts associated with a specific project; respect and protect the human rights of local communities; and develop mutually beneficial relationships with all our stakeholders.

Community development projects in Rajasthan run by CIL in 2011 included the Enterprise Centre which trained more than 6,000 youths, 80% of whom have already found employment; the dairy development programme which has generated revenue of more than $800,000 for farmers; and mobile health vans that have provided diagnostic and preventative healthcare to more than 100,000 people in remote communities in the Barmer and Bhogat regions of Rajasthan and Gujarat.

Corporate Responsibility Continued

In 2011, we completed a second dedicated SIA for our drilling activities offshore Greenland and signed a second IBA with the national and municipal authorities, covering areas affected by our operations in Greenland.

Following the success of the 2010 IBA, our second IBA set out commitments in five areas:

- Employment Practices – including targets for increasing Greenlandic involvement in Cairn's project workforce.
- Business Development – including actions to promote opportunities for local companies in the Greenlandic oil and gas industry; and to promote mentorship and joint ventures between local and international businesses.
- Social well-being – including measures to prevent strain on local services such as health care.
- Cultural well-being – including funding local community development initiatives.

Under the 2011 IBA, a total of $0.575 million will be distributed to a total of 21 projects.

Over the last eight years, our operations in Rajasthan, India, have increased local employment opportunities and improved access to healthcare for local people.

More information regarding our performance in this area is available at www.cairnernergy.com/CRR2011.

Operational Integrity

For Cairn, operational integrity is a core practice and represents the highest standards guiding our actions and operations, as well as our interactions with employees, contractors, communities, local authorities and other stakeholders.

Maintaining the integrity of our operations is fundamental to the prevention and mitigation of potential major accidents.

Our CRMS identifies the potential risks and impacts of a proposed activity and aims to prevent these by adopting appropriate measures. Together with our Risk Management System, this plays a vital role in assessing and managing potential major accident hazards. We work to reduce the risks and impacts of a proposed programme in line with the As Low as Reasonably Practicable (ALARP) principle. In the unlikely event of an incident occurring, we have established emergency response procedures in place to manage this effectively.

All major projects, such as drilling programmes, are managed through the Project Delivery Process so that risks are re-evaluated at different stages, from concept through to execution and close-out.

Protecting the integrity of our assets means designing our facilities to ensure they work effectively throughout a project, while protecting the health and safety of our staff and safeguarding the environment. This ensures that valuable time is not lost during routine operations and also plays a significant part in preventing major accidents.

Cairn's Risk Management System plays a crucial role in maintaining asset integrity throughout the design operation of our activities.

During 2011 drilling operations in Greenland, we undertook several risk-prevention measures:

- Conducted a major accident hazard (MAH) workshop facilitated by independent specialist Det Norske Veritas (DNV), during planning and well in advance of starting operations;
- Carried out HAZID and control studies and a 'Drill the Well on Paper' (DWOP) workshop to ensure thorough project planning; and
- Held a winterisation workshop again facilitated by DNV to assure that the rigs selected for the programme could operate in cold and extreme climatic conditions if required.

The drilling programme risk assessments and mitigations were subject to an external peer review; and a certified UK well examiner reviewed and verified the well designs and programmes before and during the drilling operations.

In light of the sale of our controlling stake in CIL in December 2011 (retaining a 22% interest), the fundamental nature of our business is changing. In response, we have implemented a due diligence process to shape any new investment proposals. CR issues are covered within the process and this mirrors the topic areas of our Standard Operating Procedures and assists in assessing risks and outstanding issues relating to health, safety, environment and security.

Read more about our approach to Operational Integrity at www.cairnernergy.com/CRR2011.

GRI Index

Cairn's 2011 CR report is delivered in line with AA1000 assurance standard (AA1000 AS-2008) and is aligned with the Global Reporting Initiative (GRI) G3.1 Sustainability Reporting Guidelines. Further details are provided at www.cairnenergy.com/CRR2011

Board of Directors

Name and Title	Simon Thomson Chief Executive (47)	Dr Mike Watts Deputy Chief Executive (56)	Jann Brown Managing Director and Chief Financial Officer (56)	Sir Bill Gammell Non-Executive Chairman (59)
Biography	Simon Thomson joined Cairn in 1995 as a lawyer. He was appointed as Chief Executive in July 2011 having been Legal and Commercial Director since 2006. Simon holds an LLB (Hons) from Aberdeen University and a Diploma in Legal Practice from Glasgow University.	Dr Mike Watts is Deputy Chief Executive and has more than 32 years' experience in the oil industry. He was formerly CEO and Managing Director of the Amsterdam listed Holland Sea Search, which was acquired by Cairn in 1995, and where he was the architect of the South Asia strategy. Mike has held senior technical and management roles with Premier, Burmah and Shell.	Jann Brown holds an MA from Edinburgh University and a diploma in accounting from Heriot Watt University. Jann joined Cairn in 1998 after a career in the accountancy profession, mainly with KPMG. Jann is Vice President Elect of the Institute of Chartered Accountants of Scotland (ICAS) until mid-April 2012, at which point she will become Vice President of ICAS. She is also a member of the Chartered Institute of Taxation.	Sir Bill Gammell holds a BA in Economics and Accountancy from Stirling University and was awarded a knighthood in 2006 for services to industry in Scotland. Sir Bill has more than 30 years' experience in the international oil and gas industry.
Term of Office	Simon was originally appointed to the Board in November 2006 as Legal and Commercial Director before becoming Chief Executive in July 2011.	Mike was appointed to the Board in 1999 and became Deputy Chief Executive in March 2009.	Jann was appointed to the Board in November 2006 as Finance Director and became Managing Director and Chief Financial Officer in July 2011.	Sir Bill founded Cairn and was appointed to the Board as Chief Executive on its initial listing in 1988. In July 2011 he stood down from that role and took over as Non-Executive Chairman.
Independent	Not applicable	Not applicable	Not applicable	No
External Appointments	Simon is a Non-Executive Director of Graham's The Family Dairy Limited and is a Director of the Winning Scotland Foundation.	Mike is a Non-Executive Director of SOCO International PLC.	Jann was the Senior Independent Director of Hansen Transmissions International NV until the company was taken over in December 2011.	Sir Bill is a member of the Asia Task Force and the UK India Business Council. Sir Bill, who is an ex-Scotland rugby internationalist, is also a director of the Winning Scotland Foundation, a director of Glasgow 2014 Limited and a member of the British Olympic Advisory Board. On 1 March 2012, Sir Bill was also appointed the Non-Executive Chairman of Genius Foods Limited.
Committee Membership	Simon chairs the Group Risk Management Committee and attends the Remuneration Committee and Corporate Governance and Nomination Committee[1] by invitation.	Mike is a member of the Group Risk Management Committee.	Jann is a member of the Group Risk Management Committee and of the Corporate Governance and Nomination Committee[1].	Sir Bill has been a member of the Corporate Governance and Nomination Committee[1] since February 2003.

1 As detailed in the Corporate Governance Statement on pages 59 to 68, the Nomination Committee has been expanded to include a corporate governance function and has now been renamed the Corporate Governance and Nomination Committee.

Board of Directors
Continued

Todd Hunt Non-Executive Director (59)	Iain McLaren Non-Executive Director (61)	Dr James Buckee Non-Executive Director (66)	M. Jacqueline Sheppard QC Non-Executive Director (56)	Alexander Berger Non-Executive Director (46)
Todd Hunt is President and joint owner of Atropos Exploration Company and Atropos Production Company based in Dallas, Texas. He has more than 30 years' experience in the oil and gas industry.	Iain McLaren was formerly Senior Partner for KPMG in Scotland and has significant experience in the oil and gas sector.	Dr James Buckee has more than 40 years' experience in the oil and gas industry having gained extensive international experience with Shell, Burmah Oil and BP. Dr Buckee was appointed President of Talisman Energy Inc in 1991 and CEO in 1993 and held both posts until retiring from Talisman in 2007.	M. Jacqueline Sheppard QC was previously Executive Vice President, Corporate and Legal at Talisman Energy Inc., a post she held for 15 years from 1993 to 2008. Ms 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 admitted to the Law Society of Alberta, Canada in 1982 and was appointed Queen's Counsel for the Province of Alberta in 2008.	Alexander Berger is Chief Executive Officer of Oranje-Nassau Energie B.V., a private Dutch exploration and production company based in Amsterdam. Alexander holds a Masters degree in Petroleum Engineering from Delft University and an MBA from Rotterdam School of Management.
Todd was appointed as an independent Non-Executive Director in May 2003.	Iain was appointed as an independent Non-Executive Director in July 2008.	Dr Buckee was appointed as an independent Non-Executive Director in January 2009.	Ms Sheppard was appointed as an independent Non-Executive Director in May 2010.	Alexander was appointed as an independent Non-Executive Director in May 2010.
Yes	Yes	Yes	Yes	Yes
President and joint owner of Atropos Exploration Company and Atropos Production Company.	Iain is Chairman of Investors Capital Trust and a Director of Baillie Gifford Shin Nippon Trust and Scottish Enterprise. He is also the President of the Institute of Chartered Accountants of Scotland.	Dr Buckee is Non-Executive Chairman of EnQuest PLC and a Non-Executive Director of Rodinia Oil Corp. and PetroFrontier Corp.	Ms Sheppard is a Director of Emera Inc. and NWest Energy Inc., both public corporations and she is Chairperson of the Research and Development Corporation of Newfoundland and Labrador, a crown corporation.	Alexander is Chief Executive Officer of Oranje-Nassau Energie B.V.
Todd has been a member of the Remuneration Committee since June 2005 and the Corporate Governance and Nomination Committee[1] since May 2009.	Iain is the Chairman of the Audit Committee and a member of the Corporate Governance and Nomination Committee[1]. He has also been a member of the Remuneration Committee since May 2010 and is a member of the Group Risk Management Committee.	Dr Buckee is a member of the Remuneration Committee and has been a member of the Audit Committee since January 2009.	Ms Sheppard is chair of both the Remuneration Committee and the Corporate Governance and Nomination Committee[1].	Alexander has been a member of the Corporate Governance and Nomination Committee[1] since October 2011 and a member of the Audit Committee since March 2012.

1 As detailed in the Corporate Governance Statement on pages 59 to 68, the Nomination Committee has been expanded to include a corporate governance function and has now been renamed the Corporate Governance and Nomination Committee.

Directors' Report

The Directors of Cairn Energy PLC (registered in Scotland with Company No. SC226712) present their Annual Report for the year ended 31 December 2011 together with the financial statements of the Group and Company for the year. These will be laid before the shareholders at the AGM to be held on Thursday 17 May 2012.

Results and Dividend

The Group made a profit after tax and exceptional items of $4,565.2 million (2010: $1.1 billion).

Subsequent events that have occurred after the Balance Sheet date as at 31 December 2011 are included in Notes 7.1 and 7.2 of the Notes to the Financial Statements.

Principal Activities and Business Review

The principal activity of the Company and its subsidiary undertakings is the exploration for and development and production of oil and gas. Details of the development of the Group's business during the year and the information that fulfils the requirements of the Business Review can be found in the Discover Cairn and Business Review sections on pages 1 to 53 of this document, which are deemed to form part of this report by reference.

Details of Cairn's offices are given on page 136 of this report and details of Cairn's advisers are given on page 133.

Change of Control

All of the Company's share incentive plans contain provisions relating to a change of control and full details of these plans are provided in the Directors' Remuneration Report on pages 69 to 87. 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 a director's employment, each of the Executive Directors is also entitled, pursuant to their service contracts, to compensation of a sum equal to their annual basic salary as at the date of termination of employment. There are no agreements providing for compensation to employees on a change of control.

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.

Corporate Governance

The Company's Corporate Governance Statement is set out on pages 59 to 68 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 54 and 55. The beneficial interests of the directors in the ordinary shares of the Company are shown below:

	As at 31 December 2010	As at 31 December 2011	As at 23 March 2012*
Sir Bill Gammell	2,766,935	3,317,473	1,247,004
Dr Mike Watts	2,444,424	2,864,926	1,141,973
Jann Brown	398,030	665,873	281,409
Simon Thomson	599,963	900,841	364,424
Todd Hunt	182,800	182,800	72,012
Iain McLaren	20,000	20,000	7,878
Dr James Buckee	43,306	58,314	24,462
M. Jacqueline Sheppard QC	0	0	0
Alexander Berger	0	0	0
Former directors			
Malcolm Thoms**	502,185	–	–
Phil Tracy**	469,938	–	–
Norman Murray**	200,000	–	–

* The shareholding figures set out above as at 23 March 2012 take account of the share capital consolidation of 13 for 33 ordinary shares which took place on 6 February 2012.

** As set out in the Company's Corporate Governance Statement on pages 59 to 68, Malcolm Thoms and Phil Tracy stood down as directors of the Company on 30 June 2011 and Norman Murray stood down as chairman of the Board and as a Non-Executive Director of the Company on the same date.

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 69 to 87.

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 69 to 87.

Share Capital

The issued share capital of the Company is shown in Note 6.1 of the Notes to the Financial Statements. As at 23 March 2012, 554,668,897 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. Therefore, it is the Company's current practice to hold a poll and it is committed to doing so going forward.

Directors' Report
Continued

Voting Rights Continued
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.

Directors' Report
Continued

Major Interests in Share Capital
As at 31 December 2011 and 23 March 2012, the Company had received notification that shareholdings of 3% and over were as set out in the table below.

Charitable and Political Donations
The Company has a Charities Committee which is responsible for distributing the Company's charitable donations to selected charities within an overall annual budget. There are currently ten members of the Charities Committee (with alternates) comprising a broad range of employees from across the organisation. The Chief Executive is not a member of the Charities Committee.

During the year, the Company made various charitable contributions in the UK totalling $756,148 (2010: $698,864). Contributions in the UK are made to a variety of charitable organisations whose areas of operation and activities are aligned with Cairn's. In addition, the Group provides funding to various charitable initiatives outwith the UK. Further details of these can be found in our Corporate Responsibility Report, which is available on the Company's website.

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

Creditor Payment Policy and Practice
It is Cairn's payment policy to ensure settlement of suppliers' services in accordance with the terms of the applicable contracts. In most circumstances, settlement terms are agreed prior to business taking place. Trade creditors of the Company at 31 December 2011 were equivalent to 5.75 days' purchases, based on the average daily amount invoiced by suppliers to the Company during the year.

Financial Instruments
The financial risk management objectives and policies of the Company are detailed in Appendix 2 of the Financial Statements.

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 Corporate Governance and Nomination Committee[1] 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 59 to 68 and in the Company's Articles of Association.

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. The Company adopted new Articles of Association following approval of these by shareholders at the General Meeting of the Company held on 30 January 2012. There is a resolution contained in the Notice of AGM which forms part of the Circular which has been posted to shareholders together with this Annual Report, which proposes certain amendments to the Company's Articles of Association, a full explanation of which is contained in the Circular.

Disclosure of Information to Auditors
The directors of the Company who held office at 31 December 2011 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 that the Company's auditors are aware of this information.

AGM 2012
The AGM of the Company will be held in the Sir Walter Scott Suite of the Balmoral Hotel, 1 Princes Street, Edinburgh EH2 2EQ at 12 noon (UK time) on Thursday, 17 May 2012. 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.

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
23 March 2012

Major Interests in Share Capital	As at 31 December 2011	% Share Capital	As at 23 March 2012*	% Share Capital*
BlackRock Investment Management	131,858,007	9.37	39,804,509	7.18
HSBC Global Asset Management	125,153,674	8.89	54,196,318	9.77
MFS Investment Management	74,367,246	5.28	32,524,901	5.86
Capital Group International**	69,517,058	4.94	14,751,661	2.66
Legal & General Investment Management	68,540,241	4.87	24,306,177	4.38
Walter Scott & Partners**	64,169,216	4.56	0	0
Scottish Widows	57,403,108	4.08	18,408,462	3.32

* The shareholding figures set out above as at 23 March 2012 take account of the share capital consolidation of 13 for 33 ordinary shares which took place on 6 February 2012.
** As at 23 March 2012, these shareholders no longer hold a notifiable interest in the Company.

1 As detailed in the Corporate Governance Statement on pages 59 to 68, the Nomination Committee has been expanded to include a corporate governance function and has now been renamed the Corporate Governance and Nomination Committee.

Corporate Governance Statement

Cairn's Commitment to Corporate Governance

Cairn is committed to achieving compliance with the principles and provisions set out in the UK Corporate Governance Code and to ensuring that high standards of corporate governance are maintained. In 2011 the Board has reviewed the provisions of the UK Corporate Governance Code and where they have considered it appropriate have enhanced the Company's principles and policies to ensure the Company complies with the UK Corporate Governance Code (otherwise than as detailed in this statement).

Set out below is a statement of how the Company applied the principles of the UK Corporate Governance Code for the year ended 31 December 2011.

The Cairn 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 sector and regulatory environment in which Cairn operates, and appropriate financial and risk management skills. In each Board appointment, whether executive or non-executive, the Board considers that objectivity and integrity, as well as skills, experience, ability and diversity that will assist the Board in its key functions, are prerequisites for appointment.

The Board currently comprises the Chairman, the Chief Executive, two Executive Directors and five independent Non-Executive Directors. The directors' biographies are on pages 54 and 55. As part of Cairn's succession policy over the past four years the Board has undergone an extensive refreshment process evidenced by the appointment of four Non-Executive Directors during this time. The Company considers periodic refreshment of the Board to be positive as it brings new ideas to the Company as well as ensuring that the Board appoints directors with the right experience to meet its business needs. 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.

Diversity is a key element of the Cairn Board, with emphasis placed on gender, nationality and experience. The Board demonstrates balance across all these elements with 22% female representation on the Board and directors from the Netherlands, the USA and Canada, as well as the UK, all bringing their international experience to the Board.

During the past year, there have been a number of changes on the Board. Following Norman Murray's decision to stand down as Non-Executive Chairman of the Company, Sir Bill Gammell stepped down as Chief Executive on 30 June 2011 and was appointed Non-Executive Chairman of the Board with effect from 1 July 2011. Simon Thomson was appointed as Chief Executive on 1 July 2011. Jann Brown was appointed Managing Director and Chief Financial Officer on 1 July 2011. Philip Tracy, Group Engineering and Operations Director and Malcolm Thoms, Chief Operating Officer served on the Board during the year but also stepped down from their positions on the Board at the time of the reorganisation. The Nomination Committee report on pages 64 and 65 further explains the appointment process undertaken by the committee and the selection criteria used for the appointment of the Chairman and Chief Executive.

Appointment of the Chairman and Chief Executive

The Company acknowledges that the appointment of Sir Bill Gammell from the role of Chief Executive to Non-Executive Chairman of the Board is an exception to the UK Corporate Governance Code. However in making the appointment the Board agreed unanimously that looking forward this move was in the best interests of the Company and its shareholders. The Board believes that, in making this appointment, the Nomination Committee undertook a robust process. As part of this process, the Company consulted with its major shareholders who indicated their approval of the Board changes.

The key considerations made when the Board and the nomination committee were considering the appointments were as follows:

- After 12 years on the Cairn Board and nine years as Chairman, Norman Murray had decided to accept new challenges outwith the Company and had been recently appointed as a director and chairman designate of Petrofac Limited.
- The Board viewed Sir Bill Gammell as the best choice to replace Norman Murray as Non-Executive Chairman – his knowledge of the Company and experience gained over 30 years in the industry were a very important resource for the Board which could continue to be called upon in his new role.
- Given the Company's significant presence in South Asia, and at the time, the ongoing transaction with Vedanta, the Board considered experience in this area of the industry to be important to any new appointment. Given Sir Bill's strong relationship with the GoI, his profound understanding of India and his extensive experience and networks in the region, the Board believed that his continuing management of the Vedanta negotiations would be of unique and vital importance in securing the successful completion of the transaction. As a result, Sir Bill continued to oversee the discussions with Vedanta, which ultimately led to the successful completion of the transaction in December 2011.
- Sir Bill was relinquishing his executive responsibilities with a view to providing succession opportunities for other members of the senior executive team, in particular Simon Thomson who succeeded Sir Bill as Chief Executive of the Company. The Board is confident that Sir Bill will work to support Simon in his new role as Chief Executive.
- The Board believes that, although Sir Bill does not meet the independence criteria set out in the UK Corporate Governance Code, he nevertheless possesses all of the skills and qualities the Board would look for in a new Chairman including his experience in the oil and gas industry and his experience gained as Chairman of Cairn India (a publicly listed company in India). The Board also in 2010 appointed two new Non-Executive Directors, Ms M. Jacqueline Sheppard QC and Alexander Berger. The Board recognises the importance of these appointments in demonstrating its commitment to ensure there is a sufficient number of independent Non-Executive Directors on the Board. Furthermore, the Board is satisfied that any issues which may arise as a result of Sir Bill not meeting the independence criteria are mitigated by the presence of a robust Senior Independent Director.
- As the new Chairman of the Company, Sir Bill Gammell is fully aware of the change in his responsibilities, in a non-executive capacity, to lead the Board and ensure its effectiveness on all aspects of its role. He is committed to continuing the Board's existing culture of openness and debate by facilitating the effective contribution of the Executive Directors and ensuring constructive relations between Executive and Non-Executive Directors.

Corporate Governance Statement
Continued

Appointment of the Chairman and Chief Executive Continued

In relation to the succession for the Chief Executive, the Nomination Committee and the Board considered that Simon Thomson was the natural and best candidate for the role having worked for the Company for 15 years and having worked together with Sir Bill and the other executive team members on the Board since 2006. He has also played an instrumental role in the Company's development, in particular in accessing the opportunities that Greenland offers and in the delivery of value from the Vedanta transaction, as well as other corporate and asset transactions undertaken by the Company in recent years. The Board is confident that Simon is best placed to lead the Company and the Executive Team to develop the business and the Company's portfolio of assets.

The division of responsibilities between the Chairman and Chief Executive in particular have been scrutinised by the Board at the time of the reorganisation and a clear division of responsibilities is set out in writing. The Chairman is responsible for the 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 and acting as guardian and facilitator of the Board's decision making process and ensuring effective implementation of the Board's decisions. The Chairman is also responsible for ensuring effective communications with shareholders and understanding their issues and concerns. The Chief Executive is responsible for managing the Group's business, proposing and developing the Group's strategy and overall commercial objectives in consultation with the Board. As leader of the Executive Team he is also responsible for implementing the decisions of the Board and its committees and ensuring successful and efficient achievement of the Group's objectives. Together with the Chairman, he provides coherent leadership of the Company, including representing the Group to shareholders, financial institutions, employees, governments, the media, the wider community and the general public.

Senior Independent Director

Iain McLaren continues to be Cairn's Senior Independent Non-Executive Director committing a substantial amount of time and effort to carrying out this role effectively and efficiently. 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 through which contact through the normal channels of Chairman, Chief Executive or other Executive Directors 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 terms of the Articles of Association of the Company, all of the directors are subject to election by shareholders at the first AGM after their appointment to the Board and to re-election by shareholders at least once every three years. Furthermore they are subject to re-election annually if they have held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the relevant AGM. In accordance with the UK Corporate Governance Code, all of the Company's directors will however be subject to annual re-election by shareholders with effect from the AGM to be held on 17 May 2012.

The Company acknowledges that Todd Hunt has been a member of the Board for ten years; however in view of the number of new Non-Executive Directors on the Board the Company considers it appropriate to retain Todd Hunt to provide continuity and stability to the Board. His continued contribution to the Board is considered to be invaluable and therefore he is being proposed for re-election.

Performance Evaluation

The Board has in place a formal rigorous process for annual performance evaluation for the Board, Audit, Nomination and Remuneration Committees and individual directors. In 2011 the performance evaluation process was carried out internally. In accordance with the UK Corporate Governance Code, the Board will implement the new requirement that the performance evaluation of the Board will be externally facilitated every three years. It is proposed that this external review will be carried out in 2012.

The process during 2011, which was led by the current Chairman, focused on conducting a thorough review of the commitment, skills and experience of each member of the Board and of the strengths and weaknesses of the Board as a whole. The performance evaluation was primarily based upon answers to a questionnaire which focused on the performance of the Board. The questionnaire was prepared internally by the Deputy Company Secretary and the Chairman and was distributed to all Board members. The areas covered by the questionnaire included the effectiveness of the Board and Board committees, strategy setting, performance against key objectives set for the Board and each of the directors and the level and quality of information available to the Board. Once a questionnaire had been completed by each member of the Board, the Chairman held a meeting with each director, as appropriate, to discuss their responses.

The Executive Directors also have their performance individually reviewed by the Remuneration Committee against objectives which are set annually. The bonuses payable to the Executive Directors under the Company's cash bonus scheme (described further in the Directors' Remuneration Report on pages 69 to 87) are linked directly to the results of these reviews.

Following the performance evaluation process conducted in 2011, the Board and its committees are satisfied that they are operating effectively and that each director has performed well in respect of their individual roles on the Board. Following the results of the individual performance evaluations, the Board believes that all of the directors' performance (all of whom are proposed for re-election at the AGM) continues to be effective and that they each demonstrate commitment to the role.

Independence of Non-Executive Directors

The Board evaluation and review process also covered the independence of each of the Non-Executive Directors, taking into account their integrity, objectivity and contribution to the Board and its committees. The Board believes that the following behaviours are essential in order 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 organisation and its shareholders;
- has a detailed and extensive knowledge of the Group's business, the industry and the market as a whole which provides a solid background in which the Non-Executive Directors can consider the Group'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.

Corporate Governance Statement
Continued

Independence of Non-Executive Directors Continued
Having reviewed the independence of each of the Non-Executive Directors against this criteria and the characteristics of independence set out in the UK Corporate Governance Code, the Board concluded that all of the Non-Executive Directors of the Company (with the exception of the Chairman) demonstrated each of the required competences to a high level and are therefore each considered independent. The Board acknowledge that the Chairman has previously held the position of Chief Executive and so is not to be considered as independent. The appointment of M. Jacqueline Sheppard QC and Alexander Berger in 2010 emphasised the Board's commitment to ensuring the independence of the Company's Non-Executive Directors and the valuable contribution and perspective they each bring to the Board.

The Company acknowledges that Todd Hunt will have entered his tenth year as a member of the Board following the 2012 AGM. The Company has taken account of the UK Corporate Governance Code's criteria of independence, as well as its own test, and has concluded that Todd Hunt continues to remain robustly independent. In making its decision, the Board took account of his contribution to Board and committee discussions, in which he demonstrates independent judgement and robust scrutiny, the results of the Board evaluation process, which did not identify any concern relating to his independent behaviour, and the fact that Todd Hunt will have entered into his tenth year on the Board following the upcoming AGM. The Board is satisfied that no long-standing personal or professional relationships exist between Todd Hunt and any of the Executive Directors. During the past year the composition of the directors on the Board has changed extensively – Todd Hunt provided an element of continuity and stability to the Board during this period.

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, a new director is provided with an induction pack which contains background materials and general information on the Company, the Company's policies and procedures, financial information, an operational review and a briefing on directors' legal and regulatory responsibilities.

The Company provides on an on-going 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 to its directors and in 2011 held a number of seminars for Board members, which are regularly presented by the Company's external advisers and guest speakers, on subjects appropriate to the Company's business, including changes to legislation, regulation and market practice. These seminars were held at the end of Board meetings and were attended by all directors present at such meetings. This process is continuing in 2012. Any director may request that a particular subject is covered in a seminar. In addition, all media articles relating to the Company and all brokers' and analysts' reports on 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 perform its duties. The Company Secretary and Deputy Company Secretary are responsible for advising the Board, through the Chairman, on all corporate governance matters. In addition, each director has access to the advice and services of the Company Secretary and Deputy Company Secretary. There is also a procedure agreed by the Board for directors, in furtherance of their duties, to take independent professional advice if necessary, at the Company's expense, up to a pre-determined limit.

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 of any current situations (appointments or otherwise) which may give rise to a conflict, or potential conflict, of interest. Notifications have been received from all of the current directors and there are no conflict matters which require to be authorised. 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. These reserved matters include determination of the overall strategy of the Group and approval of the Annual Report and Accounts and any other financial statements, the Group's annual budget and amendments to that budget over a particular amount, borrowing and security, acquisitions and disposals, capital expenditure over a specified amount, amendments to the organisational structure of the Group and the Board, approval of significant changes to accounting policies and approval of management incentive schemes and Group policy on pensions.

The Company has during 2011 constituted two new non-Board committees – the Management Team and the Corporate Team – to support the Board and the Executive Directors in the day to day operational management of the Company.

The Management Team is comprised of six members of the senior management team and its objective is to lead the delivery of the Company's strategic objectives, including generating and updating the business plan to be recommended to the Board, ensuring that all work programmes are executed, managed and reported, and being responsible for the risk management process for all assets, functions and new venture proposals.

The Corporate Team comprises members of the senior management team and is responsible for enabling and maintaining the Company's access to the capital markets and new opportunities in line with the Company's strategic objectives and is charged with promoting and protecting the Company's reputation as a well run business. In 2011, the Corporate Team has focused on the following key areas; external communications, corporate responsibility, investor relations strategy, security and internal control and assurance.

Corporate Governance Statement
Continued

Matters Reserved to the Board and Delegation of Authority Continued

Both the Corporate Team and the Management Team formally meet fortnightly and regularly report direct to the Executive Directors.

The other non-Board committees previously constituted in 2010 – the strategy review group and the technical advisory board – continue to support the Company's operational management and strategic decision making process.

The strategy review group meets on an ad hoc basis and comprises five members of the senior management team (including the three Executive Directors) and two Non-Executive Directors. It provides advice to the Board on strategic options open to Cairn to fulfil its next phase of growth.

The technical advisory board meets at least three times per year and currently comprises three Executive Directors and two independent technical experts. It provides an independent forum for expert technical advice and peer group review of technical programmes, including new ventures proposals, in the context of the agreed exploration strategy. The technical advisory board also provides advice on technical excellence and appropriate new technology to assist in developing the Company's growth strategy.

In October 2011, a HSE leadership team was also established, chaired by the Managing Director and comprising key managers across the business. The aim of the HSE leadership team is to provide leadership on HSE issues and drive initiatives to improve HSE performance across the group.

Board Meetings

During 2011, six scheduled meetings of the Board were held, all of which were held at the Company's registered office in Edinburgh. Details of attendance at each of those meetings, and at meetings of Board committees, are set out in the table on the right.

During the year, a significant number of other meetings took place to deal with specific matters that required to be considered at short notice. When a specific matter requires consideration at short notice, there is a procedure that sets out when those matters must be considered at a short notice Board meeting and when they may be dealt with by a committee of the Board (comprising at least two Non-Executive Directors, one of whom must be the Chairman or the Senior Independent Non-Executive Director, and two Executive Directors).

Any director who is physically unable to attend Board or 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 also 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 operational management, is set by the Chairman in consultation with the Chief Executive and the Company Secretary. In particular, the agenda for each Board meeting in 2011 included a detailed update on matters in respect of the Group's Indian business from those directors of the Company who sat in a non-executive capacity on the board of Cairn India (Sir Bill Gammell, Jann Brown and Malcolm Thoms). The Chief Executive Officer of Cairn India, Rahul Dhir, also attended part of each meeting to ensure that the Board was kept fully briefed on matters relating to Cairn India. 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. The Non-Executive Directors also meet informally, without any executives present, on a regular basis to discuss matters in respect of the business.

Directors' Attendance at Board and Board Committee Meetings

The table below sets out the attendance record of each director at scheduled Board and Board committee meetings during 2011:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held during 2011	**6**	**4**	**5**	**2**
	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Executive Directors				
Simon Thomson[7]	6	n/a	n/a	n/a
Dr Mike Watts	5	n/a	n/a	n/a
Jann Brown	5	n/a	n/a	n/a
Malcolm Thoms[3]	3	n/a	n/a	n/a
Phil Tracy[4]	3	n/a	n/a	n/a
Non-Executive Directors				
Sir Bill Gammell	6	n/a	n/a	2
Iain McLaren	6	4	4	1
Norman Murray[5]	3	n/a	n/a	1
Todd Hunt	6	n/a	5	2
Dr James Buckee	6	4	5	n/a
Alexander Berger	6	n/a	n/a	1
M. Jacqueline Sheppard QC[6]	6	4	1	n/a

Notes:

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

(1) During 2011, certain directors who were not committee members attended meetings of the Audit Committee, Remuneration Committee and Nomination Committee by invitation. These details have not been included in the table.

(2) Where a director was unable to attend meetings of the Board or of Board committees, he reviewed the relevant papers for the meetings and provided his comments to the Board or the Board committees in advance of such meetings.

(3) Malcolm Thoms retired as a member of the Board on 30 June 2011. The number of meetings he attended is stated up to and including that date.

(4) Phil Tracy retired as a member of the Board on 30 June 2011. The number of meetings he attended is stated up to and including that date.

(5) Norman Murray retired as a member of the Board and the Remuneration and Nomination Committees on 30 June 2011. The number of meetings he attended is stated up to and including that date.

(6) M. Jacqueline Sheppard QC was appointed to the Remuneration Committee on 13 October 2011. The number of committee meetings she attended is stated from that date.

(7) Simon Thomson was appointed to the Nomination Committee on 13 October 2011. No meetings of the Nomination Committee have taken place since this date.

Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, each of which has formal terms of reference approved by the Board. The terms of reference for each of these committees satisfy the requirements of the UK Corporate Governance Code and are reviewed internally on an ongoing basis by the Board. Copies of the terms of reference are available on the Company's website.

The committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to the committees and the minutes of all committee meetings are circulated to all directors.

Set out below are reports from the Audit Committee, Remuneration Committee and Nomination Committee.

Corporate Governance Statement
Continued

Board Committees Continued

1. Audit Committee Report

The Audit Committee currently comprises three Non-Executive Directors, all of whom are considered by the Board to be independent. The Board is satisfied that all members of the committee have recent and relevant financial experience.

The members of the committee during the year were as follows:
- Iain McLaren (Chairman);
- Dr James Buckee; and
- M. Jacqueline Sheppard QC.

The Audit Committee met four times in 2011. At the request of the Audit Committee, the Managing Director and Chief Financial Officer and senior members of the Finance Department attended each of these meetings. In addition, all four meetings were attended by the external auditors and by the internal auditors.

The external auditors receive copies of all Audit Committee papers (including papers to be considered at meetings when they are not in attendance) and minutes of all committee meetings. In addition, the Chairman of the committee regularly meets with the external audit partner to discuss matters relevant to the Company.

The role of the committee includes:
- monitoring the integrity of the financial statements of the Company and formal announcements relating to the Company's financial performance and reviewing any significant financial reporting judgements contained in them;
- reviewing accounting policies, accounting treatments and disclosures in financial reports;
- reviewing the Company's internal financial controls and internal control and risk management systems;
- monitoring and reviewing the effectiveness of the Company's internal audit function;
- overseeing the Company'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 monitoring the external auditors' independence, objectivity and effectiveness; and
- reviewing the Company'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.

Of the four Audit Committee meetings held during 2011, the first two meetings were in respect of the 2010 year-end process (the second two meetings were in respect of the 2011 interim accounts and planning for the 2011 year-end process). At the first of these meetings, issues which may impact on the financial statements are raised by both the senior management and the external auditors. The auditors also present their audit plan. Audit Committee guidance is sought on accounting policies and assumptions to be adopted in preparing the financial statements. After discussing and challenging the issues raised, the Audit Committee recommends the policies to be adopted or directs senior management to produce further information if deemed necessary.

At the second meeting in respect of the year-end process, the external auditors report their audit results to the Audit Committee, including a summary of any significant accounting and auditing issues, internal control findings and a summary of audit differences identified. The Audit Committee considers any disagreements in accounting treatment between management and the auditors, should any arise.

The Audit Committee also considers disclosures made in the Financial Statements, challenging the materiality of both those items included in the Financial Statements and those excluded.

The Audit Committee has established a policy in relation to the supply of non-audit services by the external auditors and other third parties. The Company 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 Company, and cost. These advisers may include the Company's external auditors for a restricted list of non-audit services, although, before the engagement commences, the Company 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. If the cumulative fees to be paid to an external adviser for the provision of non-audit services are below a certain level, the adviser may be engaged in accordance with the Company's financial delegations of authority after a quotation has been received. If the fees payable are expected to exceed that level on a cumulative basis, the engagement must be approved by the Audit Committee in advance after following a tender process. The Audit Committee must also be satisfied that the engagement is the most effective and efficient means of procuring such non-audit services.

KPMG LLP has been appointed by the Audit Committee to supervise and co-ordinate the Company's internal audit function. At 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 audit, the significant risks in the Group Risk Matrix and identified mitigation measures. 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 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 Company's internal audit function due to the nature of the scope and the timing of their work. The external auditors do, however, attend all Audit Committee meetings where internal audit updates are given.

The Company monitors its auditor's performance on an ongoing basis, including an annual assessment carried out by the Audit Committee with input from the Managing Director and Chief Financial Officer and other key members of the Finance Department. Following such assessment, the Audit Committee meets to discuss what actions, if any, require to be taken. In addition to this, the Ernst & Young LLP senior audit partner working with Cairn is subject to rotation. The current audit partner has worked with the Company on the 2008, 2009, 2010 and 2011 year-end process.

The Company updated its Whistleblowing Policy during 2009 and the new policy was subsequently rolled out across the organisation and reviewed by the Audit Committee. The Audit 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.

Since the year end 31 December 2011, the Board agreed that M. Jacqueline Sheppard QC would stand down as a member of the Audit Committee and be replaced by Alexander Berger with effect from close of business of the Audit Committee meeting held on 12 March 2012. This change allows M. Jacqueline Sheppard QC to fulfil her duties as newly appointed Chair of the Remuneration Committee and the reconstituted Corporate Governance and Nomination Committee (as detailed on pages 64 and 65).

Corporate Governance Statement
Continued

Board Committees Continued

2. Remuneration Committee Report

The Remuneration Committee currently comprises four Non-Executive Directors, all of whom are considered by the Board to be independent.

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

- Dr James Buckee (Chairman);
- Todd Hunt;
- Iain McLaren;
- Norman Murray (stepped down as a Non-Executive Director and member of the committee on 30 June 2011); and
- M. Jacqueline Sheppard QC (joined the committee on 13 October 2011).

The Remuneration Committee met five times during 2011. The Chief Executive, at the request of the committee, attends its meetings. In addition, he is consulted by the committee on its proposals. Certain other of the Executive Directors attended meetings of the committee as observers on being invited to do so by the committee. 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 role of the committee includes:

- determining and agreeing with the Board the remuneration policy for all the Executive Directors, the Chairman, and the Company's PDMRs;
- within the terms of the agreed policy, determining the total individual remuneration package for each Executive Director;
- determining the level of awards made under the Company's share option plans and long-term incentive 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.

Details of the Company's policies on remuneration, service contracts and compensation payments are given in the Directors' Remuneration Report on pages 69 to 87.

Since the year end 31 December 2011, the Board agreed that after a three year term as chairman of the Remuneration Committee it was appropriate for Dr James Buckee to stand down from this position and to be replaced by M. Jacqueline Sheppard QC, albeit that he remains a member of the Remuneration Committee. This change took effect from 5 March 2012.

3. Nomination Committee Report

The Nomination Committee currently comprises the Chairman, three independent Non-Executive Directors and (to ensure input from the executive team) the Chief Executive.

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

- Iain McLaren (Chairman with effect from 13 October 2011; member prior to that);
- Todd Hunt;
- Sir Bill Gammell;
- Alexander Berger (joined the committee on 13 October 2011);
- Simon Thomson (joined the committee on 13 October 2011); and
- Norman Murray (stepped down as a Non-Executive Director and member of the committee on 30 June 2011).

The Nomination Committee met twice in 2011. In addition to the members listed above, certain other Non-Executive Directors attended meetings on being invited to do so by the committee.

The UK Corporate Governance Code requires there to be a formal, rigorous and transparent procedure for the appointment of new directors, which should be meritocratic and made against objective criteria. For this purpose, the Board has established the Nomination Committee, whose role includes considering the composition, balance and skills of the Board and making recommendations to the Board on these matters, on the appointment of new directors and on the reappointment and orderly succession of existing directors. The Nomination Committee also takes into account the benefits of diversity on the Board, including gender. Cairn currently has two exceptionally well-qualified women on its Board, one executive and one non-executive. The Board is also diverse in terms of the range of experience and nationality of its members.

In order to ensure a continuing focus on good governance within the Company and reflect emerging market practice, it was agreed at the Board meeting held on 6 March 2012 that the remit of the Nomination Committee should be expanded to include a corporate governance function, thereby forming a Corporate Governance and Nomination Committee. The members of this committee are M. Jacqueline Sheppard QC (chair), Iain McLaren, Todd Hunt, Alexander Berger, Sir Bill Gammell and Jann Brown, with Simon Thomson attending by invitation. This new committee will meet at least twice annually.

Board Changes

As mentioned previously, a number of changes to the composition of the Board were announced in June 2011 which became effective on 1 July 2011. The key change was the resignation of Norman Murray as Chairman of the Board and as a Non-Executive Director of the Company and the appointment of Sir Bill Gammell as his successor as Non-Executive Chairman of the Board. Prior to implementing these changes the Board discussed the various options and proposals extensively, taking into account the best interests of the Board in the context of the skills and experience of all Board members and the future plans of the Company. The Company also announced that:

- Simon Thomson, previously the Legal and Commercial Director, has been appointed as Chief Executive;
- Jann Brown, previously Finance Director, has been appointed as Managing Director and Chief Financial Officer;
- Malcolm Thoms, Chief Operating Officer, had stepped down as an Executive Director; and
- Phil Tracy, Engineering and Operations Director, had stepped down as an Executive Director.

All of the changes were thoroughly considered and approved by the Nomination Committee led by Iain McLaren as the Senior Independent Non-Executive Director and were considered to be in the best interests of the Company and its shareholders. Norman Murray did not participate in any discussions regarding the appointment of his successor as Chairman. All appointments received the unanimous support of the Board. Prior to the Company's announcement of the appointment of Sir Bill Gammell as Non-Executive Chairman the Company also consulted with its major shareholders who indicated their approval of the Company's decision to appoint Sir Bill Gammell as Non-Executive Chairman and the other Board changes.

Succession Planning

The Nomination Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board and makes recommendations to the Board, as appropriate. The Board has satisfied itself that the Nomination Committee has in place appropriate plans for orderly succession to the Board and senior management positions as well as procedures to ensure an appropriate balance of skills within the Company and on the Board and its committees.

The Board and Nomination Committee are satisfied that the individuals currently fulfilling key senior management positions in the organisation have the requisite depth and breadth of skills, knowledge and experience.

Corporate Governance Statement
Continued

Board Committees Continued
3. Nomination Committee Report Continued
Organisational Planning
2011 was an exceptionally busy year, with drilling operations in Greenland. Resourcing remained a key focus area in this respect: over the course of the year the organisation grew its staff headcount by 22% and further engaged with a large number of specialist consultants to ensure that the organisation was fit-for-purpose and ably equipped to manage operations.

As in 2010, the Edinburgh office was the base for an Emergency Response Group (ERG) for Edinburgh-directed operations (in addition to the Crisis Response Team (CRT)) and dedicated fully-equipped response rooms were set up from which to manage any emergencies or crises that may arise. The ERG/CRT teams undertook a number of emergency training exercises throughout the year (including with the participation of the Greenland emergency services) to ensure they were fully trained and equipped to deal with a live emergency.

In addition to operations, the Company continued to focus on employee engagement and conducted a pulse check staff survey in January 2010. The response rate from staff increased from the initial 2008 survey from 74% to 80% which was in itself an indication of enhanced levels of engagement. We were delighted that the results across seven of the eight engagement factors showed increased engagement levels; however, lower levels of engagement were reported in the area of well-being. Continued efforts across all the engagement factors have continued in 2011. These have included the introduction of a gym and fitness allowance for employees, the provision of total reward statements for staff and giving six staff (not involved in the Greenland assets) the opportunity of a trip to Greenland. This was in addition to the continuation of our 'free fruit Fridays','lunch and learn' programme, six-month joiner surveys with new staff and other successful engagement initiatives implemented since the original survey was conducted in 2008.

Following our 2010 Investors in People re-accreditation, in 2011 we introduced succession planning, mentoring and coaching to our talent and people development activities and continued with our performance management, people development and leadership development interventions which form the fulcrum of our people management activities at Cairn and upon which the Investors in People Award is based.

Equality and diversity continues to be an important factor in all that we do. A comprehensive suite of diversity policies were implemented in 2009 and further training to all staff and contractors on equality and diversity in the workplace is scheduled for 2012. Over the past year, while our headcount comprises marginally more women than men (53%:47%), the number of women in managerial roles has increased from 26.83% to 27.27%. Our workforce also comprises a diverse range of ethnicities (currently 2.86%) and employees with a disability total 2.14%.

Relations with Shareholders
Communications with shareholders are given high priority by the Board. Cairn sends both its Annual Report and Financial Statements and Half-yearly Report to all shareholders. This year the Company has also implemented the provisions of the Companies Act 2006 regarding electronic communications with its shareholders, in order to give shareholders more choice and flexibility in how they receive information from the Company. The initial consultation took place with shareholders in February 2012 and it is intended to implement this with shareholders who have elected to receive information electronically in 2012.

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 after the announcement of the year-end and half-yearly results. The Chairman is available to attend a number of these meetings. At the Board meeting immediately following these meetings, a detailed report is given to all directors who were not in attendance at those meetings. In addition, the Company maintains an external relations database which details all meetings attended by the directors with third party stakeholders. All analysts' and brokers' reports on the Company are also distributed to all directors. Cairn responds to all correspondence from shareholders and its website contains a wide range of information on the Company, including a dedicated investor relations section.

A list of the Company's major shareholders can be found in the Directors' Report on page 58.

The Senior Independent Non-Executive Director is available to shareholders if they have concerns that contact through the normal channels of the Chairman, Chief Executive or Managing Director and Chief Financial Officer has failed to resolve, or for which such contact is inappropriate.

Each of the Non-Executive Directors is available to attend meetings with major shareholders (without the Executive Directors present), if requested by such major shareholders.

AGM
The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. It is policy for all directors to attend the AGM if at all possible. Whilst this may not always be possible for business or personal reasons, in normal circumstances the Chairmen of the Audit, Remuneration and Nomination Committees will attend the AGM and be available 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 17 May 2012 can be found in the Notice of Annual General Meeting which is contained in the Circular posted with this report. Further explanation 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 at the meeting after the shareholders have voted on each resolution on a poll. The Form of Proxy for the AGM includes 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.

Corporate Governance Statement
Continued

Directors' Responsibility Statement
The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and those IFRSs as adopted by the European Union.

Under Company Law the directors must not approve the Group and Company financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and Company for that period. In preparing those financial statements, the directors are required to:
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group and Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and 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 Group and Company's financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Statement Pursuant to the Disclosure and Transparency Rules
Each of the directors, whose names are listed in the Board of Directors section on pages 54 and 55 confirms to the best of his knowledge that:
- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

The beneficial interests of each of the directors in the ordinary shares of the Company are set out on page 56.

Information Pursuant to the Takeovers Directive
The Company has provided the additional information required by DTR 7.2.7 (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.

Going Concern
The directors have considered the factors relevant to support a statement on going concern. They have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future and have therefore continued to use the going concern basis in preparing the financial statements.

Internal Control
The Board acknowledges its responsibility for the system of internal control and for reviewing its effectiveness. The Company has in place an Integrated Internal Control and Assurance Framework, which plays a critical role in managing the risks towards the achievement of corporate vision, strategy and objectives, and is also central to safeguarding shareholders' interests and Company assets. This system of internal control is in accordance with the guidance of the Turnbull Committee 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 process has been in place in respect of the Group for the 2011 accounting period and up to the date of approval of the report and accounts. The Board has carried out a review of the effectiveness of the system of internal controls during 2011 and will ensure that such reviews are performed in 2012. In so doing, the Board has taken 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 an acceptable level.

The Company is subject to a variety of risks which derive from the nature of the oil and gas exploration and production business and relate to the countries in which it conducts its activities. The directors believe that Cairn derives its competitive edge by focusing activities in areas where they believe they have a technical and commercial advantage and the experience gained over many years enables the Company to manage these risks effectively.

Operations in any country are only possible when values are shared, and the directors believe that the Group's values of integrity, social and environmental responsibility, teamwork and nurturing of individuals, creativity, risk management and alliances with key partners are all ingredients that are central to the Company's success. The ability to recognise the value of working as a partnership with host governments, both nationally and regionally, has also been a critical ingredient in this approach and success.

2011 was another year of change. The Company focused on conducting an exploration drilling programme in Greenland and supporting its subsidiary company Cairn India in progressing the Mangala Field and other discoveries in Rajasthan. There were also changes in the leadership of the Company with a number of Board changes mid-year including the appointment of a new Chairman and Chief Executive. Particular attention has been placed by Group management on ensuring that a robust system of internal control has been maintained during 2011 in relation to the significant risks in the Group's business activities.

CIL is subject to the rules, regulations and guidelines of the Securities Exchange Board of India (SEBI) and to its listing agreement with the Bombay Stock Exchange (BSE) and National Stock Exchange of India Limited (NSE). Under the terms of a relationship agreement between the Company and Cairn India entered into at the time of the IPO (the Relationship Agreement), both companies have also agreed to use reasonable endeavours to ensure that they can comply with their respective obligations to SEBI, the Financial Services Authority (FSA), the BSE, the London Stock Exchange (LSE) and the NSE and under the SEBI Insider Trading Regulations and UK regulation and legislation relating to the disclosure of information or dealing in respect of listed securities or corporate governance. This has included adopting and following the principles and policies of corporate governance, including risk management, which enable each company to comply with these obligations. The Relationship Agreement ceased to be in effect from the date of the completion of the Vedanta transaction on 8 December 2011, at which time the Company became a minority shareholder in Cairn India.

Corporate Governance Statement
Continued

Internal Control Continued

The following describes the key elements of the framework and the processes used by the Board during 2011 to review the effectiveness of the internal control system. It also describes the approach to be taken in 2012.

1. Strategic Direction

The Group business model is conventional in that strategy and business plan are set by the directors and approved by the Board and its implementation is delegated to the Executive Team. Since its listing on the BSE and NSE in January 2007, CIL has been a subsidiary of the Company with its own Board of Directors. The Company has previously had three Non-Executive Directors on the Board of Cairn India (including Sir Bill Gammell as Chairman) and, therefore, had input to Cairn India's strategy. Following the completion of the Vedanta transaction on 8 December 2011, the Company's three Non-Executive Directors appointed to the board of Cairn India resigned and the Company has no further input into Cairn India's strategy other than through its residual shareholding.

2. Operating Management

Outside of CIL, the Group, through its unlisted wholly-owned subsidiary Capricorn, operates several business units in different countries and with various partners. Capricorn has 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.

In July 2011, the Company announced a reorganisation through which the Chief Executive's Committee was disbanded and three bodies were established to manage the business in the future. The Executive Team, which comprises the three Executive Directors, has the primary role of devising strategy, sanctioning the business plan and work programmes and budget, and overall responsibility for investor relations, corporate governance matters and implementing the communications strategy. Reporting to the Executive Team are two teams; the Management Team who are primarily responsible for day to day management of the delivery of the approved business plan and work programmes; and the Corporate Team who are responsible for maintaining market reporting and communications and ensuring corporate governance processes are effectively implemented. Further information on the Management Team and the Corporate Team can be found earlier in this statement on page 61. The directors have also appointed Group Functional Department Heads whose roles include providing input and 'challenge' to the work programmes, budgets and business plans, and supplying the relevant director with full and accurate information and to make statements on the adequacy of internal control.

A business plan with a five year outlook and annual work programmes and budgets are prepared annually to meet the Group strategy, starting at asset level before being consolidated at Group level. A detailed business plan is also prepared to meet the agreed annual work programme and budget. This sets out detailed objectives and KPIs for each asset and supporting functional departments, and is consolidated into the Company's annual business plan. After an iterative process, the business plan and budget are presented to the Executive Team and 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 Group Risk Management Committee (GRMC), established by the Board in 1999, 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.

The Group Business Risk Management System (GBRMS) defines the processes through which Cairn seeks to systematically identify, analyse, assess, treat and monitor the business risks faced by the Group. The GBRMS also identifies the risk management organisational structure through which business risks are managed and regularly reviewed at operating, asset, country and group levels.

In 2011 the GRMC was chaired by Simon Thomson, the Legal and Commercial Director during the first half of 2011 and subsequently the Chief Executive. The GRMC comprises Executive Directors and senior functional management. The Non-Executive Chairman of the Audit Committee is a member of the GRMC and the internal auditor also attends meetings, in order to ensure internal audit's integration with the risk management process. As part of the reorganisation in July 2011, the corporate and functional risk management sub committee was replaced by regular joint Management Team and Corporate Team meetings which managed the assessment and treatment of business risks outside of CIL that may affect the Company's ability to deliver its strategy.

Subsequent to its listing, CIL operates its own Risk Management Committee (RMC) in line with its Business Risk Management System (BRMS) under the chairmanship of the Chief Operating Officer and reporting to the Cairn India Board. Risk management sub committees have also been set up reporting to the Cairn India (RMC) to consider the specific risks associated with operations, finance, exploration, commercial, and the Rajasthan upstream and midstream projects. The Cairn India BRMS is substantially similar to that of the Company and, under the terms of the Relationship Agreement, copies of the CIL risk report and RMC minutes are routinely submitted for review at the Company's GRMC, at which a senior representative from Cairn India is present to provide explanation and take questions. As the Relationship Agreement ceased to be in effect from the date of the completion of the Vedanta transaction on 8 December 2011, Cairn India no longer provides the Company with risk information.

Business risks, together with the identified mitigating measures and responsibilities, are recorded in asset, country and departmental risk registers and then consolidated into the Group risk register, which is regularly reviewed by the GRMC to ensure that the business understands the key risks it faces and that there is an embedded risk management approach in place across the Group.

The GRMC reports on the Group's risk profile to both the Audit Committee and the Board. Additionally, the Audit Committee and Board receive internal reviews of the effectiveness of internal control relative to the key risks. The conclusion of the Board following these reviews during 2011 is that the internal controls in respect of key risks are effective.

4. Assurance

The internal control framework adopted by the Board provides for three levels of assurance against the risks facing the Group: first of all at the operational level; secondly through overview by Group functional management and the GRMC; and thirdly through internal, external or JV audits.

The integrated internal control and assurance framework was updated and distributed throughout the Company in October 2010. Following the conclusion of the Vedanta transaction in December 2011, a new version reflecting the changes made to the risk organisation will be issued in early 2012. The framework document includes a description of the Company's business and assurance models, organisation and Committee structure and defines responsibilities.

Corporate Governance Statement
Continued

Internal Control Continued

4. Assurance Continued

The framework also defines the key policies/procedures which govern the way in which Cairn conducts its business and are therefore a core part of its system of internal control.

A separate Group HSE, Risk and Compliance Department was established in January 2010 reporting to the Managing Director and Chief Financial Officer and continued to provide independent verification of the corporate responsibility, business risk and compliance activities during 2011. During 2011, the Company also maintained two advisory committees, the technical advisory board and the strategic planning group (both described earlier in this statement on page 62) to facilitate independent advice on strategic and technical issues.

During 2011, the directors reviewed the effectiveness of the Group's system of financial and non-financial controls, including operational and compliance controls, risk management and the Group's high level internal control arrangements. The directors derive assurance from the following internal and external controls during 2011 (or until 8 December 2011 in the case of CIL) through:

- 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 JV activities through delegated representatives;
- specific delegations of authority for all financial and other transactions;
- segregation of duties where appropriate and cost effective;
- business and financial reporting, including KPIs;
- functional management reviews;
- nomination of various directors of the Company to the Cairn India board (in a non-executive capacity) and to certain of its committees. The Board also receives copies of minutes of meetings of the Cairn India Board of Directors;
- a Relationship Agreement with Cairn India, which, inter alia, contains provisions for the supply by Cairn India to the Company of such information and confirmations as the Company may require to comply with legal, regulatory and reporting obligations;
- an annual 'letter of assurance' process, through which asset and functional managers confirm the adequacy of internal financial and non-financial controls and their compliance with Group policies and report any control weaknesses identified in the past;
- 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;
- a 'letter of assurance' from Cairn India's Chief Executive Officer confirming the adequacy of internal controls within CIL in line with its policy, and reporting of any control weaknesses identified in the past year;
- Group internal audits to assess compliance – the internal auditor implements a number of audits during the year in line with the annual internal audit plan approved by the Audit Committee and Board;
- reports from the Group Audit Committee and GRMC, (including reports from the Cairn India RMC and Cairn India Audit Committee);
- reports from the new advisory committees on technical and strategic options;
- reports from the Group external auditor on matters identified during its statutory audit;
- reports from audits by host governments and co-venturers; and
- independent third party reviews.

Compliance with the UK Corporate Governance Code

Throughout 2011 the Company complied with the provisions of the UK Corporate Governance Code, except in the following area:

Provision of the UK Corporate Governance Code	Company position	Explanation
A.3.1 – the chief executive officer should not go on to be the chairman of the same company.	Sir Bill Gammell, previously Chief Executive, was appointed Non-Executive Chairman with effect from 1 July 2011 following consultation with the Company's major shareholders.	The Board firmly believes that Sir Bill Gammell is the best candidate for the role of Chairman and the appointment received the unanimous support of the Board. Prior to the appointment the Company also consulted with its major shareholders. Further detailed explanation of this appointment is given on pages 59 and 60 of this statement.

Directors' Remuneration Report

This report has been prepared in accordance with Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles and complied with the provisions of the UK Corporate Governance Code relating to directors' remuneration throughout the financial year. As required by the Regulations, a resolution to approve the report will be proposed at the forthcoming AGM.

In preparing this report, the Company has also taken into account the Principles of Remuneration issued by the Association of British Insurers and the voting guidelines issued by the National Association of Pension Funds, as well as individual voting guidelines published by the Company's institutional investors.

The Company's auditors are required to report to Cairn's shareholders on the 'auditable parts' of this report and to state whether, in their opinion, those parts have been properly prepared in accordance with the Regulations and the Companies Act 2006. In light of this requirement, and in order to present the information in a form that is as accessible as possible to shareholders, the report has been split into two main sections – the first containing information which is unaudited and the second containing information which is audited.

DR JAMES BUCKEE
REMUNERATION COMMITTEE CHAIRMAN
DURING 2011
23 MARCH 2012

1. Unaudited Information

Overview of the Remuneration Committee and its Policies

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 Company's PDMRs (persons discharging managerial responsibilities). Within the terms of the 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 of awards under the Company's LTIPs and exercise of share options; and
- determining the policy for pension arrangements, service agreements and termination payments for Executive Directors and PDMRs.

In designing the remuneration structures of the Executive Directors and PDMRs, the committee takes into account pay policies within the Group as a whole. Increases to basic salary across the Group take account of general and industry specific compensation trends and also economic factors such as inflation.

The committee also reviews and approves the overall remuneration levels of employees below senior management level, but does not review individual remuneration amounts for such employees. In 2011, the median increase to basic salaries across the Group below senior management level was 4% (increases ranged from 4% to 30.5%). Cairn operates a number of share schemes available to all employees, the details of which are provided on page 77.

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 environment in which it operates. The terms of reference of the Remuneration Committee are available on the Company's website.

Members of the Remuneration Committee

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

- Dr James Buckee (Chairman);
- Todd Hunt;
- Iain McLaren;
- Norman Murray (stepped down as a Non-Executive Director and member of the committee on 30 June 2011); and
- M. Jacqueline Sheppard QC (joined the committee on 13 October 2011).

All of the current members of the committee are independent Non-Executive Directors. 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. He is not consulted or involved in any discussions in respect of his own remuneration. The Managing Director and Chief Financial Officer is not a member of the committee but may occasionally be invited to attend parts of its meetings to address specific matters (although not in respect of her own remuneration).

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Overview of the Remuneration Committee and its Policies Continued

Advisers to the Remuneration Committee

As and when the Remuneration Committee considers it appropriate, it takes external advice on remuneration from a number of sources. The committee periodically consults with Hewitt New Bridge Street (an independent executive compensation consultancy appointed by the committee) on various aspects of the directors' remuneration packages. In addition, the Company's legal advisers (Shepherd and Wedderburn LLP) and auditors (Ernst & Young LLP) provide ongoing assistance to the committee in respect of the Company's LTIPs and share option schemes. Advice obtained from Ernst & Young LLP is purely in relation to their independent verification of the Company's achievement against performance conditions applicable to the Company's LTIPs and share option schemes.

Overview of Remuneration Policy and Package

Cairn's policy on Executive Directors' remuneration for the current year and subsequent financial years is to ensure that it appropriately incentivises individuals to achieve the Group's strategic objectives in order to enhance value for its shareholders, whilst being seen to offer a competitive package against the market.

The Executive Directors' remuneration package currently consists of basic salary, benefits, annual performance related bonuses, an LTIP, a defined contribution pension (or alternatively a contribution to an individual personal pension plan) and life assurance of four times basic annual salary. There have been no changes to the Company's remuneration policy during 2011.

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Structure of Total Remuneration Package

The overall package is generally weighted more towards variable pay and, in relation to the variable pay element, the package is weighted more towards 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 2011.

- Fixed remuneration is comprised of basic salary, benefits, and pension contributions. Values used reflect what was paid in respect of basic salary and pension contributions and the taxable value of benefits provided in the year.
- Short-term variable remuneration is comprised of annual bonus alone and reflects the amount paid in 2011.
- Long-term variable remuneration is comprised of LTIP awards granted in 2011 based on the fair value in a manner consistent with IFRS2.

Components of Executive Remuneration

Basic Salary and Benefits

Basic salary is reviewed annually by the Remuneration Committee (with any changes taking effect from 1 January of that year) and/or when an individual changes position or responsibility. In deciding appropriate levels, the committee periodically utilises objective benchmarking, which gives up-to-date information on remuneration practice within a comparator group of similar companies within the oil and gas sector and companies with a similar market capitalisation.

2011 Basic Salary (Executive Directors)

Executive Directors (during the year)	Executive job title as at 1 January 2011	1 January 2011	Executive job title as at 1 July 2011	1 July 2011	1 January 2012***
Sir Bill Gammell*	Chief Executive	£625,000	–	–	–
Simon Thomson**	Legal and Commercial Director	£375,000	Chief Executive	£475,000	£494,000
Jann Brown**	Finance Director	£375,000	Managing Director and CFO	£400,000	£416,000
Dr Mike Watts	Deputy Chief Executive	£435,000	Deputy Chief Executive	£435,000	£452,000
Malcolm Thoms****	Chief Operating Officer	£375,000	–	–	–
Phil Tracy****	Engineering and Operations Director	£375,000	–	–	–

* Sir Bill Gammell stepped down from his position as Chief Executive on 30 June 2011 and took over as Non-Executive Chairman with effect from 1 July 2011. His fees for acting as Chairman were £213,000 per annum, with effect from 1 July 2011. His fees were increased to £230,000 per annum with effect from 6 March 2012.

** On 1 July 2011, the salaries of Simon Thomson and Jann Brown were increased to £475,000 and £400,000 respectively in order to reflect their new roles of Chief Executive and Managing Director and Chief Financial Officer respectively, which became effective on that date.

*** The current Executive Directors' salary increases for 2012 for Simon Thomson, Dr Mike Watts and Jann Brown were in line with the level of standard increase awarded to other employees (4%, compared to the level of Consumer Price Index of 5%).

**** As a result of a Board reorganisation, the positions of Chief Operating Officer and Engineering and Operations Director ceased to exist. Malcolm Thoms and Phil Tracy (who occupied these positions) stood down from the Board and ceased to be employees, both with effect from 30 June 2011.

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Components of Executive Remuneration Continued

Annual Cash Bonus Scheme

Cairn's annual cash bonus scheme applies to all employees and Executive Directors.

For all participants, as in prior years, bonuses under the scheme are based on individual and Company performance measures. Individual performance is measured through the Company's performance management system. Company performance measures are based on annually defined KPIs. The KPIs for 2011 are commercially sensitive and have not therefore been disclosed in detail. However, the KPI categories and ascribed weightings are set out below. The categories and weightings for the 2012 KPIs will be disclosed in next year's Annual Report.

The maximum level of bonus award for the Executive Directors and certain PDMRs for 2011 was up to 100% of annual salary (as at date of award). The bonus cap for all other employees for 2011 was between 25% and 40%. For 2012, this has been increased to between 30% and 50% in order to more closely align the bonus cap with current industry reward practice, in light of recent reward benchmarking findings.

2011 Annual Cash Bonus (Executive Directors)

Performance measures		Performance metrics	Weighting
Operational and corporate performance	Operational	➤ Portfolio growth ➤ Project delivery ➤ HSE/Risk management	25%
	Cairn India	➤ Operational excellence ➤ Project execution ➤ Crude oil sales ➤ Exploration ➤ Business planning	25%
	Strategic	➤ Strategic measures relating to Cairn's business plan ➤ Strategic HSE/risk issues	25%
Individual	Performance Management System	➤ Each individual sets a number of personal objectives at the start of each year. At the end of the year, performance against those objectives is assessed alongside overall performance for the year.	25%

Vesting	Performance against each particular KPI is assessed by the Remuneration Committee in December each year
Clawback	No claw back provisions in place during 2011. The Remuneration Committee intends to introduce a clawback provision in the annual cash bonus scheme for 2012. The details of this are currently being considered and will be disclosed in next year's Annual Report.
Remuneration Committee discretion	Following the determination of performance against the above metrics, the committee reviews bonus outcome and considers whether it represents a fair and reasonable reflection of individual performance during the year. Where necessary, appropriate adjustments may be made to the final quantum of the amounts. In 2011, the committee exercised this discretion in respect of Jann Brown. See page 80 for details of bonus awarded.

The actual bonuses awarded to the Executive Directors for performance in 2011 are shown in the remuneration table on page 80. These bonuses were approved by the committee in accordance with both how the Company and the individual performed in 2011.

The Remuneration Committee has the discretion to award bonuses in addition to those payable under the annual cash bonus scheme in recognition of particular efforts or achievements by employees, including Executive Directors. No additional cash bonuses of this kind were made in 2011.

Benefits available to the Executive Directors comprise a company car, permanent health insurance, private health insurance and death in service benefit of up to four times annual basic salary. Further details of the salary and benefits of each of the executive directors are also set out in the remuneration table on page 80.

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Long-Term Incentives – Introduction

In order to encourage executive directors (and other selected senior employees) to deliver superior levels of long-term performance for the benefit of shareholders, the Company's policy since 1999 has been to provide these individuals with share incentives under an LTIP.

The current arrangement is the Cairn Energy PLC Long Term Incentive Plan (2009) (2009 LTIP), which was approved by shareholders at the AGM held on 19 May 2009. As of 1 February 2012 there are no awards outstanding under any other LTIPs.

In 2011, the three-year performance period applicable to certain awards granted under the 2006 LTIP and Replacement LTIP (as defined below) came to an end – 59% of the Cairn India Awards granted in May 2008 under the 2006 LTIP vested, while full vesting (133%) of the Awards granted in May 2008 under the Replacement LTIP occurred. The extent to which the relevant performance conditions had been met is explained in full on page 83.

2009 LTIP

The 2009 LTIP enables Executive Directors and selected senior employees to be granted conditional awards 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. The scheme is intended to incentivise the participants to create shareholder value whilst retaining due focus on the underlying financial performance of the Group and to align their interests more closely with those of shareholders.

The value of ordinary shares awarded to a participant under the 2009 LTIP in any financial year is subject to a limit of 300% of his/her basic salary (although a 400% of salary limit can be applied to an individual by the Remuneration Committee in exceptional circumstances). Details of the outstanding awards granted to the Executive Directors under the 2009 LTIP are set out on page 81.

On the vesting of an award under the 2009 LTIP, only 50% of the ordinary shares to which the holder has become entitled are released to him/her immediately, with the remaining 50% normally being released after a further period of one year. No amounts due under the 2009 LTIP are recognised as remuneration until the award has vested and the ordinary shares released.

The extent to which awards vest will be determined by comparing the growth in TSR of the Company over a three year performance period, with the TSR of a comparator group, currently comprising 17 international oil and gas companies. In order to encourage exceptional performance at upper decile levels a 'multiplier' is applied which is subject to the achievement of stretching absolute TSR growth targets.

The vesting of awards will then take 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

Should the Company achieve upper decile performance against the comparator group the following multiplier is applied:

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.

2009 LTIP awards granted in 2012 and later years will also be subject to a clawback provision. The details of this are currently being considered by the Remuneration Committee and will be disclosed in next year's Annual Report.

Page 84 contains a detailed description of the LTIP comparator group and the performance conditions that will determine the extent to which these awards vest at the end of the applicable performance period.

For awards made in future years, the Remuneration Committee will review, and may amend, the performance conditions used for this arrangement in order to ensure they remain appropriate, challenging and in line with best practice/investor guidelines. The committee has not made any changes to the performance conditions attaching to the LTIP awards granted in 2012 save in respect of adjustments to the members of the comparator group.

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Long-Term Incentives – Introduction Continued

Other LTIPs Formerly Used

During the year, Executive Directors also held outstanding awards under the following historic share incentive arrangements operated by the Company:
- The Cairn Energy PLC Long Term Incentive Plan 2006 (2006 LTIP).
- The Cairn Energy PLC Replacement Long Term Incentive Plan (Replacement LTIP).

Summaries of the 2006 LTIP and Replacement LTIP are provided below. As of 1 February 2012, there are no outstanding awards or shares due to be released under these LTIPs.

2006 LTIP

The 2006 LTIP was approved by shareholders at an Extraordinary General Meeting (EGM) held on 17 November 2006, conditional on the flotation of Cairn India becoming effective, which occurred on 9 January 2007. Following the adoption of the 2009 LTIP, no further awards have been or will be granted under the 2006 LTIP. The date of grant of the last award under the 2006 LTIP was 7 July 2008.

The 2006 LTIP enabled Executive Directors and selected senior employees to be granted conditional awards over two separate pools of notional 'units', the first relating to Cairn India (Cairn India Units) and the second relating to the Capricorn Group (Capricorn Units) (together, Units).

As explained in the previous year's Directors' Remuneration Report, all participants in this arrangement who held awards over Capricorn Units (Capricorn Awards) surrendered those rights in exchange for the grant of 'Converted Awards' over ordinary shares in the Company pursuant to the Replacement LTIP (further details of which are provided below), with the number of ordinary shares subject to each such Converted Award being calculated by reference to an implied valuation of the Capricorn Group derived from the 2009 'farm-in' to its Greenland assets by PETRONAS.

The above conversion process did not, however, apply to outstanding awards over Cairn India Units (Cairn India Awards). As a result, these awards (held by the Executive Directors and a number of senior managers) continued to subsist on their original terms.

The extent to which a Cairn India Award vests is normally dependent on continued employment within the Group and the extent to which pre-determined performance conditions relating to CIL are met over a specified period.

Following the vesting of a Cairn India Award, the participant becomes entitled to such number of ordinary shares in the Company as have a market value equal to the aggregate price of the vested Units. (For the purposes of the 2006 LTIP, the price of a Cairn India Unit on any day is equal to the price of a Cairn India share, as quoted on the BSE and the NSE of India.) Only 50% of these ordinary shares are transferred to the participant immediately, with the remaining 50% normally being subject to a further holding period.

Information in relation to the Cairn India Awards held by the Executive Directors, together with details of those awards that vested during 2011, are set out on pages 81 to 83. A summary of the applicable performance conditions is provided on page 85.

As highlighted on page 75, the holding period applicable to the Cairn India Awards that vested during 2011 (which was originally intended to last one year) was subsequently terminated with effect from 30 January 2012.

Replacement LTIP

The Replacement LTIP was approved by shareholders at an EGM on 21 December 2009 and, as explained above, was used to grant Converted Awards over ordinary shares to those participants in the 2006 LTIP who accepted an invitation to surrender their Capricorn Awards. These Converted Awards were granted on 22 December 2009. No awards were granted under the Replacement LTIP during 2011 and no further awards will be granted pursuant to this arrangement in the future.

Converted Awards comprise conditional rights to acquire ordinary shares, the vesting of which is normally dependent both on continued employment with the Group and on the extent to which pre-determined performance conditions are met over a specified period of three years. The form of these performance conditions, and the period over which they are measured, mirrors those that applied to the replaced Capricorn Awards.

On the vesting of a Converted Award, any ordinary shares to which the holder becomes entitled are subject to an extended 'holding period' during which they cannot be sold (save to meet tax liabilities arising on vesting).

Where a participant ceases employment with the Group during the above holding period his/her unreleased ordinary shares are normally forfeited for no consideration. (Exceptions to this general forfeiture principle are at the Remuneration Committee's discretion but are usually limited to 'good leaver' circumstances.) In addition, if prior to the end of the holding period, events occur which cause the Remuneration Committee to consider that the implied value of the Capricorn Group used as part of the conversion process (see above) was materially overstated as at the date on which the conversion took place, then a proportion of a participant's unreleased ordinary shares may be forfeited for no consideration. In these circumstances, the number of ordinary shares to be forfeited would be decided by the Remuneration Committee on such fair and equitable basis as it may determine at the relevant time.

Information in relation to the Converted Awards held by Executive Directors, together with details of those awards that vested during 2011, are set out on pages 82 to 84. A summary of the applicable performance conditions is provided on page 86.

As explained on page 75 of this report, the holding period applicable to all Converted Awards that had vested under the Replacement LTIP in 2011 and earlier years (which was originally intended to last until 9 January 2013) was subsequently terminated with effect from 30 January 2012.

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Long-Term Incentives – Events Occurring After the End of the Financial Year to 31 December 2011

Impact of 2012 Return of Cash

At a general meeting held on 30 January 2012, shareholders approved a US$3.5 billion return of cash by means of a 'B share structure' with a connected share capital consolidation.

As explained in the Circular dated 10 January 2012 that was sent to shareholders convening the general meeting, the impact of this return of cash on outstanding awards granted under the Company's LTIPs was as follows:

2006 LTIP and Replacement LTIP

As at 30 January 2012, all awards under the 2006 LTIP and the Replacement LTIP had already vested in accordance with the terms of the applicable performance conditions. As a result, any outstanding entitlements of participants in these plans related to shares that were subject to a post-vesting holding period. In the case of the 2006 LTIP, the vested shares were due to be released in December 2012 (one year after the date of vesting) and in the case of the Replacement LTIP, in January 2013.

The Remuneration Committee sought legal advice on the impact of the return of cash on these outstanding entitlements and was advised that the rules of the 2006 LTIP and Replacement LTIP contained a discretionary power that it could consider invoking in these circumstances to terminate the applicable holding periods.

After careful consideration, the Remuneration Committee concluded that it would be appropriate for the above discretionary power to be exercised with effect from (and conditionally upon) the passing of the appropriate resolution at the shareholder meeting approving the return of cash. In reaching this decision, the committee took into account the following matters:

- Change in the nature of the business – The Remuneration Committee concluded that it would be inappropriate for the relevant participants to continue to have the value of their awards locked into a business that, as a consequence of the Vedanta transaction/return of cash, was radically different to the one that had existed at the time the original holding period requirement was imposed.
- Alignment with treatment of shareholders – The termination of the holding periods allowed the relevant individuals to participate fully in the return of cash in respect of their award shares and also gave them the freedom to decide on the ongoing level of holding they wished to maintain in the 'post transaction' Company. This ensured that, in respect of their shares that had already been 'earned' on the vesting of awards, participants in the 2006 LTIP and Replacement LTIP were able to receive the same benefit, and enjoy the same investment flexibility, as all other shareholders.
- Decreasing relevance of the clawback mechanism – The clawback mechanism in the rules of the Replacement LTIP provided for forfeiture to be applied where the committee subsequently became aware of any event or circumstance that (i) had occurred or existed at the time the awards over Capricorn Units were originally converted into awards over Cairn shares; and (ii) led the committee to conclude that the Capricorn valuation used for the purpose of the conversion process was materially overstated at that time. The committee agreed that no events or circumstances of this kind had been identified as at January 2012 and it was now highly unlikely that any additional matters would come to light in the period to January 2013. It was therefore concluded that there was a very remote possibility of the clawback provisions actually being applied in practice.

2009 LTIP

Participants in the 2009 LTIP, all of whom held unvested awards, were not eligible to participate in the return of cash. In addition, and as a consequence of the share capital consolidation, no adjustment was made to the terms of these entitlements with the result that they continue to subsist over the same number of shares and subject to the same performance conditions.

Grant of Share Award to Sir Bill Gammell

In the Circular to shareholders convening the general meeting for 30 January 2012 the Company proposed a resolution seeking shareholder approval for a share award to Sir Bill Gammell to recognise his leadership of the deal negotiations with Vedanta and his delivery of the disposal of 40% of Cairn India to Vedanta prior to the longstop date. The share award was to take the form of an option to acquire 940,321 ordinary shares at nominal value with the award vesting in full on the third anniversary of its date of grant. Following consultation with several institutional shareholders and their representative bodies in connection with the proposed award, the Board withdrew the resolution from consideration at the general meeting and has now determined not to pursue the proposed award. Meetings with shareholders will be held in April 2012 to close out this matter and to discuss the Remuneration Report.

Pension Arrangements

The Company operates a defined contribution group personal pension plan in the UK. The scheme is non-contributory and all UK permanent employees are eligible to participate. 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.

Dr Mike Watts and Jann Brown are members of the Company plan and, during the year, both received a contribution equal to 15% of their respective annual basic salaries.

Simon Thomson has an individual personal pension plan and, during the year, received a contribution from the Company equal to 15% of his annual basic salary.

The pension arrangements for those individuals who ceased to be Executive Directors during the year were as follows:

- Malcolm Thoms had an individual personal pension plan and, for the period to 30 June 2011, received a contribution to the plan equal to 15% of his annual basic salary for that period; and
- Sir Bill Gammell and Phil Tracy both received an amount equivalent to 15% of their respective annual basic salaries for the period to 30 June 2011 in the form of additional salary, as their pension arrangements were fully funded.

Further details of the contributions made by the Company in respect of each Executive Director are set out in the remuneration table on page 80. The Company is also the principal employer for a Small Self-Administered Scheme. Sir Bill Gammell is the sole member of this scheme. The Company is not contractually obliged to make any contributions into this scheme on behalf of Sir Bill Gammell and did not do so during the year.

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Payments in Connection with Cessation of Executive Directors' Employment During 2011

During the year, and in anticipation of the Company's future requirements following completion of the part sale of its shareholding in Cairn India to Vedanta, it was decided to reduce the size of the Board with the result that the positions of Chief Operating Officer and Engineering and Operations Director became redundant. As a consequence, Malcolm Thoms and Phil Tracy stood down from the Board and left the Company's employment on 30 June 2011.

Sir Bill Gammell stood down as Chief Executive and following consultation with the Company's major shareholders, took over as Non-Executive Chairman from Norman Murray. Sir Bill also agreed to continue as Chairman of Cairn India and retained overall responsibility for the Vedanta transaction. All of these changes took effect on 1 July 2011. Sir Bill subsequently resigned as Chairman and a Non-Executive Director of Cairn India following completion of the sale by the Company of 40% of the fully diluted share capital of Cairn India to Vedanta in December 2011.

Details of the payments made in connection with the above cessations of employment, all of which were made following detailed legal advice obtained by the Company, are set out below:

Malcolm Thoms and Phil Tracy

Both Malcolm Thoms and Phil Tracy received on termination of their employment and in settlement of their contractual entitlements, a payment of salary and benefits in lieu of their contractual notice period of one year (Malcolm Thoms: £466,000; and Phil Tracy: £468,000) and a cash bonus under the Company's Annual Cash Bonus Scheme (Malcolm Thoms: £200,000; and Phil Tracy: £200,000). They also received enhanced redundancy payments in line with the Company's established custom and practice i.e. four weeks pay for each year of service, pro-rated for part-years (Malcolm Thoms: £633,000; and Phil Tracy: £254,000). These payments reflected periods of continuous employment of 22 years in the case of Malcolm Thoms and nine years in the case of Phil Tracy. The settlements with each of them were recorded in compromise agreements.

Sir Bill Gammell

Sir Bill Gammell received on 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 of £625,000. Redundancy compensation was not paid as the position of Chief Executive was not redundant. The settlement with Sir Bill was recorded in a compromise agreement.

In addition to the above, each of Malcolm Thoms, Phil Tracy and Sir Bill Gammell were considered to be 'good leavers' for the purposes of the Company's various share incentive plans in which they participated.

All Employee Share Schemes

Share Incentive Plan 2010

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 share incentive plan (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 £1,500 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 2011/2012, the Company awarded two matching shares for every one partnership share purchased and intends to continue using this award ratio for the tax year 2012/2013.
- 'Free shares' – employees can be given up to £3,000 worth of ordinary shares free in each tax year. On 20 June 2011, an award of free shares was made to employees, including 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

1. Unaudited Information Continued
All Employee Share Schemes Continued
Share Incentive Plan 2010 Continued

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

	Total SIP shares held at 1 January 2011	Free shares awarded during the year at a price of £4.00 per share	Partnership shares awarded during the year at prices between £2.901 and £4.221	Matching shares awarded during the year at prices between £2.901 and £4.2215	Total SIP shares held at 31 December 2011 or date of cessation of office
Current directors					
Sir Bill Gammell(1)	1,834	0	355	710	0
Simon Thomson	1,834	750	356	712	3,652
Dr Mike Watts	1,834	750	356	712	3,652
Jann Brown	1,834	750	356	712	3,652
Former directors					
Malcolm Thoms(2)	1,834	0	355	710	2,899
Phil Tracy(2)	1,834	0	355	710	2,899

Notes:
(1) Sir Bill Gammell was granted awards of both free and matching shares and purchased partnership shares while he was an Executive Director of the Company. Pursuant to the SIP rules, these shares were removed from the SIP and transferred to Sir Bill following the cessation of his employment as Chief Executive of the Company on 1 July 2011.
(2) Malcolm Thoms and Phil Tracy ceased employment on 30 June 2011 following which the outstanding balances of shares held by them in the SIP were released.

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 56. The Company does not have a policy regarding executive shareholding requirements.

Share Option Schemes for Other Employees
Introduction

The Company currently operates the following share option schemes for employees below senior management level.

- 2009 Approved Share Option Plan ('2009 Approved Option Plan')
- 2009 Unapproved Share Option Plan ('2009 Unapproved Option Plan')
- Replacement Share Option Plan ('Replacement Option Plan')
- 2003 Approved Share Option Plan ('2003 Option Plan')
- 2002 Unapproved Share Option Plan ('2002 Option Plan')
- 1996 Second Share Option Scheme ('1996 Option Scheme')

Brief summaries of these arrangements are set out below. It should, however, be noted that none of the Company's Executive Directors participate in any of the above schemes and it is not intended that options will be granted to them under these arrangements in the future.

2009 Approved Option Plan and 2009 Unapproved Option Plan

The 2009 Approved Option Plan and the 2009 Unapproved Option Plan, both of which were approved by shareholders at the AGM held on 19 May 2009, are used to grant market value options to less senior employees of the Group. The principal difference between these two arrangements is that the approval of HM Revenue and Customs was sought and obtained for the 2009 Approved Option Plan, whereas no such approval was sought in relation to the 2009 Unapproved Option Plan. Options granted under the 2009 Unapproved Option Plan and 2009 Approved Option Plan are normally exercisable between three and ten years following their grant but only if and to the extent that specified performance conditions have been satisfied.

The value of ordinary shares over which options may be granted to a participant under the 2009 Unapproved Option Plan and 2009 Approved Option Plan in any financial year is subject to a limit of 200% of his/her basic salary (although a 300% of salary limit can be applied to an individual by the Remuneration Committee in exceptional circumstances).

The first options under the 2009 Unapproved Option Plan and 2009 Approved Option Plan were granted on 29 May 2009, with further awards being made to selected employees during 2010 and 2011. A summary of the performance conditions that will determine the extent to which these options vest at the end of the applicable performance period is provided on page 87.

Replacement Option Plan

The Replacement Option Plan, which was approved by shareholders at an EGM on 21 December 2009, was introduced to facilitate the conversion of certain options that had previously been granted by the Company under the Cairn Energy PLC Share Option Plan 2006 ('2006 Plan').

Converted options granted under the Replacement Option Plan comprise conditional rights to acquire ordinary shares for a specified price, 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.

A summary of the performance conditions that determine the extent to which converted options vest at the end of the applicable performance period is provided on page 87.

No options were granted under the Replacement Option Plan during 2011 and no further awards will be granted pursuant to this arrangement in the future.

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Share Option Schemes for Other Employees Continued

1996 Option Scheme, 2002 Option Plan and 2003 Option Plan

The 1996 Option Scheme, 2002 Option Plan and 2003 Option Plan (all of which have subsequently been superseded) were formerly used by the Company to grant options to a broad selection of employees in the Group. Although a number of options granted under these plans currently subsist, no further awards will be granted pursuant to their terms.

A summary of the performance conditions that must be satisfied before awards under these plans can be exercised is provided on page 87.

Dilution of Share Capital Pursuant to Share Plans

In any ten-year rolling period, the number of ordinary shares which may be issued in connection with the Company's discretionary share plans 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 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.

Non-Executive Directors

The remuneration of each of the Non-Executive Directors (other than the Chairman) is determined by the executive members of the Board and the Chairman within limits set out in the Articles of Association and having taken independent advice on appropriate levels. The remuneration of the Chairman is determined by the Remuneration Committee, again based on independent advice. In all cases, the fees are designed to attract experienced individuals and reflect the increased responsibilities of the role of the Chairman and other Non-Executive Directors.

With the exception of Sir Bill Gammell's residual 'good leaver' interests in various LTIPs, no Non-Executive Directors participate in any of the Company's share schemes and they are not entitled to a bonus or pension contributions.

The Non-Executive Directors' fees for 2011 are set out in full in the remuneration table on page 80. On appointment as Chairman, the annual rate of fees payable to Sir Bill Gammell was set at £213,000. His fees were increased to £230,000 per annum with effect from 6 March 2012. The annual fees for 2011 for the other Non-Executive Directors' were £66,000, increased to £70,000 for 2012 (representing a 4% increase). In addition to this, an annual fee of £10,000 was payable to each of Iain McLaren and Dr James Buckee for their roles as Chairman of the Audit and Remuneration Committee respectively.

Service Contracts/Letters of Appointment

The Company's policy is for all Executive Directors to have contracts of service which can be terminated either by the director concerned or by the Company on giving 12 months' notice of termination. In the event of termination by the Company (other than as a result of a change of control), the Executive Directors would be entitled to loss of salary, bonus, benefits and pension contributions for the notice periods. Depending on the circumstances of termination, the Executive Directors may be entitled, or the Remuneration Committee may exercise its discretion to allow the Executive Director to retain a proportion of his or her outstanding awards under long-term incentive arrangements (but only to the extent that any applicable performance conditions have been met).

Each of the Non-Executive Directors has a letter of appointment in terms of which he or she is appointed for a fixed three-year period, subject to the Company's Articles of Association, which provide for retirement by rotation at least once every three years. The letters of appointment set out the time commitment expected by the Company and can be terminated with immediate effect by either the director concerned or the Company. The Board is satisfied that each of the Non-Executive Directors commits sufficient time to fulfil his/her duties as a director of the Company. None of the Non-Executive Directors has any conflict of interest which has not been disclosed to the Board in accordance with the Company's Articles of Association. The Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection on request and will be available for inspection before and during the AGM to be held on 17 May 2012.

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Service Contracts/Letters of Appointment Continued

Details of the service contracts and letters of appointment of the current directors of the Company are given in the table below.

	Effective date	Notice period
Executive service contracts		
Simon Thomson	01.07.11	12 months
Dr Mike Watts	19.02.03	12 months
Jann Brown	17.11.06	12 months
Non-Executive letters of appointment		
Sir Bill Gammell	01.07.11	None
Todd Hunt	14.05.09	None
Iain McLaren	01.07.11	None
Dr James Buckee	15.01.12	None
M. Jacqueline Sheppard QC	20.05.10	None
Alexander Berger	20.05.10	None

As stated in the Corporate Governance Statement, in accordance with the UK Corporate Governance Code, all of the Company's directors will be subject to annual re-election by shareholders with effect from the AGM to be held on 17 May 2012.

Certain of the Company's Executive Directors serve as Non-Executive Directors on the Boards of other companies and are permitted to retain the fees relating to those positions. Details of the positions held and the fees receivable are set out in the table below.

	Position held	Fees (2011)
Executive Director		
Dr Mike Watts	Non-executive director, SOCO International plc	£40,000
Simon Thomson	Non-executive director, Graham's The Family Dairy Limited	£27,500

Sir Bill Gammell served as Chairman of Cairn India under a letter of appointment from 1 July 2011 to 8 December 2011 (the date on which the Company completed the sale of part of its shareholding in Cairn India to Vedanta Resources plc), for which he received fees of $125,000.

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

Directors' Remuneration Report
Continued

1. Unaudited Information Continued

Performance Graphs

Both the FTSE 100 Index and FTSE 250 Index were selected as appropriate comparator indices for the two performance graphs shown below. Cairn is not currently a constituent member of the FTSE 100 Index but was a member of the FTSE 100 for the entirety of 2011 and has also previously been a constituent member of the FTSE 250 Index.

The graph compares Cairn's TSR with that of the chosen indices.

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

The market value of one Cairn share on 30 December 2011 was £2.653. During 2011, the range of high and low share market values was from £2.578 to £4.697.

2. Audited Information

Details of Directors' Remuneration for the Year

Directors' Remuneration

The remuneration of the directors for the year ended 31 December 2011 was as follows:

	Salary £	Benefits[1] £	Annual bonus £	Compensation for loss of office £	Fees £	**Total 2011 £**	Total 2010 £	**Pension 2011 £**	Pension 2010 £
Executive									
Simon Thomson	425,000	28,311	350,000	–	–	**803,311**	631,286	**63,750**	54,000
Dr Mike Watts	435,000	12,152	300,000	–	–	**747,152**	780,297	**65,250**	63,000
Jann Brown	387,500	11,746	400,000[2]	–	–	**799,246**	619,903	**58,125**	54,000
Non-Executive									
Sir Bill Gammell[3]	312,500	14,294	–	1,395,126	106,500	**1,828,420**	978,544	**46,875[4]**	90,000[4]
Todd Hunt	–	–	–	–	66,000	**66,000**	63,000	–	–
Iain McLaren	–	–	–	–	76,000	**76,000**	73,000	–	–
Dr James Buckee	–	–	–	–	76,000	**76,000**	73,000	–	–
Alexander Berger	–	–	–	–	66,000	**66,000**	38,688	–	–
M. Jacqueline Sheppard QC	–	–	–	–	66,000	**66,000**	38,688	–	–
Former directors									
Malcolm Thoms[5]	187,500	11,589	–	1,299,589	–	**1,498,678**	633,230	**28,125**	54,000
Phil Tracy[6]	187,500	7,591	–	923,294	–	**1,118,385**	624,892	**28,125[4]**	54,000[4]
Norman Murray[7]	–	–	–	–	106,500	**106,500**	205,000	–	–
	1,935,000	85,683	1,050,000	3,618,009	563,000	**7,251,692**	4,759,528	**290,250**	369,000

Notes:

(1) Benefits comprise a company car, permanent health insurance, private health insurance and death in service benefit.

(2) The annual bonus paid to Jann Brown was calculated with reference to her salary as at the date of award (£400,000).

(3) Sir Bill Gammell stood down as Chief Executive and an Executive Director on 30 June 2011 and was appointed Non-Executive Chairman on 1 July 2011. Sir Bill's salary, benefits, pension and annual bonus reflect the period from 1 January 2011 to the date of cessation of his employment and his fees reflect the period from the date of his appointment as a Non-Executive Director to the year end.

(4) As explained on page 75, Sir Bill Gammell and Phil Tracy were both paid an additional amount equivalent to 15% of their respective basic salaries in lieu of pension contributions, as their pension arrangements were fully funded. In order to allow a valid comparison to be made with the basic salary and pension payment figures paid in prior years, the amount of these additional payments has been included in the pension columns above, rather than in the salary column.

(5) Malcolm Thoms stepped down as an Executive Director on 30 June 2011 and his salary, benefits, annual bonus and pension reflect the period from 1 January 2011 to that date.

(6) Phil Tracy stepped down as an Executive Director on 30 June 2011 and his salary, benefits, annual bonus and pension reflect the period from 1 January 2011 to that date.

(7) Norman Murray stood down as Non-Executive Chairman on 30 June 2011 and his fees reflect the period from 1 January 2011 to that date.

Directors' Remuneration Report
Continued

2. Audited Information Continued

Directors' Interests in Shares Under the Company's Various LTIPs

2009 LTIP – Total Interest

The total number of ordinary shares subject to awards held by the current and former Executive Directors pursuant to the 2009 LTIP during the year was as follows:

Ordinary Shares	At 01.01.11	Awarded in year	Vested in year	Lapsed/ surrendered in year	At 31.12.11 or date of cessation of office
Current Executive Directors					
Simon Thomson	702,000	325,440	0	0	**1,027,440**
Dr Mike Watts	852,000	377,510	0	0	**1,229,510**
Jann Brown	744,100	325,440	0	0	**1,069,540**
Former Executive Directors					
Sir Bill Gammell[1]	1,095,800	0	0	0	**1,095,800**
Malcolm Thoms[1]	589,700	0	0	0	**589,700**
Phil Tracy[1]	589,700	0	0	0	**589,700**

Note:

(1) Pursuant to the rules of the 2009 LTIP, the awards held by Sir Bill Gammell, Malcolm Thoms and Phil Tracy did not lapse on their cessation of employment, but will vest at the same time and in substantially the same manner as those awards held by current employees. In particular, they will only vest if, and to the extent that, the applicable performance conditions have been satisfied.

2009 LTIP – Analysis of Awards

An analysis of the individual awards held by current and former Executive Directors pursuant to the 2009 LTIP during the year is as follows:

2009 LTIP Awards

			Current Executive Directors			Former Executive Directors		
Date of grant	Performance period	Market value*	Simon Thomson	Dr Mike Watts	Jann Brown	Sir Bill Gammell	Malcolm Thoms	Phil Tracy
29.05.09	29.05.09 – 28.05.12	£2.456	491,000	655,000	491,000	674,000	421,000	421,000
26.03.10	26.03.10 – 25.03.13	£4.267	211,000	197,000	253,100	421,800	168,700	168,700
17.06.11	17.06.11 – 16.06.14	£4.033	325,440	377,510	325,440	0	0	0

* The price shown in this table represents the market value of a Cairn share on the date of grant of award.

Each of the above awards will ordinarily vest on or shortly after the expiry of the applicable performance period, but only to the extent that the performance conditions described on page 84 of this report are satisfied.

No variations to the terms and conditions of any 2009 LTIP awards were made during the year.

2006 LTIP – Total Interest

The total number of Cairn India Units subject to Cairn India Awards held by the current and former Executive Directors pursuant to the 2006 LTIP during the year was as follows:

Cairn India Units	At 01.01.11	Awarded in year	Vested in year	Lapsed/ surrendered in year	At 31.12.11
Current Executive Directors					
Simon Thomson	58,230	0	34,573	23,657	**0**
Dr Mike Watts	81,520	0	48,401	33,119	**0**
Jann Brown	116,460	0	69,146	47,314	**0**
Former Executive Directors					
Sir Bill Gammell	223,600	0	132,760	90,840	**0**
Malcolm Thoms	139,750	0	82,975	56,775	**0**
Phil Tracy	139,750	0	82,975	56,775	**0**

Directors' Remuneration Report
Continued

2. Audited Information Continued

Directors' Interests in Shares Under the Company's Various LTIPs Continued

2006 LTIP – Analysis of Cairn India Awards

An analysis of the individual Cairn India Awards held by current and former Executive Directors pursuant to the 2006 LTIP during the year is as follows:

Cairn India Units		Current Executive Directors			Former Executive Directors		
Performance period	Unit value*	Simon Thomson	Dr Mike Watts	Jann Brown	Sir Bill Gammell	Malcolm Thoms	Phil Tracy
07.05.08 – 06.05.11	£3.22	58,230	81,520	116,460	223,600	139,750	139,750

* The 'unit value' shown in the table above represents the notional value of a Cairn India Unit on the date of commencement of the performance period as calculated in accordance with the provisions of the 2006 LTIP.

Cairn India Awards ordinarily vest on or shortly after the expiry of the applicable performance period, but only to the extent that the performance conditions described on page 85 of this report are satisfied. The value of a participant's vested Cairn India Units is then settled in the form of ordinary shares in the Company.

No variations to the terms and conditions of any Cairn India Awards were made during the year.

Replacement LTIP – Total Interest

The total number of Converted Awards held by current and former Executive Directors pursuant to the Replacement LTIP during the year was as follows:

Ordinary Shares	At 01.01.11	Awarded in year	Vested in year	Lapsed/ surrendered in year	At 31.12.11
Current Executive Directors					
Simon Thomson	426,790	0	567,630	0	**0**
Dr Mike Watts	597,507	0	794,684	0	**0**
Jann Brown	284,527	0	378,420	0	**0**
Former Executive Directors					
Sir Bill Gammell	546,291	0	726,567	0	**0**
Malcolm Thoms	341,432	0	454,104	0	**0**
Phil Tracy	341,432	0	454,104	0	**0**

* An explanation of the methodology used to determine the number of ordinary shares that vested during the year under the Replacement LTIP is set out on page 83.

Replacement LTIP – Analysis of Converted Awards

An analysis of the individual Converted Awards held by current and former Executive Directors pursuant to the Replacement LTIP during the year is as follows:

Converted Awards			Current Executive Directors			Former Executive Directors		
Date of grant	Performance period	Market value*	Simon Thomson	Dr Mike Watts	Jann Brown	Sir Bill Gammell	Malcolm Thoms	Phil Tracy
22.12.09	07.05.08 – 06.05.11	£3.188	426,790	597,507	284,527	546,291	341,432	341,432

* The price shown in this table represents the market value of a Cairn share on the date of grant of the Converted Award.

As explained on page 74, the above Converted Awards were granted to the Executive Directors in consideration for the surrender of their outstanding Capricorn Awards granted under the 2006 LTIP. Converted Awards vest on or shortly after the expiry of the applicable performance period, but only to the extent that the performance condition described on page 86 of this report are satisfied.

No variations to the terms and conditions of any Converted Awards were made during the year.

Directors' Remuneration Report
Continued

2. Audited Information Continued
Directors' Interests in Shares Under the Company's Various LTIPs Continued
Awards Vesting During the Year – Overview

On 6 May 2011, the three-year performance period applicable to certain awards granted under the 2006 LTIP and Replacement LTIP came to an end. Thereafter, the Remuneration Committee determined that the relevant performance conditions (see pages 85 and 86 for full details) had been met to the following extent:

- in the case of the Cairn India Awards granted under the 2006 LTIP, Cairn India's TSR performance over the period was ranked between median and upper decile in the applicable comparator group resulting in a vesting of approximately 59% of the Cairn India Units over which the awards subsisted; and
- in the case of the Converted Awards granted under the Replacement LTIP, the Company's TSR performance over the period was (i) ranked above upper decile in the applicable comparator group; and (ii) in excess of 150%. The 1.33 'multiplier' contained within the rules of the Replacement LTIP was therefore applied in full, resulting in a vesting of 133% of the ordinary shares over which the awards subsisted.

The calculations used to determine these vesting percentages were carried out by Cairn and independently verified by Ernst & Young LLP.

Details of LTIP awards which vested during 2011 pursuant to the 2006 LTIP and Replacement LTIP are given in the tables below.

Awards Vesting During 2011 – Cairn India Awards (2006 LTIP)

Director	Date of Award	Performance period	No. of Units originally subject to award	Unit value at grant	Vesting date	Units vesting	Ordinary shares Vesting[1]	Market value on vesting
Current Executive Directors								
Simon Thomson	07.05.08	07.05.08 – 06.05.11	58,230	£3.22	16.12.11	34,573	48,475	£2.65
Dr Mike Watts	07.05.08	07.05.08 – 06.05.11	81,520	£3.22	16.12.11	48,401	67,863	£2.65
Jann Brown	07.05.08	07.05.08 – 06.05.11	116,460	£3.22	16.12.11	69,146	96,950	£2.65
Former Executive Directors								
Sir Bill Gammell[2]	07.05.08	07.05.08 – 06.05.11	223,600	£3.22	16.12.11	132,760	186,144	£2.65
Malcolm Thoms[2]	07.05.08	07.05.08 – 06.05.11	139,750	£3.22	16.12.11	82,975	116,340	£2.65
Phil Tracy[2]	07.05.08	07.05.08 – 06.05.11	139,750	£3.22	16.12.11	82,975	116,340	£2.65

Notes:
(1) The number of ordinary shares to which a participant became entitled on the vesting of the above Cairn India Awards was calculated by reference to (i) a fair market value per Cairn India Limited share of INR 300.95 (being the closing price of such share on the day preceding the vesting date); and (ii) a market value per ordinary share of £2.646 (being the closing middle market quotation of an ordinary share on the day preceding the vesting date).
(2) As explained on page 81 of this report, the awards that were held by Sir Bill Gammell, Malcolm Thoms and Phil Tracy did not lapse on their cessation of employment with the Company, but instead vested at the same time and in the same manner as the current employees of the Company save that, on such vesting, all of the ordinary shares to which these former employees became entitled were released immediately.

In accordance with the rules of the 2006 LTIP, 50% of the ordinary shares in respect of which the current Executive Directors' Cairn India Awards vested were released to them immediately. The remaining 50% of these ordinary shares became subject to a withholding period during which they were withheld by the trustee. However, as explained on page 75 of this report, this holding period terminated with effect from the passing of the return of cash resolution at the general meeting held on 30 January 2012 and the relevant ordinary shares were released to the individuals in question immediately thereafter.

Awards Vesting During 2011 – Converted Awards (Replacement LTIP)

Director	Date of Award	Performance period	No. of ordinary shares originally subject to award	Market value at grant	Vesting date	Ordinary shares Vesting[1]	Market value on vesting
Current Executive Directors							
Simon Thomson	22.12.09	07.05.08 – 06.05.11	426,790	£3.188	06.06.11	567,630	£4.2355
Dr Mike Watts	22.12.09	07.05.08 – 06.05.11	597,507	£3.188	06.06.11	794,684	£4.2355
Jann Brown	22.12.09	07.05.08 – 06.05.11	284,527	£3.188	06.06.11	378,420	£4.2355
Former Executive Directors							
Sir Bill Gammell	22.12.09	07.05.08 – 06.05.11	546,291	£3.188	06.06.11	726,567	£4.2355
Malcolm Thoms	22.12.09	07.05.08 – 06.05.11	341,432	£3.188	06.06.11	454,104	£4.2355
Phil Tracy	22.12.09	07.05.08 – 06.05.11	341,432	£3.188	06.06.11	454,104	£4.2355

(1) As explained above, these Converted Awards vested in respect of 133% of the ordinary shares over which they were originally granted as a result of the application of the 1.33 'multiplier' contained within the rules of the Replacement LTIP.

Following the above vesting, a total of 1,741,229 ordinary shares acquired by the current and former Executive Directors were sold on their behalf to fund the tax and national insurance liabilities arising on vesting. The balance of the ordinary shares acquired became subject to an extended holding period during which they were held by the trustee as nominee for each of the individuals. However, as explained on page 75 of this report, this holding period terminated with effect from the passing of the return of cash resolution at the general meeting held on 30 January 2012 and the relevant ordinary shares were released to the individuals in question immediately thereafter.

Directors' Remuneration Report
Continued

2. Audited Information Continued

Overview of SIP Performance Conditions

Introduction

The vesting of each award and option granted under the Company's various SIPs is conditional on the achievement of performance conditions determined by the Remuneration Committee at the relevant date of grant. Set out below is a summary of the conditions applicable to awards and options that were outstanding during the year.

In the case of the Company's LTIPs (being the arrangements in which the Executive Directors participate), the conditions principally relate to the TSR performance of the Company. These TSR measures were selected by the Remuneration Committee on the basis that they improve shareholder alignment and are consistent with the Company's objective of delivering long-term value to shareholders.

On the expiry of the performance period applicable to an award or option, the calculations necessary to determine the extent to which the relevant conditions have been satisfied are subject to independent verification by Ernst & Young LLP.

2009 LTIP

In the case of all outstanding awards granted under the 2009 LTIP, the extent to which they vest will be determined by comparing the TSR of the Company over a three year performance period with the TSR of a share in each company in a comparator group. The tables below show the comparator groups for each tranche of awards granted under the 2009 LTIP to executive directors.

2009 LTIP awards granted on 29 May 2009	2009 LTIP awards granted on 26 March 2010	2009 LTIP awards granted on 17 June 2011
Addax Petroleum, Inc*	BG Group PLC	Afren PLC
BG Group PLC	Bharat Petroleum Corporation Limited	BG Group PLC
Bharat Petroleum Corporation Limited	Chesapeake Energy Corporation	Bharat Petroleum Corporation Limited
Chesapeake Energy Corporation	CNOOC Limited	DNO ASA
CNOOC Limited	Dana Petroleum PLC*	EnQuest PLC
Dana Petroleum PLC	EOG Resources, Inc	EOG Resources, Inc
EOG Resources, Inc	Hindustan Petroleum Corporation Limited	JKX Oil & Gas PLC
Hindustan Petroleum Corporation Limited	Indian Oil Corporation Limited	Melrose Resources PLC
Indian Oil Corporation Limited	Newfield Exploration Company	Newfield Exploration Company
Newfield Exploration Company	Noble Energy, Inc	Noble Energy, Inc
Noble Energy, Inc	Oil and Natural Gas Corporation Limited	Oil and Natural Gas Corporation Limited
Oil and Natural Gas Corporation Limited	PTT Exploration & Production PLC	Premier Oil PLC
PTT Exploration & Production PLC	Premier Oil PLC	Salamander Energy PLC
Premier Oil PLC	Santos Limited	Santos Limited
Santos Limited	SOCO International PLC	Talisman Energy, Inc
SOCO International PLC	Talisman Energy, Inc	Tullow Oil PLC
Talisman Energy, Inc	Tullow Oil PLC	Woodside Petroleum Limited
Tullow Oil PLC	Woodside Petroleum Limited	
Woodside Petroleum Limited		

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

At the end of the performance period, each company in the comparator group will be listed in order of TSR performance to produce a 'ranking table'. The vesting of awards will then take 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

In order to make sure that the 2009 LTIP encourages and rewards exceptional performance, 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 will operate 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.

Directors' Remuneration Report
Continued

2. Audited Information Continued

Overview of SIP Performance Conditions Continued

2006 LTIP (Cairn India Awards)

In the case of the Cairn India Awards that were granted under the 2006 LTIP and which vested on 16 December 2011, the extent of vesting was determined by comparing the TSR of a Cairn India share over a three year performance period with the TSR of a share in each company in the following comparator group:

Cairn India Awards with performance period commencing on 7 May 2008
Addax Petroleum, Inc*
BG Group PLC
Bharat Petroleum Corporation Limited
Chesapeake Energy Corporation
CNOOC Limited
EOG Resources, Inc
Hindustan Petroleum Corporation Limited
Indian Oil Corporation Limited
Newfield Exploration Company
Noble Energy, Inc
Oil and Natural Gas Corporation Limited
PTT Exploration & Production PLC
Santos Limited
Talisman Energy, Inc
Tullow Oil PLC
Venture Production PLC*
Woodside Petroleum Limited

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

At the end of the performance period, each company in the comparator group was listed in order of TSR performance to produce a 'ranking table'. The vesting of Cairn India Awards was then calculated as follows:

Ranking of Cairn India share against the comparator group	Percentage of Cairn India Units 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

For the same reasons as noted above in relation to the 2009 LTIP, where the TSR of a Cairn India share produced a ranking at or above the upper decile level in the above comparator group, the percentage of the relevant Cairn India Award that vested could be increased through the application of the following 'multiplier' linked to the TSR actually achieved over the performance period:

Multiplier applied to determine the number of Cairn India Units that actually vest	TSR of Cairn India over the performance period
1	40% or less
1.33	80% or more
1 – 1.33 on a straight line basis	Between 40% and 80%

However, no multiplier was applied in relation to the Cairn India Awards that vested on 16 December 2011.

Notwithstanding the performance of a Cairn India share against the above targets, no part of any Cairn India Award would have vested unless the Remuneration Committee was satisfied that there had been an overall satisfactory and sustained improvement in the performance of the Company as a whole over the performance period.

Directors' Remuneration Report
Continued

2. Audited Information Continued
Overview of SIP Performance Conditions Continued
Replacement LTIP
The vesting of the Converted Awards on 6 June 2011 was determined by the extent to which specified performance conditions were satisfied over the original three year performance period that applied to the 2006 LTIP Capricorn Award that it has replaced pursuant to the conversion mechanism described on page 74.

The terms of these conditions that applied to each Converted Award were the same as those that applied to the Capricorn Award that it replaced. In particular, the extent to which a Converted Award vested was determined by comparing the TSR of the Company over the applicable performance period with the TSR of a share in each company in a comparator group (see below) with vesting taking place as follows:

Ranking of the Company against the comparator group	Percentage of ordinary shares comprised in converted 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

For the same reasons as noted above in relation to the 2009 LTIP, where the TSR of the Company produced a ranking at or above the upper decile level in the appropriate comparator group, the percentage of the relevant Converted Award that vested could be increased through the application of the following 'multiplier' linked to the TSR actually achieved over the performance period:

Multiplier applied to determine the number of ordinary shares that actually vest	TSR of the Company over the performance period
1	75% or less
1.33	150% or more
1 – 1.33 on a straight line basis	Between 75% and 150%

A multiplier of 1.33 applied to the Converted Awards that vested on 6 June 2011.

For the purposes of the above conditions, the TSR performance of the Company over the performance period was calculated by aggregating (i) the growth in the TSR of a Capricorn Unit achieved between the start of the period and the 'conversion date' (being the date on which the conversion mechanism described on page 74 became effective); and (ii) the growth in the TSR of a Cairn share between the conversion date and the end of the period.

Notwithstanding the performance of the Company against the above targets, no part of any Converted Award would have vested unless the Remuneration Committee was satisfied that there had been an overall satisfactory and sustained improvement in the performance of the Company as a whole over the performance period.

The comparator group applicable to each Converted Award was identical to the group that applied to the Capricorn Award it replaced. The table below shows the comparator group for the Converted Awards that vested on 6 June 2011.

Converted Awards with performance period commencing on 7 May 2008
Dana Petroleum PLC*
DNO ASA
Egdon Resources PLC
Hardy Oil & Gas PLC
Imperial Energy Corporation PLC*
JKX Oil & Gas PLC
Melrose Resources PLC
Premier Oil PLC
Regal Petroleum PLC
Salamander Energy PLC
Sibir Energy PLC*
SOCO International PLC
Sterling Energy PLC
Tullow Oil PLC
Venture Production PLC*

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

Directors' Remuneration Report
Continued

2. Audited Information Continued

Overview of SIP Performance Conditions Continued

2009 Approved Option Plan and 2009 Unapproved Option Plan

All options granted under the above arrangements are subject to a TSR growth target measured over a three year performance period. Under this target, vesting will occur as follows:

Average annual compound growth in TSR of the Company over the performance period	Percentage of ordinary shares comprised in option that vests
Less than 5%	0%
5%	50%
10% or more	100%
More than 5% but less than 10%	50% – 100% on a straight line basis

Notwithstanding the above condition, no part of an option granted under the 2009 Approved Option Plan or 2009 Unapproved Option Plan will vest unless the TSR of the Company over the performance period is sufficient to place it at or above the median level in the same comparator group of companies that is used for the purposes of the 2009 LTIP (see table on page 84).

Replacement Option Plan

The vesting of a Converted Option is determined by the extent to which specified performance conditions are satisfied over the original three year performance period that applied to the 2006 Plan Capricorn Unit option that it replaced pursuant to the exchange mechanism described on page 77.

The terms of these conditions that apply to each Converted Option are the same as those applied to the Capricorn Unit option that it has replaced. In particular, the extent to which a Converted Option vests is determined by reference to the Company's achievement against a share price growth target measured over the applicable performance period. Under this target, vesting occurs as follows:

Average annual compound growth in the price of a Cairn share over the performance period	Percentage of ordinary shares comprised in Converted Option that vests
Less than 5%	0%
5%	50%
10% or more	100%
More than 5% but less than 10%	50% – 100% on a straight line basis

Notwithstanding the above condition, no part of a Converted Option can vest unless the TSR of the Company over the performance period is sufficient to place it at or above the median level in the same comparator group of companies that is used for the purposes of the Converted Awards granted under the Replacement LTIP (see the table above).

1996 Scheme, 2002 Option Plan and 2003 Option Plan

In the case of all outstanding options under the 1996 Scheme, 2002 Option Plan and 2003 Option Plan, the option holder may only exercise his/her award if Cairn's share price has increased by 5% on a compound basis over the period from the date of grant to the date of exercise; and the percentage increase in Cairn's share price over the same period is at least equal to or greater than the percentage movement in the FTSE Oil and Gas Index.

I have now completed my three year tenure as Chairman of the committee and therefore with effect from 5 March 2012 stood down from the role. I will however continue as a member of the committee. M. Jacqueline Sheppard QC took over as Chairwoman of the committee with effect from the same date.

By Order of the Board

Dr James Buckee
Chairman of the Remuneration Committee during 2011
23 March 2012

Independent Auditor's Report to the Members Of Cairn Energy PLC

We have audited the financial statements of Cairn Energy PLC for the year ended 31 December 2011 which comprise the Group Income Statement, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes 1.1 to 7.2 and Appendices 1 to 3. The financial reporting framework that has been applied in their preparation 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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- 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 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with 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.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following:

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

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 35, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

James Douglas Nisbet (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
23 March 2012

Ernst & Young LLP

Notes:
1. The maintenance and integrity of the Cairn Energy PLC web site 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 web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements

Notes to the Financial Statements

Appendices to the Notes to the Financial Statements

Group Income Statement
For the year ended 31 December 2011

	Section	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Continuing operations			
Production costs	5.2	**2.7**	(1.1)
Pre-award costs		**(16.7)**	(12.7)
Unsuccessful exploration costs	2.1	**(941.8)**	(211.9)
Other operating income		**–**	0.8
Administrative expenses		**(32.8)**	(35.0)
Exceptional administrative expenses	5.3	**(6.7)**	(35.6)
Impairment	5.2	**(141.0)**	(16.0)
Gain on sale of intangible exploration/appraisal assets	5.2	**–**	12.6
Operating loss		**(1,136.3)**	(298.9)
Finance income	5.6	**2.2**	2.5
Finance costs	5.7	**(55.2)**	(7.2)
Loss before taxation from continuing operations		**(1,189.3)**	(303.6)
Taxation			
Tax (charge)/credit	5.8	**(0.1)**	0.3
Loss after taxation from continuing operations		**(1,189.4)**	(303.3)
Profit for the year from discontinued operations	5.9	**5,754.6**	1,386.5
Profit for the year		**4,565.2**	1,083.2
Attributable to:			
Equity holders of the parent		**4,101.1**	794.3
Non-controlling interests		**464.1**	288.9
Earnings per ordinary share – basic (cents)	5.10	**330.93**	64.41
Earnings per ordinary share – diluted (cents)	5.10	**330.58**	64.41
Loss per ordinary share – basic from continuing operations (cents)	5.10	**(95.98)**	(24.59)
Loss per ordinary share – diluted from continuing operations (cents)	5.10	**(95.98)**	(24.59)

Statements of Comprehensive Income
For the year ended 31 December 2011

	Section	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Profit for the year		**4,565.2**	1,083.2	**4,172.7**	150.2
Other comprehensive income					
Deficit on valuation of financial assets	3.1	**(127.7)**	–	–	–
Deferred tax credit on valuation of financial assets		**19.8**	–	–	–
Currency translation differences		**(33.9)**	0.5	**28.1**	(25.6)
Currency translation differences recycled on disposal of subsidiary	5.9	**84.5**	–	–	–
Other comprehensive income for the year		**(57.3)**	0.5	**28.1**	(25.6)
Total comprehensive income for the year		**4,507.9**	1,083.7	**4,200.8**	124.6
Attributable to:					
Equity holders of the parent		**4,057.4**	793.6	**4,200.8**	124.6
Non-controlling interests		**450.5**	290.1	–	–
		4,507.9	1,083.7	**4,200.8**	124.6

Balance Sheets
As at 31 December 2011

	Section	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Non-current assets					
Intangible exploration/appraisal assets	2.1	**80.8**	262.8	–	–
Property, plant & equipment – other		**1.5**	1.1	**0.1**	0.2
Intangible assets – other	4.1	**1.2**	64.9	–	–
Available-for-sale financial assets	3.1	**2,463.3**	–	–	–
Investments in subsidiaries	4.2	–	–	**536.3**	918.4
		2,546.8	328.8	**536.4**	918.6
Current assets					
Trade and other receivables	3.3	**93.1**	39.4	**679.7**	93.3
Cash and cash equivalents	3.2	**4,730.7**	187.0	**4,055.8**	45.6
		4,823.8	226.4	**4,735.5**	138.9
Assets held-for-sale	4.3	–	4,725.6	–	–
Total assets		**7,370.6**	5,280.8	**5,271.9**	1,057.5
Current liabilities					
Trade and other payables	3.4	**209.1**	77.0	**79.5**	82.4
Provisions		**14.0**	2.8	–	–
Income tax liabilities		**0.1**	0.1	–	–
		223.2	79.9	**79.5**	82.4
Non-current liabilities					
Deferred tax liabilities	5.8	**254.1**	–	–	–
		254.1	–	–	–
Liabilities related to disposal units held-for-sale	4.3	–	1,362.5	–	–
Total liabilities		**477.3**	1,442.4	**79.5**	82.4
Net assets		**6,893.3**	3,838.4	**5,192.4**	975.1
Equity attributable to equity holders of the parent					
Called-up share capital	6.1	**13.9**	16.7	**13.9**	16.7
Share premium	6.1	**483.7**	484.7	**483.7**	484.7
Shares held by ESOP Trust		–	(8.2)	–	(8.2)
Shares held by SIP Trust		**(1.7)**	(0.8)	**(1.7)**	(0.8)
Foreign currency translation		**(7.0)**	(39.5)	–	(91.7)
Capital reserves – non distributable		**40.2**	40.2	**0.1**	0.1
Available-for-sale reserve		**(107.9)**	–	–	–
Retained earnings		**6,472.1**	2,317.6	**4,696.4**	574.3
		6,893.3	2,810.7	**5,192.4**	975.1
Non-controlling interests		–	1,027.7	–	–
Total equity		**6,893.3**	3,838.4	**5,192.4**	975.1

Jann Brown
Managing Director and
Chief Financial Officer
23 March 2012

Simon Thomson
Chief Executive
23 March 2012

Statements of Cash Flows
For the year ended 31 December 2011

	Section	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Cash flows from operating activities					
(Loss)/profit before taxation from continuing activities		**(1,189.3)**	(303.6)	**4,172.7**	150.2
Profit before taxation from discontinued activities		**1,951.2**	1,045.2	–	–
Profit before taxation		**761.9**	741.6	**4,172.7**	150.2
Revenue provision release		**(64.0)**	–	–	–
Unsuccessful exploration costs		**946.2**	235.0	–	–
Depletion, depreciation, decommissioning and amortisation		**3.7**	151.0	**0.1**	–
Share-based payments charge		**28.3**	68.8	**8.9**	27.8
Impairment		**141.0**	16.0	**501.7**	–
Gain on sale of oil and gas assets		–	(12.6)	–	–
Finance income		**(56.8)**	(26.8)	**(5,431.5)**	(9.3)
Finance costs		**147.3**	84.6	**56.4**	6.9
Net interest paid		**(72.1)**	(73.9)	**(12.7)**	(6.9)
Income tax paid		**(370.5)**	(221.5)	–	–
Foreign exchange differences		**(20.9)**	(3.4)	**(1.1)**	(0.1)
Movement on inventory of oil and condensate		**(7.2)**	(0.1)	–	–
Trade and other receivables movement		**(116.0)**	(210.6)	**(588.1)**	0.6
Trade and other payables movement		**(34.7)**	62.8	**(1.1)**	(18.9)
Movement in other provisions		**627.2**	26.2	–	–
Net cash generated from/(used in) operating activities		**1,913.4**	837.1	**(1,294.7)**	150.3
Cash flows from investing activities					
Proceeds on disposal of Cairn India group	5.9c	**4,721.5**	–	–	–
Expenses incurred on disposal of Cairn India group		**(15.0)**	–	–	–
Expenditure on intangible exploration/appraisal assets		**(963.2)**	(533.7)	–	–
Expenditure on property, plant & equipment – development/producing assets		**(406.7)**	(526.6)	–	–
Purchase of property, plant & equipment – other		**(3.5)**	(3.6)	–	–
Purchase of intangible assets – software		**(5.3)**	(5.9)	–	–
Investment in subsidiaries		–	–	**(87.7)**	(265.0)
Proceeds on disposal of intangible exploration/appraisal assets		**1.5**	78.5	–	–
Dividend received		–	–	**5,430.0**	–
Movement in funds on bank deposits		**(715.3)**	(439.9)	–	–
Interest received		**56.8**	43.5	**1.5**	0.3
Net cash from/(used in) investing activities		**2,670.8**	(1,387.7)	**5,343.8**	(264.7)
Cash flows from financing activities					
Proceeds from increase in non-controlling interest		**5.8**	11.9	–	–
Arrangement and facility fees		**(7.1)**	(28.5)	–	–
Proceeds from issue of debentures		–	304.6	–	–
Repayment of debentures		**(20.5)**	–	–	–
Cost of shares purchased		**(0.9)**	(9.8)	**(0.9)**	(9.8)
Proceeds from exercise of share options		**3.3**	11.3	**3.3**	11.3
Payment of finance lease liabilities		**(1.1)**	(1.5)	–	–
Proceeds of borrowings		**200.0**	(307.2)	–	–
Return of cash to shareholders		**(0.6)**	–	**(0.6)**	–
Repayment of borrowings		**(573.0)**	–	–	–
Net cash flows (used in)/from financing activities		**(394.1)**	(19.2)	**1.8**	1.5
Net increase/(decrease) in cash and cash equivalents		**4,190.1**	(569.8)	**4,050.9**	(112.9)
Opening cash and cash equivalents at beginning of year		**625.5**	1,176.5	**45.6**	158.4
Exchange gains on cash and cash equivalents		**(84.9)**	18.8	**(40.7)**	0.1
Closing cash and cash equivalents	3.2	**4,730.7**	625.5	**4,055.8**	45.6

Statements of Changes in Equity
For the year ended 31 December 2011

Group	Equity share capital $m	Shares held by ESOP Trust and SIP Trust $m	Foreign currency translation $m	Capital reserves $m	Available-for-sale reserve $m	Retained earnings $m	Non-controlling interests $m	**Total equity $m**
At 1 January 2010	490.1	(27.2)	(38.8)	40.2	–	1,488.8	723.9	**2,677.0**
Profit for the year	–	–	–	–	–	794.3	288.9	**1,083.2**
Currency translation differences	–	–	(0.7)	–	–	–	1.2	**0.5**
Total comprehensive income for the year	–	–	(0.7)	–	–	794.3	290.1	**1,083.7**
Exercise of employee share options	11.3	–	–	–	–	–	–	**11.3**
Share-based payments	–	–	–	–	–	58.5	5.8	**64.3**
Increase in non-controlling interest through the exercise of share options	–	–	–	–	–	4.0	7.9	**11.9**
Cost of shares purchased	–	(9.8)	–	–	–	–	–	**(9.8)**
Cost of shares vesting	–	28.0	–	–	–	(28.0)	–	**–**
At 31 December 2010	501.4	(9.0)	(39.5)	40.2	–	2,317.6	1,027.7	**3,838.4**
Profit for the year	–	–	–	–	–	4,101.1	464.1	**4,565.2**
Deficit on valuation of financial assets	–	–	–	–	(127.7)	–	–	**(127.7)**
Deferred tax credit on valuation of financial assets	–	–	–	–	19.8	–	–	**19.8**
Currency translation differences	–	–	(20.3)	–	–	–	(13.6)	**(33.9)**
Currency translation differences recycled on disposal of subsidiary	–	–	84.5	–	–	–	–	**84.5**
Total comprehensive income for the year	**–**	**–**	**64.2**	**–**	**(107.9)**	**4,101.1**	**450.5**	**4,507.9**
Foreign exchange on functional currency change	(7.2)	–	(31.7)	–	–	38.9	–	**–**
Exercise of employee share options	3.3	–	–	–	–	–	–	**3.3**
Share-based payments	–	–	–	–	–	22.2	4.7	**26.9**
Shares issued for cash	0.1	(0.1)	–	–	–	–	–	**–**
Costs incurred on return of cash to shareholders	–	–	–	–	–	(0.7)	–	**(0.7)**
Cost of shares purchased	–	(0.9)	–	–	–	–	–	**(0.9)**
Cost of shares vesting	–	8.3	–	–	–	(8.3)	–	**–**
Increase in non-controlling interest through the exercise of share options	–	–	–	–	–	1.3	4.5	**5.8**
Disposal of non-controlling interest on sale of subsidiary	–	–	–	–	–	–	(1,487.4)	**(1,487.4)**
At 31 December 2011	**497.6**	**(1.7)**	**(7.0)**	**40.2**	**(107.9)**	**6,472.1**	**–**	**6,893.3**

Statements of Changes in Equity Continued
For the year ended 31 December 2011

Company	Equity share capital $m	Shares held by ESOP Trust and SIP Trust $m	Foreign currency translation $m	Capital reserves $m	Retained earnings $m	Total equity $m
At 1 January 2010	490.1	(27.2)	(66.1)	0.1	405.6	**802.5**
Profit for the year	–	–	–	–	150.2	**150.2**
Currency translation differences	–	–	(25.6)	–	–	**(25.6)**
Total comprehensive income for the year	–	–	(25.6)	–	150.2	**124.6**
Exercise of employee share options	11.3	–	–	–	–	**11.3**
Share-based payments	–	–	–	–	46.5	**46.5**
Cost of shares purchased	–	(9.8)	–	–	–	**(9.8)**
Cost of shares vesting	–	28.0	–	–	(28.0)	**–**
At 31 December 2010	501.4	(9.0)	(91.7)	0.1	574.3	**975.1**
Profit for the year	–	–	–	–	4,172.7	**4,172.7**
Currency translation differences	–	–	28.1	–	–	**28.1**
Total comprehensive income for the year	–	–	28.1	–	4,172.7	**4,200.8**
Foreign exchange on functional currency change	(7.2)	–	63.6	–	(56.4)	**–**
Exercise of employee share options	3.3	–	–	–	–	**3.3**
Share-based payments	–	–	–	–	14.8	**14.8**
Shares issued for cash	0.1	(0.1)	–	–	–	**–**
Costs incurred on return of cash to shareholders	–	–	–	–	(0.7)	**(0.7)**
Cost of shares purchased	–	(0.9)	–	–	–	**(0.9)**
Cost of shares vesting	–	8.3	–	–	(8.3)	**–**
At 31 December 2011	**497.6**	**(1.7)**	**–**	**0.1**	**4,696.4**	**5,192.4**

Section 1 – Basis of Preparation

This section contains the Group's significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note have been included in that note. Accounting policies determined non-significant are not included in these financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

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 2011 were authorised for issue in accordance with a resolution of the directors on 23 March 2012. The Group 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.

Cairn prepares its accounts on a historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

b) Presentation of Discontinued Operations

In the 2010 consolidated financial statements, the results of discontinued operations were disclosed in a separate column on the face of the Income Statement. This information is now given in Section 5.9.

c) Accounting Standards

Cairn prepares its accounts in accordance with applicable IFRS as adopted by the EU. 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 2011.

For the year ending 31 December 2011, Cairn has adopted the following standards and interpretations:

Title	Change to Accounting Treatment	Impact on Initial Application
IAS 1 'Presentation of Financial Statements' (amendment)	Presentational changes to the financial statements.	Additional disclosures given in the Statement of Changes in Equity for individual components of total comprehensive income.
IAS 24 'Related Party Transactions' (amendment)	Clarity on the definition of a related party and exemption from general related party disclosure requirements for transactions with Governments.	No impact on the financial position or performance of the Group.
IAS 32 'Financial Instruments: Presentation' (amendment)	Enables entities to classify rights issues and certain options or warrants as equity instruments.	No impact on the financial position or performance of the Group.

For the year ending 31 December 2011, Cairn has adopted the following amendments to standards which resulted through the IASB's annual 'Improvements to IFRS'. There was no impact on the accounting policies, financial position or performance of the Group as a result of these changes:

- IFRS 3 'Business combinations';
- IFRS 7 'Financial Instruments – Disclosures'; and
- IAS 27 'Consolidated and separate Financial Statements'

The following interpretations and amendments to interpretations which were issued by the IASB have no impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 'Customer Loyalty Programmes';
- IFRIC 14 'Prepayments of a Minimum Funding Requirement (amendment)';
- IFRIC 17 'Distributions of Non-cash Assets to Owners'; and
- IFRIC 19 'Extinguishment of Financial Liabilities with Equity Instruments'

Section 1 – Basis of Preparation
Continued

1.1 Significant Accounting Policies Continued

c) Accounting Standards Continued
The following new standards and interpretations, which are not yet effective and which are not expected to impact on the Group's financial position or performance, have been issued by the IASB:
- IFRS 9 'Financial Instruments: Classification and Measurement';
- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint Ventures';
- IFRS 12 'Disclosure of Interest in Other Entities';
- IFRS 13 'Fair Value Measurement';
- IAS 1 'Presentation of items in Other Comprehensive Income';
- IAS 12 'Income Taxes (amendment) – Deferred Taxes: Recovery of underlying assets'; and
- IAS 19 'Employee Benefits (Revised)'

d) Basis of Consolidation
The consolidated accounts include the results of Cairn Energy PLC and its subsidiary undertakings to the Balance Sheet date. The results of subsidiaries acquired or disposed of during the year are included in the Income Statement and Statement of Cash Flows from the effective date of acquisition or up to the effective date of disposal as appropriate.

Cairn allocates the purchase consideration of any acquisition to assets and liabilities on the basis of fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values 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 value 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 periods. Negative goodwill is credited immediately to the Income Statement.

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 profit attributable to the Company for the year ended 31 December 2011 was $4,172.7m (2010: profit of $150.2m).

e) Joint Ventures
Cairn participates in several unincorporated Joint Ventures which involve the joint control of assets used in the Group's oil and gas exploration and producing activities. Cairn accounts for its share of assets, liabilities, income and expenditure of Joint Ventures in which the Group holds an interest, classified in the appropriate Balance Sheet and Income Statement headings. Cairn's principal licence interests are jointly controlled assets.

A list of Cairn's interests in unincorporated Joint Ventures is given on page 8.

f) Foreign Currencies
These accounts continue to be presented in US dollars ($), the functional currency of most companies in the Group. In light of the completion of the sale of the 40% interest in Cairn India to Vedanta, the Directors have reviewed the functional currency of Cairn Energy PLC (Company only). The sale realised substantial $ income with a significant portion to be retained by the Company to finance future growth of the Cairn Group. With an increasing proportion of cash flows of the parent company being denominated in $, the Directors have concluded that it is appropriate for the functional currency of the Company to change from Sterling to $ from 1 July 2011.

In the accounts of individual Group companies, Cairn translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. 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 accounts of the parent and subsidiary undertakings in their functional currency. Where applicable, the Group translates parent and subsidiary accounts into the presentation currency, $, 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 $ directly to reserves.

Rates of exchange to $1 were as follows:

	31 December 2011	Average 2011	31 December 2010	Average 2010
Sterling	**0.644**	**0.623**	0.641	0.647
Indian Rupee	**53.015**	**46.489**	44.712	45.662

Assets and Investments: Section 2 – Oil and Gas Assets

This section focuses on the oil and gas assets which form the core of our business, including details of exploration costs incurred in the year, those written off or impaired and capital commitments existing at the year end.

Significant Accounting Judgements in this Section:

Indicators of Impairment for Intangible Exploration/Appraisal Assets
Cairn has reviewed intangible exploration/appraisal assets for indicators of impairment in accordance with IFRS 6 and concluded that such indicators did exist on certain of the Group's assets. Impairment tests were therefore conducted on those assets where indicators of impairments were identified. See Section 2.1.

Key Estimates and Assumptions in this Section:

Impairment Testing of Intangible Exploration/Appraisal Assets
Where indicators of impairment have been identified on certain licences in Greenland and Nepal, there are no development or producing assets within the same operating segment to support the carrying value of the exploration costs incurred. All such costs have therefore been impaired in full.

2.1 Intangible Exploration/Appraisal Assets

Accounting Policies (Summarised)
Cairn follows a successful efforts-based accounting policy for oil and gas assets.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement.

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.

Impairment
Intangible exploration/appraisal assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist. In such circumstances the exploration/appraisal asset is allocated to property, plant & equipment – development/producing assets within the same operating segment and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development/producing assets within an operating segment, the exploration/appraisal costs are charged immediately to the Income Statement.

At the year end or prior to the intangible exploration/appraisal assets being transferred to assets held-for-sale, the Group reviews intangible/exploration assets for indicators of impairment. Where an indicator is identified, the asset is tested for impairment.

Assets and Investments: Section 2 – Oil and Gas Assets
Continued

2.1 Intangible Exploration/Appraisal Assets Continued

Group	Cairn India Group $m	Greenland $m	Mediterranean and South Asia $m	Total $m
Cost				
At 1 January 2010	340.6	14.5	232.0	**587.1**
Exchange differences arising	(1.8)	–	–	**(1.8)**
Additions	60.8	432.5	28.0	**521.3**
Disposals	–	–	(74.1)	**(74.1)**
Unsuccessful exploration costs	(23.1)	(186.7)	(94.4)	**(304.2)**
Transfers to assets held-for-sale	(376.5)	–	(77.2)	**(453.7)**
At 1 January 2011	–	260.3	14.3	**274.6**
Additions	–	835.9	2.1	**838.0**
Unsuccessful exploration costs	–	(941.8)	–	**(941.8)**
At 31 December 2011	**–**	**154.4**	**16.4**	**170.8**
Impairment				
At 1 January 2010	–	–	210.9	**210.9**
Impairment	–	–	11.6	**11.6**
Disposals	–	–	(65.8)	**(65.8)**
Unsuccessful exploration costs	–	–	(69.2)	**(69.2)**
Transfers to assets held-for-sale	–	–	(75.7)	**(75.7)**
At 1 January 2011	–	–	11.8	**11.8**
Impairment	–	74.9	3.3	**78.2**
At 31 December 2011	**–**	**74.9**	**15.1**	**90.0**
Net book value at 31 December 2011	**–**	**79.5**	**1.3**	**80.8**
Net book value at 31 December 2010	–	260.3	2.5	262.8
Net book value at 1 January 2010	340.6	14.5	21.1	376.2

Assets reclassified as held-for-sale in 2010 include the assets of Cairn India of $376.5m which were being held-for-sale pending completion of the Vedanta transaction and $1.5m costs, net of impairment, relating to Tunisian assets; see Section 4.3 for further details.

Expenditure incurred by Cairn India on exploration/appraisal activities while the assets are classified as held-for-sale is included with expenditure on exploration/appraisal assets disclosed in the Cash Flow Statement.

Unsuccessful Exploration Costs
Total unsuccessful exploration cost write-offs for the year were $941.8m, all relating to Greenland assets. During 2011, the Group drilled five exploration wells offshore West Greenland. Three wells, the AT7-1 and the AT2-1 wells on the Attamik Block and the L57-1 well on the Lady Franklin Block, were drilled in the South Ungava Area. The other two wells, the Gamma-1 Well on the Eqqua Block and the Delta-1 Well on the Napariaq block, were drilled in the West Disko Area. None of the wells drilled encountered commercial volumes of hydrocarbons and consequently all drilling costs incurred in the year relating to these wells have been written off as unsuccessful exploration costs.

Following the results of the Delta-1 well on the Napariaq block, it is now considered unlikely that the Group will re-enter the Alpha-1 well on the neighbouring Sigguk block drilled and suspended in 2010. Costs of $210.3m are included in the 2011 unsuccessful exploration costs relating to the Alpha-1 well.

2010 unsuccessful exploration costs of $304.2m include costs of two exploration wells in Greenland and an exploration well in Tunisia. In Greenland the T8-1 and the T4-1 wells were drilled on the Sigguk block in the Disko West Area offshore West Greenland. Neither well resulted in commercial discoveries and as a result all associated well costs were charged to the Income Statement as unsuccessful exploration costs.

In April 2010, Cairn completed an exploration well offshore Tunisia in the Louza block. Although minor evidence of light oil was observed, the expected target reservoir was not developed in the well. The well therefore was plugged and abandoned without testing and the block subsequently relinquished. All related costs were charged to the Income Statement. As $69.2m of these costs were previously impaired, the impairments were released on relinquishment of the block.

Assets and Investments: Section 2 – Oil and Gas Assets
Continued

2.1 Intangible Exploration/Appraisal Assets Continued

Impairment

Following completion of the 2011 Greenland drilling campaign, Cairn has reviewed the remaining costs capitalised as intangible exploration/appraisal assets for indicators of impairment. Though none of the wells drilled in 2010 and 2011 have resulted in commercial discoveries, Cairn remains encouraged that all ingredients for commercial success are in evidence and exploration/appraisal activities are continuing to evaluate and interpret the results of the wells drilled with a view to identifying future exploration targets on these blocks. At this time however, the Group has no firm plans in place to drill further on those blocks and Cairn has concluded that indicators of impairment do exist on non-well specific exploration costs associated with these blocks. As there are no development or producing assets in the Greenland operating segment, these costs have been impaired in full and $74.9m charged to the Income Statement.

In 2011 a further $3.3m of impairment has been charged in relation to the Group's Nepal assets. The ongoing political instability in the country prevents further exploration activities.

Intangible exploration/appraisal costs remaining at the year end include costs incurred on Cairn's Greenland licences where no drilling has yet taken place. The majority of these costs were incurred on the Pitu Block in the Baffin Bay area, offshore Northern Greenland and on the Group's blocks in Southern Greenland where 3D seismic was acquired during 2011 and is currently undergoing interpretation. No adjustments have been made for the Statoil farm-down on the Pitu block in January 2012 noted in Section 7.1.

2.2 Capital Commitments

Group	31 December 2011 $m	31 December 2010 $m
Oil and gas expenditure:		
Intangible exploration/appraisal assets	**27.6**	327.0
Contracted for	**27.6**	327.0

The above capital commitments represent Cairn's share of obligations in relation to its interests in Joint Ventures. As all Cairn Joint Ventures are jointly controlled assets, these commitments represent Cairn's share of the capital commitment of the Joint Ventures themselves.

The Company had no capital commitments at the Balance Sheet date or at 31 December 2010.

Neither the Group or Company has further material capital expenditure committed at the Balance Sheet date.

Assets and Investments: Section 2 – Oil and Gas Assets
Continued

2.3 Property, Plant & Equipment – Development/Producing Assets

Group	Cairn India Group $m	Capricorn Group $m	Total $m
Cost			
At 1 January 2010	2,170.0	84.4	**2,254.4**
Additions	716.6	1.5	**718.1**
Disposals	–	(85.9)	**(85.9)**
Transfers to assets held-for-sale	(2,886.6)	–	**(2,886.6)**
At 1 January and 31 December 2011	**–**	**–**	**–**
Depletion and decommissioning			
At 1 January 2010	341.7	84.1	**425.8**
Charge for the year	142.7	0.9	**143.6**
Disposals	–	(85.0)	**(85.0)**
Transfers to assets held-for-sale	(484.4)	–	**(484.4)**
At 1 January and 31 December 2011	**–**	**–**	**–**
Net book value at 31 December 2011	**–**	**–**	**–**
Net book value at 31 December 2010	–	–	–
Net book value at 1 January 2010	1,828.3	0.3	1,828.6

Assets reclassified as held-for-sale of $2,402.2m in 2010 were the assets of Cairn India which were being held-for-sale pending completion of the Vedanta transaction; see Section 4.3 for further details. This included $135.3m of assets under construction which were not yet subject to depletion. Included within additions in 2010 was an amount of $28.5m of directly attributable borrowing costs.

In December 2010 Cairn disposed of its interests in Sangu, the Capricorn Group's sole development/producing asset, to Santos.

Assets and Investments: Section 3 – Financial Assets and Working Capital

This section focuses on the funding available to the Group to pursue new business opportunities and the working capital position of the Group and Company at the year end.

Significant Accounting Judgements in this Section:

Classification of Available-for-sale Financial Assets
Following completion of the transaction with Vedanta, Cairn holds a residual 21.8% investment in the Cairn India Group. As the Group has no significant influence in the financial and operating policy decisions of Cairn India following completion of this transaction, given the predominance of the majority shareholder and no representation on the Board of Cairn India, the remaining investment has been classified as an available-for-sale financial asset rather than accounted for as an investment in an associated undertaking.

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 gain or loss that arises on subsequent disposal of available-for-sale assets will be recycled through the Income Statement.

Group	Section	Listed equity shares $m
Fair value of the residual available-for-sale financial asset recognised at date of sale	5.9	**2,591.0**
Deficit on valuation for period to 31 December 2011		**(127.7)**
As at 31 December 2011		**2,463.3**

Available-for-sale financial assets represent the Group's remaining strategic investment in the fully-diluted share capital of Cairn India, listed in India, which by its nature has no fixed maturity or coupon rate. These listed equity securities present the Group with opportunity for return through dividend income and trading gains.

The Group disposed of its majority shareholding in Cairn India in 2011, as disclosed in Section 5.9. The remaining minority holding of 21.8% is not held for trading and accordingly is classified as available-for-sale. The fair value of $2,463.3m is based on the closing market value of INR 314.25 at 31 December 2011.

Assets and Investments: Section 3 – Financial Assets and Working Capital
Continued

3.2 Net Funds

Accounting Policies
Bank Deposits
Bank deposits with an original maturity of over three months are held as a separate category of current asset and presented on the face of the Balance Sheet.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity of three months or less.

	Group 31 December 2011 $m	Group 31 December 2010 $m	**Company 31 December 2011 $m**	Company 31 December 2010 $m
Cash and cash equivalents	**4,730.7**	187.0	**4,055.8**	45.6
	4,730.7	187.0	**4,055.8**	45.6
Bank deposits held in discontinued operations	–	452.6	–	–
Cash and cash equivalents held in discontinued operations	–	438.5	–	–
Loans and borrowings held in discontinued operations	–	(673.7)	–	–
Net cash	**4,730.7**	404.4	**4,055.8**	45.6

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods from overnight deposits to three months depending on the cash requirements of the Group and Company.

Subsequent to the year end, Cairn announced a return of cash to shareholders. Approximately $3.5 billion of cash was returned to shareholders in February 2012. See Section 7.2 for further details.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents comprises the following:

	Group 31 December 2011 $m	Group 31 December 2010 $m	**Company 31 December 2011 $m**	Company 31 December 2010 $m
Cash and cash equivalents	**4,730.7**	187.0	**4,055.8**	45.6
Cash and cash equivalents held in discontinued operations	–	438.5	–	–
	4,730.7	625.5	**4,055.8**	45.6

Assets and Investments: Section 3 – Financial Assets and Working Capital
Continued

3.3 Trade and Other Receivables

Accounting Policies

Trade and other receivables that have fixed or determinable payments that are not quoted on an active market are measured at amortised cost using the effective interest method less any impairment. Trade and other receivables are recognised when invoiced. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

The carrying amounts of trade and other receivables are tested at each reporting date to determine whether there is objective material evidence of impairment, for example overdue trade debt. Any impairment losses are recognised through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement or Balance Sheet in accordance with where the original receivable was recognised.

	Group 31 December 2011 $m	Group 31 December 2010 $m	**Company 31 December 2011 $m**	Company 31 December 2010 $m
Amounts owed by subsidiary undertakings	**–**	–	**677.3**	92.8
Other debtors	**25.6**	26.1	**2.3**	0.4
Joint Venture debtors	**66.2**	12.3	**–**	–
	91.8	38.4	**679.6**	93.2
Prepayments	**1.3**	1.0	**0.1**	0.1
	93.1	39.4	**679.7**	93.3

Group

As at 31 December, the ageing analysis of Group trade and other receivables, excluding prepayments, is set out below:

	Total $m	< 30 days $m	30-60 days $m	60-90 days $m	90-120 days $m	>120 days $m
As at 31 December 2011						
Neither past due nor impaired	**91.8**	**91.8**	–	–	–	–
As at 31 December 2010						
Neither past due nor impaired	38.4	38.4	–	–	–	–

There was no Group allowance for doubtful debts made in 2011. The 2010 movement in the Group allowance for doubtful debts individually or collectively impaired is set out below:

	Trade receivables $m	Other debtors $m	Joint Venture debtors $m	Total $m
As at 1 January 2010	5.8	–	79.6	85.4
Amounts written off during year*	(0.1)	–	–	(0.1)
(Release of)/increase in allowance recognised in the Balance Sheet*	(5.7)	–	4.1	(1.6)
Transferred to assets held-for-sale	–	–	(83.7)	(83.7)
As at 31 December 2010	–	–	–	–

* The movements in 2010 related to amounts with corresponding balances in trade receivables, deferred income or other creditors in the Balance Sheet, therefore did not affect the Income Statement.

In determining the recoverability of a trade or other receivables, the Group carries out a risk analysis based on the type and age of the outstanding receivable.

Assets and Investments: Section 3 – Financial Assets and Working Capital Continued

3.3 Trade and Other Receivables Continued

Company

As at 31 December, the ageing analysis of the Company's trade and other receivables is set out below:

	Total $m	< 30 days $m	30-60 days $m	60-90 days $m	90-120 days $m	>120 days $m
As at 31 December 2011						
Neither past due nor impaired	**4.1**	4.1	–	–	–	–
Past due but not impaired	**675.5**	–	–	0.7	0.2	674.6
Past due and impaired	**689.2**	–	–	–	–	689.2
Allowance for doubtful debts	**(689.2)**	–	–	–	–	(689.2)
	679.6	**4.1**	–	**0.7**	**0.2**	**674.6**
As at 31 December 2010						
Neither past due nor impaired	3.6	3.6	–	–	–	–
Past due but not impaired	89.6	–	0.2	1.6	1.2	86.6
	93.2	3.6	0.2	1.6	1.2	86.6

The movement in the Company allowance for doubtful debts individually or collectively impaired is set out below:

	Amounts owed by subsidiaries $m	Total $m
As at 1 January 2010 and 1 January 2011	–	–
Amounts provided during year	(689.2)	**(689.2)**
As at 31 December 2011	**(689.2)**	**(689.2)**

The allowance for doubtful debts provided during 2011 are individually impaired amounts owed from subsidiary undertakings.

The allowance for impaired amounts owed from subsidiary undertakings is recognised in the Income Statement of the Company.

3.4 Trade and Other Payables

	Group 31 December 2011 $m	Group 31 December 2010 $m	Company 31 December 2011 $m	Company 31 December 2010 $m
Trade payables	**2.4**	1.5	**0.2**	0.1
Amounts owed to subsidiary undertakings	–	–	**76.1**	78.1
Other taxation and social security	**5.9**	3.8	**2.4**	2.0
Other creditors	**4.5**	13.7	–	0.8
Joint Venture creditors	**52.5**	2.6	–	–
Accruals	**54.7**	15.9	**0.8**	1.4
Joint Venture accruals	**89.1**	39.5	–	–
	209.1	77.0	**79.5**	82.4

Assets and Investments: Section 3 – Financial Assets and Working Capital
Continued

3.5 Financial Instruments

Accounting Policies

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are categorised as financial assets held at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group holds financial assets which are classified as either available-for-sale financial assets or loans and receivables, with the exception of derivative financial instruments which are held at fair value through profit or loss.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. Financial liabilities are categorised as either fair value through profit or loss or held at amortised cost. All of the Group's financial liabilities are held at amortised cost, with the exception of derivative financial instruments which are held at fair value through profit or loss.

Financial instruments are generally recognised as soon as the Group becomes party to the contractual regulations of the financial instrument.

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

Financial Assets

Carrying amount and fair value	Group 31 December 2011 $m	Group 31 December 2010 $m	Company 31 December 2011 $m	Company 31 December 2010 $m
Loans and receivables				
Cash and cash equivalents	**4,730.7**	187.0	**4,055.8**	45.6
Joint Venture debtors	**66.2**	12.3	**–**	–
Other debtors	**25.6**	26.1	**2.3**	0.4
Amounts owed by subsidiary undertakings	**–**	–	**677.3**	92.8
Available-for-sale financial assets				
Listed equity shares	**2,463.3**	–	**–**	–
	7,285.8	225.4	**4,735.4**	138.8

All of the above financial assets are current and unimpaired with the exception of amounts owed by subsidiary undertakings to the Company. An analysis of the ageing of trade and other receivables is provided in Section 3.3.

Financial Liabilities

Carrying amount and fair value	Group 31 December 2011 $m	Group 31 December 2010 $m	Company 31 December 2011 $m	Company 31 December 2010 $m
Amortised cost				
Trade payables	**2.4**	1.5	**0.2**	0.1
Joint Venture creditors	**52.5**	2.6	**–**	–
Other provision	**14.0**	–	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**76.1**	78.1
	68.9	4.1	**76.3**	78.2

The fair value of financial assets and liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates.

Assets and Investments: Section 3 – Financial Assets and Working Capital
Continued

3.5 Financial Instruments Continued

Maturity Analysis
All of the Group and Company's financial liabilities have a maturity of less than one year (2010: less than one year).

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

At 31 December 2011 the Group held the following financial instruments measured at fair value:

Assets measured at fair value	2011 $m	Level 1 $m	Level 2 $m	Level 3 $m
Available-for-sale financial assets				
Equity shares – listed	**2,463.3**	2,463.3	–	–
	2,463.3	**2,463.3**	–	–

At 31 December 2010 the Group held no financial instruments in level 1, 2 or 3. The Group has no financial liabilities at fair value through profit or loss.

Assets and Investments: Section 4 – Other Assets and Liabilities

This section details our other non-current assets and liabilities, most notably the Group's other intangible assets, including goodwill, and the Company's investments in subsidiaries.

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

Key Estimates and Assumptions in this Section:

Impairment Testing of Goodwill
Goodwill is allocated to the Greenland operating segment and has been tested for impairment at the year end against the estimated fair value of the exploration assets contained in that segment at that time.

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 either fair value or estimated value-in-use using estimated cash flow projections risk weighted for future exploration success.

4.1 Intangible Assets – Other

Accounting Policies
Goodwill
Goodwill is tested for impairment on the cash-generating unit, equating to individual operating segments before they are combined into the reported segment. Goodwill has therefore been allocated to two cash-generating units which are also operating segments combined within the Other Cairn Energy Group reported segment; the Greenland assets operating segment and the Mediterranean assets operating segment.

The recoverable amount of a cash-generating unit is determined by taking the higher of fair value less costs to sell or its value-in-use, 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 results of future exploration drilling, which will determine the licence area's future economic potential.

Assets and Investments: Section 4 – Other Assets and Liabilities
Continued

4.1 Intangible Assets – Other Continued

Group	Goodwill $m	Software costs $m	Total $m
Cost			
At 1 January 2010	67.2	21.5	**88.7**
Exchange differences arising	–	(0.2)	**(0.2)**
Additions	–	5.9	**5.9**
Disposals	–	(1.8)	**(1.8)**
Transfer to assets held-for-sale	–	(16.5)	**(16.5)**
At 1 January 2011	67.2	8.9	**76.1**
Exchange differences arising	–	(0.1)	**(0.1)**
Additions	–	1.8	**1.8**
At 31 December 2011	**67.2**	**10.6**	**77.8**
Amortisation and impairment			
At 1 January 2010	–	15.8	**15.8**
Exchange differences arising	–	(0.2)	**(0.2)**
Charge for the year	–	4.7	**4.7**
Impairment	4.4	–	**4.4**
Disposals	–	(1.8)	**(1.8)**
Transfer to assets held-for-sale	–	(11.7)	**(11.7)**
At 1 January 2011	4.4	6.8	**11.2**
Exchange differences arising	–	(0.1)	**(0.1)**
Charge for the year	–	2.7	**2.7**
Impairment	62.8	–	**62.8**
At 31 December 2011	**67.2**	**9.4**	**76.6**
Net book value at 31 December 2011	**–**	**1.2**	**1.2**
Net book value at 31 December 2010	62.8	2.1	64.9
Net book value at 1 January 2010	67.2	5.7	72.9

For impairment testing, goodwill was previously allocated to two cash-generating units which are also operating segments; the Greenland operating segment and the Mediterranean operating segment. During 2010, $4.4m of goodwill relating to the Mediterranean operating segment was fully impaired following the unsuccessful exploration drilling offshore Tunisia.

The recoverable amount of a cash-generating unit is determined by taking the higher of its fair value less costs to sell or its value-in-use, using estimated cash flow projections over the licence period of the exploration assets risk-weighted for future exploration success. At the year end the recoverable amount was determined using the fair value of Greenland assets implied through third-party discussions on proposed farm down agreements. Given that the 2010 and 2011 drilling campaign offshore Greenland has not resulted in the discovery of commercial hydrocarbon reserves, the fair value of Greenland assets no longer supports the carrying value of the $62.8m of goodwill allocated to the operating segment. Consequently, the remaining goodwill allocated to the Greenland operating segment is fully impaired in the current year.

Assets and Investments: Section 4 – Other Assets and Liabilities Continued

4.2 Investments in Subsidiaries

Accounting Policy

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. The recoverable value of investments is the higher of its fair value less costs to sell and value in use. Value in use is based on the discounted future net cash flows of development or producing oil and gas assets held by the subsidiary, or by using estimated cash flow projections over the licence period of the exploration assets of the subsidiary, risk-weighted for future exploration success where no development/producing assets exist.

Discounted future net cash flows for IAS 36 purposes are calculated using an estimated short and long-term oil price of $85/bbl (2010: short and long-term oil price of $75/bbl) or the appropriate gas price as dictated by the relevant gas sales contract, escalation for prices and costs of 3%, and a discount rate of 7% (2010: 3% and 7% respectively).

Company	Subsidiary undertakings $m	Total $m
Cost		
At 1 January 2010	650.0	**650.0**
Exchange differences arising	(14.8)	**(14.8)**
Additions	283.2	**283.2**
At 1 January 2011	918.4	**918.4**
Exchange differences arising	26.3	**26.3**
Additions	93.4	**93.4**
At 31 December 2011	**1,038.1**	**1,038.1**
Impairment		
At 1 January 2010 and 1 January 2011	–	–
Charge during the year	501.8	**501.8**
At 31 December 2011	**501.8**	**501.8**
Net book value at 31 December 2011	**536.3**	**536.3**
Net book Value at 31 December 2010	918.4	918.4
Net book Value at 1 January 2010	650.0	650.0

Details of the Company's principal subsidiaries at the Balance Sheet date have been included at Appendix 1. A full list of subsidiaries can be found on the Annual Return.

Additions during the year include $87.7m for the issue of 56,400,000 shares of £1 each at par by Capricorn Oil Limited which reduced the amounts owed to the Company by Capricorn Oil Limited. A further $5.7m (2010: $18.2m) was recognised as additions relating to Capricorn Oil Group for the award of share options of the Company to the employees of Capricorn Energy (a principal subsidiary of Capricorn Oil Limited).

Additions in 2010 included the issue of 174,514,323 shares of £1 each at par by Capricorn Oil Limited. Consideration of $265.0m was settled in cash.

At the year end, investments in subsidiaries were reviewed for indicators of impairment and impairment tests conducted where indicators found. The Company's investment in Capricorn Oil Limited has been impaired to reflect the fair value or value in use of the underlying assets of the Capricorn Oil Group. A charge of $501.8m has been made to the Company's Income Statement.

Assets and Investments: Section 4 – Other Assets and Liabilities
Continued

4.3 Assets and Liabilities Held-for-Sale

Accounting Policy

Non-current assets and disposal groups and related liabilities are classified as held-for-sale where it is highly probable that their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Where a disposal group classified as held-for-sale represents a separate major line of business or geographical area of operation, it is presented as a discontinued operation in the Income Statement. A sale is considered highly probable where buyers have been identified and the sale transaction is expected to be complete within one year from the date of classification.

Assets held-for-sale are measured at the lower of cost or fair value less cost to sell. Any depletion, depreciation or amortisation charges against the asset cease at the date of classification.

No assets and liabilities have been classified as held for sale at 31 December 2011. The major classes of assets and liabilities classified as held-for-sale at 31 December 2010 were as follows:

	Cairn India Limited $m	Other $m	2010 Total $m
Assets			
Intangible exploration/appraisal assets	376.5	1.5	378.0
Property, plant & equipment – development/producing assets	2,402.2	–	2,402.2
Property, plant & equipment – other	6.6	–	6.6
Intangible assets – other	4.8	–	4.8
Deferred tax asset	524.8	–	524.8
Inventory	10.8	–	10.8
Trade and other receivables	504.4	–	504.4
Bank deposits	452.6	–	452.6
Financial instruments	2.9	–	2.9
Cash and cash equivalents	438.5	–	438.5
Assets held-for-sale	4,724.1	1.5	4,725.6
Liabilities			
Trade and other payables	408.2	–	408.2
Obligations under finance leases	2.0	–	2.0
Provisions	242.8	–	242.8
Income tax liabilities	35.8	–	35.8
Loans and borrowings	673.7	–	673.7
Liabilities related to disposal unit held-for-sale	1,362.5	–	1,362.5
Net assets directly associated with disposal unit and assets held-for-sale	3,361.6	1.5	3,363.1

Foreign currency translation reserves of $95.5m related to discontinued operations. Other assets held-for-sale represented intangible exploration/appraisal assets of $1.5m on the proposed sale of the Group's Nabeul permit in Tunisia.

Included in loans and borrowings of $673.7m were debenture and loan balances. In October 2010 Cairn India raised $500m through INR Unsecured Non-convertible Debentures, at competitive commercial terms. $301.9m was drawn at 31 December 2010 and the balance was available to drawdown subject to certain conditions.

The USD Facility of $750m was provided by a consortium of overseas commercial banks led by Standard Chartered Bank and the International Finance Corporation, a member of the World Bank Group. Of the full $750m facility $371.8m was drawn at 31 December 2010. Cairn India could cancel and repay the facility at any time. Under the terms of the facility agreement, security in terms of share pledge over the shares in Cairn Energy Hydrocarbons Limited (a 100% indirect subsidiary of Cairn India Limited which holds 50% of the Group's interest in Rajasthan) was provided.

Section 5 – Results for the Year

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating loss, results from discontinued operations, taxation and earnings per share.

Significant Accounting Judgements in this Section:
Details of the impairment of intangible exploration/appraisal assets can be found in section 2.1.

There are no other significant accounting judgements in this section.

Key Estimates and Assumptions in this Section:

Deferred Taxation
Deferred taxation is provided on the Group's available-for-sale financial asset which is held at a fair value which exceeds its tax base cost. It is assumed that the listed equity shares shall be disposed of in a manner which is subject to taxation in India.

Details of impairment of goodwill and details of share-based payments can be found in sections 4.1 and 6.3 respectively.

5.1 Segmental Analysis

Operating Segments
For management purposes, the continuing operations of the Cairn Group are organised into business units based on a geographical basis. The discontinued operations of the Cairn India Group were a separate business unit up to the point of disposal.

The Cairn Group's continuing operations focus on new exploration activities in Greenland and the Mediterranean. The Group's South Asia business unit holds the Group's interests in Nepal and a share in certain North Indian assets operated by Cairn India Limited. During 2010 this segment also included the results of the Group's Sangu asset, operating in Bangladesh, which was sold during that year. The Mediterranean and South Asia operating segments have been combined into the 'Other Cairn Energy Group' reportable segment. Operating segments based on the geographical locations of the Capricorn Group's Greenland, Mediterranean and South Asia were aggregated to form the Capricorn reportable segment in 2010; prior year comparative information has been restated to reflect current reporting.

Management monitors the results of its business units separately for the purposes of making decisions about resource allocation and performance assessment.

Throughout the year, the Board monitored the performance of the Group by reference to the results of its Cairn India operating segment separate from its other operating segments. The Cairn India operating segment followed accounting policies which did not reflect the classification of assets and liabilities of Cairn India as held-for-sale. A summary of the adjustments made to reconcile this segment's results to those reported under the Group's accounting policies are included within the segmental information provided.

These adjustments include the reversal of the depletion, depreciation and amortisation charges for the period after the date the transaction was announced and a deferred tax position prepared on the basis that Cairn India was held-for-sale. The combined impact of these adjustments is to increase profit after tax by $133.7m to the date of sale (2010: $637.8m).

Geographic Information: Non-current Assets

Non-current assets for this purpose consist of intangible exploration/appraisal assets; property, plant & equipment – development/producing assets; property, plant & equipment – other; and intangible assets – other.

Section 5 – Results for the Year
Continued

5.1 Segmental Analysis Continued

The segment results for the year ended 31 December 2011 are as follows:

	Greenland $m	Other Cairn Energy Group $m	Total continuing Cairn Energy Group $m	Cairn India Group $m	Total 2011 $m
Revenue from external customers	–	–	–	2,307.8	**2,307.8**
Reversal of revenue provision	–	–	–	64.0	**64.0**
Production costs	–	2.7	**2.7**	(351.7)	**(349.0)**
Pre-award costs	(1.6)	(15.1)	**(16.7)**	(3.2)	**(19.9)**
Unsuccessful exploration costs	(941.8)	–	**(941.8)**	(4.4)	**(946.2)**
Depletion and decommissioning charge	–	–	–	(377.7)	**(377.7)**
Gross (loss)/profit	(943.4)	(12.4)	**(955.8)**	1,634.8	**679.0**
Depreciation	(0.1)	(0.9)	**(1.0)**	(3.5)	**(4.5)**
Amortisation	–	(2.7)	**(2.7)**	(3.4)	**(6.1)**
Other income and administrative expenses	(0.4)	(28.7)	**(29.1)**	(39.5)	**(68.6)**
Exceptional administrative expenses	–	(6.7)	**(6.7)**	–	**(6.7)**
Impairment	(137.7)	(3.3)	**(141.0)**	–	**(141.0)**
Operating (loss)/profit	(1,081.6)	(54.7)	**(1,136.3)**	1,588.4	**452.1**
Interest income	–	2.2	**2.2**	54.6	**56.8**
Interest expense	–	(1.1)	**(1.1)**	(20.9)	**(22.0)**
Other finance income and costs	0.9	(55.0)	**(54.1)**	(62.7)	**(116.8)**
(Loss)/profit before taxation	(1,080.7)	(108.6)	**(1,189.3)**	1,559.4	**370.1**
Taxation (charge)/credit	–	(0.1)	**(0.1)**	(330.7)	**(330.8)**
(Loss)/profit after taxation	**(1,080.7)**	**(108.7)**	**(1,189.4)**	**1,228.7**	**39.3**
Adjustments to reconcile to the financial statements					
Inventory	–	–	–	7.2	**7.2**
Depletion, depreciation and amortisation	–	–	–	384.6	**384.6**
Deferred taxation	–	–	–	(258.1)	**(258.1)**
(Loss)/profit after taxation	**(1,080.7)**	**(108.7)**	**(1,189.4)**	**1,362.4**	**173.0**
Gain on sale of subsidiary	–	–	–	4,982.5	**4,982.5**
Tax on gain on sale of subsidiary	–	–	–	(590.3)	**(590.3)**
Reported profit/(loss) for the year	**(1,080.7)**	**(108.7)**	**(1,189.4)**	**5,754.6**	**4,565.2**
Attributable to:					
Equity holders of the parent	(1,080.7)	(108.7)	**(1,189.4)**	5,290.5	**4,101.1**
Non-controlling interests	–	–	–	464.1	**464.1**
Capital expenditure	**836.2**	**4.9**	**841.1**	**563.4**	**1,404.5**

Revenue for the year 2011 arose from seven (2010: seven) customers who were all domestic customers.

Section 5 – Results for the Year
Continued

5.1 Segmental Analysis Continued

The segment results for the year ended 31 December 2010 were as follows:

	Greenland $m	Other Cairn Energy Group $m	Total continuing Cairn Energy Group $m	Cairn India Group $m	Total 2010 $m
Revenue from external customers	–	7.1	7.1	1,594.2	1,601.3
Production costs	–	(6.3)	(6.3)	(252.5)	(258.8)
Pre-award costs	(6.4)	(6.3)	(12.7)	(1.9)	(14.6)
Unsuccessful exploration costs	(186.8)	(25.1)	(211.9)	(23.1)	(235.0)
Depletion and decommissioning charge	(0.9)	–	(0.9)	(351.4)	(352.3)
Gross (loss)/profit	(194.1)	(30.6)	(224.7)	965.3	740.6
Depreciation	(0.1)	(0.4)	(0.5)	(3.4)	(3.9)
Amortisation	–	(2.1)	(2.1)	(3.7)	(5.8)
Other income and administrative expenses	–	(34.4)	(34.4)	(48.9)	(83.3)
Exceptional administrative expenses	–	(37.9)	(37.9)	–	(37.9)
Impairment	–	(16.0)	(16.0)	–	(16.0)
Gain on sale of oil and gas assets	–	3.3	3.3	–	3.3
Operating (loss)/profit	(194.2)	(118.1)	(312.3)	909.3	597.0
Interest income	–	1.7	1.7	24.3	26.0
Interest expense	–	–	–	(46.8)	(46.8)
Other finance income and costs	(1.6)	(4.7)	(6.3)	(30.7)	(37.0)
(Loss)/profit before taxation	(195.8)	(121.1)	(316.9)	856.1	539.2
Taxation credit/(charge)	–	0.3	0.3	(94.1)	(93.8)
(Loss)/profit after taxation	(195.8)	(120.8)	(316.6)	762.0	445.4
Adjustments to reconcile to the financial statements					
Inventory	–	–	–	(17.9)	(17.9)
Depletion, depreciation and amortisation	–	–	–	211.0	211.0
Deferred taxation	–	–	–	444.7	444.7
Reported (loss)/profit after taxation	(195.8)	(120.8)	(316.6)	1,399.8	1,083.2
Attributable to:					
Equity holders of the parent	(195.8)	(120.8)	(316.6)	1,110.9	794.3
Non-controlling interests	–	–	–	288.9	288.9
Capital expenditure	432.5	31.9	464.4	784.5	1,248.9

Section 5 – Results for the Year
Continued

5.2 Operating Loss

a) Operating Loss from Continuing Operations is Stated After Charging/(Crediting):

	2011 $m	2010 $m
Included in impairment		
Impairment of goodwill (Section 4.1)	**62.8**	4.4
Impairment of intangible exploration/appraisal assets (Section 2.1)	**78.2**	11.6
Included in production costs		
(Release)/increase of provision for onerous contracts	**(2.7)**	0.5
Included in administrative expenses		
Depreciation	**1.0**	0.4
Amortisation	**2.7**	2.1
Operating lease costs – land and buildings	**1.9**	1.9
Gain on sale of intangible exploration/appraisal assets		
Gain on sale of Papua New Guinea asset	–	(12.6)

b) Auditor's Remuneration

	$'000	$'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**224**	308
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**26**	25
Fees payable to the Group's auditor and its associates for other services:		
– for the audit of subsidiaries pursuant to legislation	**734**	935
– other services pursuant to legislation	**102**	568
– other services relating to taxation	**74**	70
– services relating to corporate finance transactions	–	–
– all other services	**64**	54
Fees in respect of the Cairn Energy PLC pension scheme:		
– audit	–	2
Other advisors' fees in respect of taxation work	–	307
Other advisors' fees in respect of other work	**27**	304

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. Other advisors comprise accountancy firms other than the Group's auditor.

5.3 Exceptional Items

	2011 $m	2010 $m
Administrative expenses – share-based payments	**6.7**	35.6

At an EGM held on 21 December 2009, Cairn's shareholders approved the conversion of 'phantom options' awarded in 2007 and 2008 based on notional 'Units' in the Group into Cairn Energy PLC Share options and LTIPs, the 'Replacement Options' and 'Replacement LTIPs' respectively. In accordance with IFRS 2, the incremental fair value of the modified awards, calculated at the date of modification, is charged over the remaining vesting period.

A net charge of $6.7m is recognised in the Income Statement as a result of this modification and, in order to be comparable and consistent with 2010, this has been presented as an exceptional charge. A charge of $35.6m was generated in 2010. Further details can be found in Section 6.3.

Section 5 – Results for the Year
Continued

5.4 Staff Costs

	2011 $m	2010 $m
Wages and salaries	**118.8**	117.9
Social security costs and other taxes	**3.7**	2.2
Redundancy costs	**4.4**	–
Pension costs	**8.8**	8.1
Share-based payments charge	**20.2**	29.4
Exceptional share-based payments charge (Section 5.3)	**6.7**	45.1
	162.6	202.7

Staff costs are shown gross before amounts recharged to Joint Ventures and include the costs of share-based payments. The share-based payments charge includes amounts in respect of both equity and cash-settled phantom options and associated National Insurance Contributions.

Staff costs include costs of discontinued operations to the date of disposal.

The average number of full time equivalent employees, including Executive Directors and individuals employed by the Group working on Joint Venture operations, was:

	Number of employees 2011	2010
UK	**135**	105
India	**1,029**	1,079
Bangladesh	**–**	65
Spain	**1**	–
Greenland	**10**	6
Nepal	**3**	3
Tunisia	**–**	4
Group	**1,178**	1,262

The average number of full time equivalent employees includes staff employed by discontinued operations during the year.

The Group and Company have no pension commitments as at the Balance Sheet date (2010: $nil).

5.5 Directors' Emoluments

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 69 to 87. Directors' emoluments are also included in the remuneration of key management personnel disclosures in Section 6.4.

5.6 Finance Income

	2011 $m	2010 $m
Bank interest	**2.2**	1.5
Other interest	**–**	0.2
Exchange gain	**–**	0.8
	2.2	2.5

5.7 Finance Costs

	2011 $m	2010 $m
Bank loan and overdraft interest	**1.1**	–
Other finance charges	**12.8**	7.2
Exchange loss	**41.3**	–
	55.2	7.2

Section 5 – Results for the Year
Continued

5.8 Taxation on Loss

Accounting Policies (Summarised)

The tax expense represents the sum of current tax and deferred tax. The current tax is based on taxable profit for the year. Taxable profit differs from net profit 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

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. Deferred income 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 Ventures 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 income tax 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.

a) Analysis of Tax Charge/(Credit) in Year

	2011 $m	2010 $m
Current tax:		
UK corporation tax		
Tax on profits at 26.49% (2010: 28.00%)	**2.1**	2.9
Foreign Tax		
Indian Corporate Income Tax on profits for the year at 42.08% (2010: 42.23%)	**10.9**	28.5
Indian Regular Tax on profits for the year at 32.65% (2010: 33.99%)	**2.5**	(1.3)
Indian Minimum Alternate Tax on profits for the year at 19.32% (2010: 18.27%)	**279.9**	208.8
Indian tax on capital gains at 21.01% (2010: 21.12%)	**590.3**	–
Adjustments in respect of prior periods	**–**	14.4
Withholding taxes deducted at source	**–**	0.1
	883.6	250.5
Total current tax	**885.7**	253.4
Deferred tax:		
United Kingdom		
Temporary differences in respect of non-current assets	**–**	(0.4)
India		
Temporary differences in respect of non-current assets	**798.7**	(603.9)
Total deferred tax	**798.7**	(604.3)
Tax charge/(credit) on profit/(loss)	**1,684.4**	(350.9)

The tax charge/(credit) to the Income Statement is disclosed as follows:

	2011 $m	2010 $m
Tax charge/(credit) on continuing operations	**0.1**	(0.3)
Tax charge/(credit) on discontinued operations	**1,684.3**	(350.6)
	1,684.4	(350.9)

Section 5 – Results for the Year
Continued

5.8 Taxation on Loss Continued

b) Factors Affecting Tax Charge/(Credit) for Year

A reconciliation of income tax expense applicable to profit before income tax at the applicable tax rate to income tax expense at the Group's effective income tax rate is as follows:

	2011 $m	2010 $m
Loss from continuing operations before tax	**(1,189.3)**	(303.6)
Profit from discontinued operations before tax	**7,438.8**	1,035.9
Profit before taxation	**6,249.5**	732.3
Tax at the weighted average rate of corporation tax of 33.61% (2010: 48.90%)	**2,100.5**	358.1
Effects of:		
Temporary differences not recognised	**308.0**	(1.4)
Minimum Alternate Tax payable	**117.8**	56.8
Foreign exchange movements	**0.2**	(17.4)
Non-deductible expenses and non-taxable income	**(1.4)**	3.3
Share-based payments	**(10.1)**	15.5
Disposal of subsidiary charged at Capital Gains Tax rate	**(345.6)**	1.7
Indian tax holiday	**(485.0)**	(205.4)
Adjustments in respect of prior years – current tax	**–**	14.4
Change of rate applied to assets classified as held-for-sale	**–**	(444.7)
Utilisation of brought forward losses	**–**	(131.9)
Total tax charge/(credit)	**1,684.4**	(350.9)

The applicable tax rate was the weighted average rate for the year of the UK, Netherlands, Australian, Indian, Jersey, Swiss, Bangladeshi, Tunisian, Sri Lankan, Singaporean and Mauritian tax rates. There were no major changes in the statutory tax rates applying in each of these jurisdictions, however, the weighted average rate is subject to fluctuations from year to year based on the level of profits and losses which arise to the Group in each jurisdiction.

c) Factors that May Affect Future Corporation Tax Charges

At 31 December 2011, Cairn had no losses (2010: $237.1m) available for offset against future trading profits chargeable to UK Corporation Tax. In addition there are surplus management expenses of $324.1m (2010: $192.3m) and non-trade deficits of $66.5m (2010: $19.6m) available for offset against future investment income. None of the trading losses, surplus management expenses or non-trade deficits has been recognised for deferred tax as it is not considered sufficiently probable that they will be used. Under UK tax law, tax losses may generally be carried forward indefinitely.

d) Reconciliation to Deferred Tax Assets and Liabilities

	Assets $m	Liabilities $m	Group $m
At 1 January 2010	–	(79.5)	**(79.5)**
Credit to Income Statement	524.8	79.5	**604.3**
Transferred to assets held-for-sale	(524.8)	–	**(524.8)**
At 1 January 2011	–	–	**–**
Initial recognition of deferred tax provision on available-for-sale financial asset	–	(273.9)	**(273.9)**
Deferred tax credit on movement in fair value of available-for-sale financial assets recognised in other comprehensive income	–	19.8	**19.8**
At 31 December 2011	–	(254.1)	**(254.1)**

As at 31 December 2011, the Group had a deferred tax asset of $0.3m (2010: $11.9m) in respect of future United Kingdom corporation tax deductions for equity-based remuneration. This asset has not been recognised as it is not considered probable that there will be sufficient profits to utilise these tax deductions.

As at the Balance Sheet date, a deferred tax asset was not recognised in respect of Group losses of $390.6m (2010: $449.0m) (Company: $217.4m; 2010: $157.6m) where it is not probable that they can be utilised in future periods.

No deferred tax asset has been recognised at 31 December 2011 or 31 December 2010 in respect of trading or other losses, as it is not considered to be probable that these losses will be utilised against future trading or other profits arising to the Group.

Section 5 – Results for the Year
Continued

5.9 Discontinued Operations

During 2011, Cairn completed the sale of a 40% shareholding in Cairn India to Vedanta. The transaction completed in two tranches; the first tranche of 10% completed on 11 July 2011 and the second tranche of 30% completed on 7 December 2011. Total consideration received for the transaction was $6.0bn (post-tax $5.4bn). Assets and liabilities of the Cairn India Group were previously classified as held-for-sale; see Section 4.3.

Following completion of this transaction, Cairn holds a residual interest of 21.8% of the fully-diluted share capital of Cairn India, with Vedanta holding a controlling interest of 58.5%. Cairn India's results for the period to completion have been presented as discontinued operations in these financial statements.

Cairn announced the conditional agreement for sale to Vedanta on 16 August 2010. Shareholder approval from both parties was obtained and, although regulatory approval and joint venture partner approval were required to complete the proposed transaction, as at 31 December 2010 Cairn believed the necessary approvals would be received and classified the assets and liabilities of the Cairn India Group as a disposal group held-for-sale.

On 20 December 2010, Santos International Holdings Pty Limited agreed to purchase the entire share capital of Cairn Energy Sangu Field Limited, which held a 37.5% interest in the producing Sangu gas field, offshore Bangladesh, and a 50% interest in Block 16 exploration acreage for a consideration of $0.8m. As a result of this transaction Cairn no longer has operations in Bangladesh. The Sangu Field's results for the period to completion are therefore presented as discontinued operations in the 2010 comparatives for these financial statements.

The results of the Cairn India Group are reported as an Operating Segment in Section 5.1. The results of Cairn Energy Sangu Field Limited are included within the 'Other Cairn Energy Group' reportable segment comparative disclosures for 2010.

a) Discontinued Operations Results for the Year

	Cairn India Limited 2011 $m	Cairn India Limited 2010 $m	Cairn Energy Sangu Field Limited 2010 $m	Total 2010 $m
Revenue	**2,371.8**	1,594.2	7.1	1,601.3
Cost of sales	**(352.1)**	(438.1)	(6.1)	(444.2)
Gross profit	**2,019.7**	1,156.1	1.0	1,157.1
Other operating income and expenses	**(39.5)**	(53.6)	(5.2)	(58.8)
Operating profit/(loss)	**1,980.2**	1,102.5	(4.2)	1,098.3
Net finance costs	**(29.0)**	(53.1)	–	(53.1)
Profit/(loss) before taxation	**1,951.2**	1,049.4	(4.2)	1,045.2
Taxation	**(588.8)**	350.6	–	350.6
Profit/(loss) on ordinary activities for the year	**1,362.4**	1,400.0	(4.2)	1,395.8
Gain/(loss) on disposal	**4,392.2**	–	(9.3)	(9.3)
Profit/(loss) for the year	**5,754.6**	1,400.0	(13.5)	1,386.5
Attributable to:				
Equity holders of the parent	**5,290.5**	1,111.1	(13.5)	1,097.6
Non-controlling interests	**464.1**	288.9	–	288.9
	5,754.6	1,400.0	(13.5)	1,386.5
Earnings per share:				
Basic (cents)	**426.91**			89.00
Diluted (cents)	**426.45**			88.65

The earnings per share has been calculated on profit available to equity holders of the parent divided by the weighted average number of ordinary shares for both basic and diluted amounts as disclosed in Section 5.10.

b) Discontinued Operations Cashflows

The cash flows attributable to discontinued operations were as follows:

	Cairn India Limited 2011 $m	Cairn India Limited 2010 $m	Cairn Energy Sangu Field Limited 2010 $m	Total 2010 $m
Cash inflow/(outflow) from operating activities	**1,922.1**	874.7	(1.6)	873.1
Cash outflow from investing activities	**(1,204.1)**	(1,013.9)	–	(1,013.9)
Cash outflow from financing activities	**(396.2)**	(20.7)	–	(20.7)
Net cash inflow/(outflow)	**321.8**	(159.9)	(1.6)	(161.5)

Section 5 – Results for the Year
Continued

5.9 Discontinued Operations Continued

c) Gain on Disposal Arising from Sale of 40% Interest in Cairn India Limited

	7 December 2011 $m
Net Proceeds	
Consideration received recognised in Income Statement	6,023.4
Less: Expenses attributable directly to the sale	(56.9)
	5,966.5
Derecognition of CIL Group	
Net assets of the CIL group (per table below, excluding deferred tax assets)	(4,472.7)
Non-controlling interests eliminated	1,487.4
Currency translation differences recycled	(84.5)
Fair value of the residual available-for-sale financial asset recognised at date of sale	2,591.0
Gain on disposal	5,487.7
Tax	
Withholding tax	(590.3)
Deferred tax asset derecognised on sale of the CIL Group	(231.3)
Deferred tax provision recognised on fair value of the residual available-for-sale financial asset	(273.9)
Tax charge on gain on disposal	(1,095.5)
Net gain on disposal	4,392.2

The following table sets out the net assets of Cairn India Limited at the date of disposal.

	7 December 2011 $m
Assets	
Intangible exploration/appraisal assets	514.0
Property, plant & equipment – development/producing assets	2,763.1
Property, plant & equipment – other	8.4
Intangible assets – other	8.4
Deferred tax asset	231.3
Inventory	18.0
Trade and other receivables	797.6
Bank deposits	1,104.4
Cash and cash equivalents	711.6
Liabilities	
Trade and other payables	(444.0)
Obligations under finance leases	(0.5)
Provisions	(710.0)
Income tax liabilities	(57.8)
Loans and borrowings	(240.5)
	4,704.0
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	5,433.1
Less: cash and cash equivalents disposed of	(711.6)
	4,721.5

The total consideration was received in cash, net of withholding tax. There was no deferred consideration.

Section 5 – Results for the Year
Continued

5.10 Earnings per Ordinary Share

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

	Section	2011 $m	2010 $m
Loss for the year – continuing operations		**(1,189.4)**	(303.3)
Profit for the year – discontinued operations attributable to the equity holders of the parent	5.9	**5,290.5**	1,097.6
Profit attributable to the equity holders of the parent		**4,101.1**	794.3
Less potential increase in non-controlling interest – discontinued operations		**–**	(2.4)
Diluted profit attributable to equity holders of the parent		**4,101.1**	791.9
Analysed as:			
Diluted loss attributable to equity holders of the parent – continuing operations		**(1,189.4)**	(303.3)
Diluted profit attributable to equity holders of the parent – discontinued operations		**5,290.5**	1,095.2
		4,101.1	791.9

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

	2011 '000	2010 '000
Weighted average number of shares	**1,240,092**	1,235,533
Less weighted average shares held by ESOP and SIP Trusts	**(829)**	(2,127)
Basic weighted average number of shares	**1,239,263**	1,233,406
Dilutive potential ordinary shares:		
Employee share options	**1,329**	2,151
Diluted weighted average number of shares	**1,240,592**	1,235,557

The weighted average number of shares used in the calculations of earnings per share for 2011 and 2010 has been adjusted to reflect the consolidation of shares which took place on 6 February 2012. Further details of the consolidation are provided in Section 7.2.

Section 6 – Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and the associated share-based payment charge to profit. Other mandatory disclosures, such as details of related party transactions, can also be found here.

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

Key Estimates and Assumptions in this Section:

Share-based Payments
Charges for share-based payments are based on the fair value at the date of the award. The shares are valued using appropriate modelling techniques and inputs to the models include assumptions on leaver rates, trigger points, discount rates and volatility. See Section 6.3 and Appendix 3.

Capital Structure

6.1 Issued Capital and Reserves

Called-up Share Capital
Group and Company

	Number $^{8}/_{13}$p Ordinary '000	$^{8}/_{13}$p Ordinary $m
Allotted, issued and fully paid ordinary shares		
At 1 January 2010	1,396,246	16.6
Issued and allotted for employee share options	3,801	0.1
At 1 January 2011	**1,400,047**	**16.7**
Foreign exchange on functional currency change	**–**	**(2.9)**
Issued and allotted for employee share options	**1,097**	**–**
Issued and allotted to ESOP trust	**6,457**	**0.1**
At 31 December 2011	**1,407,601**	**13.9**

Share Premium
Group and Company

	2011 $m	2010 $m
At 1 January	**484.7**	473.5
Foreign exchange on functional currency change	**(4.3)**	–
Arising on shares issued for employee share options	**3.3**	11.2
At 31 December	**483.7**	484.7

Other Reserves
All other reserves are stated in the Consolidated Statement of Changes in Equity.

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 2011. The number of shares held by the Cairn Energy PLC Employees' Share Trust at 31 December 2011 was 419,191 (2010: 1,497,163) and the market value of these shares was £1.1m (2010: £6.3m).

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 2011. The number of shares held by the Cairn Energy PLC Share Incentive Plan Trust at 31 December 2011 was 240,183 (2010: 135,489) and the market value of these shares was £0.6m (2010: £0.6m).

Available-for-sale Reserve
The available-for-sale reserve represents fair value movements on the available-for-sale financial assets disclosed in Section 3.1.

Capital Reserves – Non Distributable
Capital reserves – non distributable include non distributable amounts arising on various Group acquisitions.

Section 6 – Capital Structure and Other Disclosures
Continued

6.1 Issued Capital and Reserves Continued

Foreign Currency Translation

Group

Unrealised foreign exchange gains and losses arising on consolidation of subsidiary undertakings are taken directly to reserves in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates'. In accordance with IAS 21, 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.

Company

Unrealised foreign exchange gains and losses arose during 2010 on the translation of the Company's £ functional results into $ presentation currency in accordance with IAS 21. During the year the functional currency of the Company changed from £ to $ (refer to Section 1f) and accordingly the Company's foreign currency translation reserves were transferred to retained earnings during 2011.

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 Board manages the capital structure and makes adjustments to it in light of changes to economic conditions. To maintain or adjust the capital structure, the Board may adjust the dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or other such restructuring activities as appropriate. No significant changes were made in the objectives, policies or processes during the year ended 31 December 2011.

Capital and net debt were made up as follows:

	Group 31 December 2011 $m	Group 31 December 2010 $m	**Company 31 December 2011 $m**	Company 31 December 2010 $m
Continuing operations				
Trade and other payables	**209.1**	77.0	**79.5**	82.4
Less cash and cash equivalents and bank deposits	**(4,730.7)**	(187.0)	**(4,055.8)**	(45.6)
Discontinued operations				
Loans and borrowings	–	673.7	–	–
Trade and other payables	–	408.2	–	–
Less cash and cash equivalents and bank deposits	–	(891.1)	–	–
Net (funds)/debt	**(4,521.6)**	80.8	**(3,976.3)**	36.8
Equity	**6,893.3**	3,838.4	**5,180.1**	975.1
Capital and net debt	**2,371.7**	3,919.2	**1,203.8**	1,011.9
Gearing ratio	**0%**	2.1%	**0%**	3.6%

Section 6 – Capital Structure and Other Disclosures
Continued

6.3 Share-based Payments

Accounting Policies

The cost of awards to employees under Cairn's LTIP and share option plans are recognised over the three year period to which the performance relates. The amount recognised is based on the fair value of the shares as measured at the date of the award. The shares are valued using the binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The Income Statement charge or credit for a period represents the movement in cumulative expense as recognised at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

The following awards over shares in the Company were made during the year:

	2011 WAFV £	2011 WAGP/ WAEP £	2011 Number of shares	2010 WAFV £	2010 WAGP/ WAEP £	2010 Number of shares
2010 SIP – free shares	**3.42**	**4.00**	**70,769**	3.25	3.79	57,778
2010 SIP – matching shares	**3.42**	**3.79**	**81,568**	3.25	4.31	38,494
2009 Approved Plan	**1.84**	**4.03**	**233,010**	2.00	4.29	182,583
2009 Unapproved Plan	**1.84**	**4.03**	**544,498**	2.10	4.27	321,613
2009 LTIP	**1.67**	**4.03**	**2,309,531**	1.58	4.28	2,381,493
			3,239,376			2,981,961

Analysis of charge to Income Statement:

	2011 $m	2010 $m
Included within administrative expenses:		
2010 SIP	**0.2**	0.1
2009 Approved Plan	**0.6**	0.3
2009 Unapproved Plan	**0.8**	0.4
2009 LTIP	**4.3**	6.4
Cairn India award	**0.2**	0.7
2006 LTIP	**0.4**	1.2
2006 Capricorn options	–	0.1
	6.5	9.2
Included within exceptional administrative expenses:		
Replacement LTIP (Section 5.3)	**6.7**	33.4
Replacement Option (Section 5.3)	–	2.2
	6.7	35.6
	13.2	44.8

Section 6 – Capital Structure and Other Disclosures
Continued

6.3 Share-based Payments Continued

Details of those awards with a significant impact on the results for the current and prior years are given below together with a summary of the remaining awards. Further details on assumptions and inputs applying to all share awards can be found in Appendix 3.

LTIP

The fair value of the 2009 LTIP scheme awards has been calculated using a binomial model, as described at Appendix 3. The main inputs to the model have been laid out in the appendix, 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 69 to 87.

2009 LTIP

The awards existing under the 2009 LTIP are detailed in the table below together with the weighted average grant price (WAGP) at 31 December:

	2011		2010	
	Number	WAGP (£)	Number	WAGP (£)
Outstanding as at 1 January	**6,752,533**	**3.10**	4,371,040	2.46
Granted during the year	**2,309,531**	**4.03**	2,381,493	4.28
Lapsed during the year	**(74,460)**	**4.03**	–	–
Outstanding at 31 December	**8,987,604**	**3.33**	6,752,533	3.10
Weighted average fair value of awards granted in year		**£1.67**		£1.58
Weighted average remaining contractual life of outstanding awards		**1.1 years**		1.7 years

Replacement LTIP

The awards existing under the Replacement LTIP are detailed in the table below together with the WAGP at 31 December:

	2011		2010	
	Number	WAGP (£)	Number	WAGP (£)
Outstanding at 1 January	**4,267,872**	**3.07**	11,402,710	3.07
Vested during the year	**(4,267,872)**	**3.07**	(7,134,838)	3.07
Outstanding at 31 December	**–**	**–**	4,267,872	3.07
Weighted average remaining contractual life of outstanding awards		**–**		0.3 years

Summary of all Other LTIPs and Share Schemes

The awards existing under the Cairn India LTIP and all share schemes including the SIP are detailed in the table below together with the weighted average of the grant price, exercise price and notional exercise prices (WAGP/WAEP) at 31 December:

	2011		2010	
	Number	WAGP/WAEP (£)	Number	WAGP/WAEP (£)
Outstanding at 1 January	**5,727,903**	**2.42**	11,697,683	2.04
Granted during the year	**929,845**	**4.01**	600,468	4.21
Vested/exercised during the year	**(1,669,320)**	**2.31**	(5,885,590)	1.88
Lapsed during the year	**(482,253)**	**3.31**	(684,658)	2.13
Outstanding at 31 December	**4,506,175**	**2.69**	5,727,903	2.42
Weighted average remaining contractual life of outstanding awards		**6.2 years**		5.2 years

Section 6 – Capital Structure and Other Disclosures
Continued

Other Disclosures

6.4 Related Party Transactions

The Company's principal subsidiaries are listed in Appendix 1. The following table provides the Company's balances which are outstanding with subsidiary companies at the Balance Sheet date:

	31 December 2011 $m	31 December 2010 $m
Amounts owed from subsidiary undertakings	**677.3**	92.8
Amounts owed to subsidiary undertakings	**(76.1)**	(78.1)
	601.2	14.7

The amounts outstanding are unsecured, repayable on demand and will be settled in cash. Interest, where charged, is at market rates. No guarantees have been given.

During the year ended 31 December 2011, the Company has made a provision for doubtful debts relating to amounts owed by related parties (2010: nil). See Section 3.3 for further details.

The following table provides the Company's transactions with subsidiary companies recorded in the profit (2010: profit) for the year, all of which were carried out on an arm's length basis:

	2011 $m	2010 $m
Amounts invoiced to subsidiaries	**21.5**	21.6
Amounts invoiced by subsidiaries	**6.6**	18.7

Remuneration of Key Management Personnel
The remuneration of the directors of the Company and of the members of the Management and Corporate teams who are the key management personnel of the Group is set out below in aggregate. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 80 to 87.

Company	2011 $m	2010 $m
Short-term employee benefits	**10.3**	7.5
Termination benefits	**5.8**	–
Pension contributions	**0.6**	0.6
Share-based payments	**11.3**	26.3
	28.0	34.4

In addition, employer's national insurance contributions for key management personnel in respect of short-term employee benefits were $2.2m (2010: $1.1m).

Other Transactions
During the year the Group did not make any purchases in the ordinary course of business from an entity under common control (2010: $nil). There were no amounts owed to the party at the year end (2010: $nil).

6.5 Guarantees

It is normal practice for the Group to issue guarantees in respect of obligations during the normal course of business. At 31 December 2011 the Group had provided Parent company guarantees for the Group's obligations under Production Sharing Contract (PSC), sales and other contracts of $2.2m.

At 31 December 2010 the Group had also provided various guarantees under the Group's bank facilities for the Group's share of minimum work programme commitments for the year of $34.3m.

Section 7 – Events after the Balance Sheet Date

7.1 Farm Down Agreement with Statoil ASA

On 23 January 2012, Cairn announced that it has entered into a farm down agreement with Statoil ASA for the Pitu block in the Baffin Bay Basin west of Greenland.

Under the terms of the agreement Statoil will, subject to the approval of the Greenland Government, acquire a working interest of 30.625% in the Pitu licence. Cairn will retain operatorship (56.875% interest in the block) of the exploration and Statoil will operate any future development. Nunaoil has an ongoing 12.5% interest in the block.

Statoil will pay a signature bonus and back costs on the Block of $27.5m and promoted terms of future exploration expenditure. Under the Group's accounting policies, proceeds received for the bonus and back costs will be credited against the Group's intangible exploration/appraisal costs; no adjustment is made for promoted terms of future exploration expenditure.

7.2 Return of Cash to Shareholders

On 30 January 2012 Cairn received shareholder approval for the return of cash to shareholders totalling approximately $3.5 billion. Shareholders are entitled to receive £1.60 for each existing ordinary share implemented through a B share scheme. Settlement of the Initial Purchase Offer and Single B Share Dividend for Shareholders was made on 21 February 2012.

In conjunction with the cash return, shareholders also approved a 13 for 33 share consolidation to seek to maintain share price comparability. The share consolidation completed on 6 February 2012 where the existing ordinary shares of 1,407,669,087 ordinary shares of $^{9}/_{13}$ pence each were replaced with 554,536,307 ordinary shares of $^{231}/_{169}$ pence each.

As a result of this consolidation, the weighted average number of shares used in both basic and diluted earnings per share calculations, disclosed on the Income Statement and in Sections 5.9a and 5.10, has been retrospectively adjusted for the current and prior year. The extent of the adjustment has been limited to the change in the number of ordinary shares outstanding without a corresponding change in the resources of the business.

Appendices to the Notes to the Financial Statements

Appendix 1 – Principal Subsidiary Undertakings

The Company's principal subsidiaries as at the Balance Sheet date are set out below. A full list of subsidiaries can be found on the Annual Return. The Company holds 100% of the voting rights and 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
Cairn Energy Dhangari Limited	Exploration	Scotland	Nepal
Cairn Energy Karnali Limited	Exploration	Scotland	Nepal
Cairn Energy Lumbini Limited	Exploration	Scotland	Nepal
Cairn Energy Malangawa Limited	Exploration	Scotland	Nepal
Cairn Energy Birganj Limited	Exploration	Scotland	Nepal
medOil plc	Exploration	England and Wales	Tunisia
Capricorn Albania Limited	Exploration	Scotland	Albania
Capricorn Spain Limited	Exploration	Scotland	Scotland
Capricorn Oil and Gas Tunisia GmbH	Exploration	Switzerland	Tunisia
Capricorn Greenland Exploration 1 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 2 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 3 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 4 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 5 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 6 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 7 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 8 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 9 Limited	Exploration	Scotland	Greenland
Capricorn Greenland Exploration 10 Limited	Exploration	Scotland	Greenland
Capricorn Atammik Limited	Exploration	Scotland	Greenland
Capricorn Lady Franklin Limited	Exploration	Scotland	Greenland

Appendices to the Notes to the Financial Statements
Continued

Appendix 2 – Financial Risk Management: Objectives and Policies

Group and Company

The main risks arising from the Company's and the Group's financial instruments are liquidity risk, interest rate risk, foreign currency risk, credit risk and market risk arising from equity price fluctuations. The Board of Cairn Energy PLC reviews and agrees policies for managing each of these risks and these are summarised below.

The Group's treasury functions 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 primary financial instruments comprise bank loans, cash, short and medium-term deposits, certificates of deposit, money market liquidity, listed equity shares, intra-group loans, forward contracts, currency and interest rate swaps, options, 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 and other forms of non investment-grade debt finance are reviewed by the Board, when appropriate.

Liquidity Risk

On 15 December 2010 Cairn Energy PLC entered into a stand-by secured revolving credit facility of $900m to extend the working capital available, to enable commitments to be made for the 2011 Greenland drilling campaign and for other general corporate purposes. The facility was provided by Standard Chartered Bank, Bank of Scotland PLC, Crédit Agricole Corporate and Investment Bank, HSBC Bank PLC and Société Générale. Security was in the form of a pledge over a number of shares in Cairn UK Holdings Limited. Interest was charged at floating rates determined by LIBOR plus an applicable margin. The facility was cancelled and repaid in full on 1 August 2011.

At December 2011 Cairn Energy PLC Group had $35m of facilities in place to cover the issue of performance guarantees. Fixed rates of bank commission and charges applied to these. $2.6m was utilised as at 31 December 2011.

The Group currently has surplus cash which it has placed in a combination of money market liquidity funds and term deposits with a number of international financial institutions, ensuring sufficient liquidity to enable the Group to meet its short/medium-term expenditure requirements. The Group is conscious of the current environment and constantly monitors counterparty risk. Policies are in place to limit counterparty exposure and maturity. The Group monitors counterparties using published ratings and other measures. Repayment of principal is the overriding priority and this is achieved by diversification and shorter maturities to provide flexibility.

Interest Rate Risk

Surplus funds are placed on short/medium-term deposits at floating rates. It is Cairn's policy to invest with banks or other financial institutions that, first, offer what is perceived as the greatest security and, second, offer the most competitive interest rate. Managing counterparty risk is considered the priority.

Short/medium-term borrowing arrangements are generally entered into at floating rates. From time to time the Group may opt to manage a proportion of the interest costs by using derivative financial instruments such as interest rate swaps. At this time, however, there are no such instruments (2010: none).

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 which 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 its exposure to fluctuations in foreign exchange and interest rates.

Appendices to the Notes to the Financial Statements
Continued

Appendix 2 – Financial Risk Management: Objectives and Policies Continued

Foreign Currency Risk Continued

The following table demonstrates the sensitivity to movements in the $:GBP and $:INR exchange rates, with all other variables held constant, on the Group's and the Company's monetary assets and liabilities. The Group's and the Company's exposure to foreign currency changes for all other currencies is not material.

Group	2011 Effect on profit before tax $m	2011 Effect on Equity $m	2010 Effect on profit before tax $m	2010 Effect on Equity $m
Continuing operations				
10% increase in Sterling to $	**424.0**	**345.1**	(6.9)	(0.1)
10% decrease in Sterling to $	**(424.0)**	**(345.1)**	6.9	0.1
10% increase in Indian Rupee to $	**–**	**–**	(6.9)	–
10% decrease in Indian Rupee to $	**–**	**–**	6.9	–

Company	2011 Effect on profit before tax $m	2011 Effect on Equity $m	2010 Effect on profit before tax $m	2010 Effect on Equity $m
Continuing operations				
10% increase in Sterling to $	**350.1**	**350.1**	(2.6)	95.0
10% decrease in Sterling to $	**(350.1)**	**(350.1)**	2.6	(95.0)

During the year, the Company changed its functional currency from Sterling to $, as noted in Section 1.1f, with effect from 1 July 2011. At the year end the Company held approximately £2.25 billion of cash in anticipation of the cash return to shareholders noted in Section 7.2. Following the completion of this return both the Group's and Company's exposure to movements in the Sterling to $ exchange rate reduces significantly. The Group realised an exchange loss of $39.2m on the Sterling cash balances held at the year end.

Credit Risk

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. Investments of surplus funds are only made with approved counterparties who meet the appropriate rating and/or other criteria, and are only made within approved limits. The Board continually re-assesses the Group's policy and updates as required. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty failure.

Cairn Energy PLC Group limits the placing of deposits, certificates of deposit and other investments to banks or financial institutions that have at least two A- or above ratings from Moody's, Standard & Poor's or Fitch unless a Sovereign Guarantee is available from an AAA-rated Government. The counterparty limits vary between $50m and $200m depending on the ratings of the counterparty. During the period, following the receipt of the proceeds of the 30% tranche of the 40% sale of Cairn India Limited, until the completion of the return of cash to shareholders, these limits were increased to $100m/$400m per 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.

At the year end the Group does not have any significant concentrations of bad debt risk other than that disclosed in Section 3.3. As at 31 December 2011 the Group had investments with 32 counterparties (2010: ten) to ensure no concentration of counterparty investment risk.

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

Market Risk: Equity Price Risk

The Group is now exposed to equity price risks arising from the listed equity investments it holds in Cairn India following the completion of the disposal of the 40% interest during the year. Equity investments are held for strategic rather than trading purposes and the Group does not actively trade these investments, which are classified as available-for-sale.

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 subsequent disposal of available-for-sale financial assets will be recycled through the Income Statement.

This financial asset is held at a fair value of $2,463.3m, based on the closing market value of INR 314.25 at 31 December 2011. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date, assuming all other variables are held constant.

	2011 Effect on profit before tax $m	2011 Effect on Equity $m
Increase to closing price of 400 INR	**–**	**530.9**
Increase to closing price of 350 INR	**–**	**221.4**
Decrease to closing price of 300 INR	**–**	**(82.2)**

Net profit for the year ended 31 December 2011 would have been unaffected as no investments were disposed of post recognition.

Appendices to the Notes to the Financial Statements
Continued

Appendix 3 – Share-based Payments

The following assumptions and inputs apply to the share plans described in Section 6.3:

Scheme name	Vesting	Volatility	Risk-free rate per annum	Lapse due to withdrawals per annum
2010 Share Incentive Plan	86%	52%	n/a	5%
2009 Plan	45.28% – 47.00%	52%	4.3% – 4.4%	5%
2009 LTIP	35.09% – 46.64%	52%	n/a	–
2009 Replacement Option Plan	5% – 86.77%	52%	4%	5%
2009 Replacement LTIP	118.49% – 124.90%	52%	n/a	–
2006 Plan	28.01% – 33.43%	63% – 74%	4.7% – 5.1%	5%
2003 Plan	85.74% – 88.34%	40.24%	4.0% – 4.8%	5%
2002 Plan	85.74% – 89.48%	40.24%	4.0% – 4.8%	5%
Capricorn Units	36.83% – 37.14%	63% – 74%	4.7% – 4.9%	–
Cairn India Units	31.94% – 32.97%	41% – 42%	4.7% – 4.9%	–

The following assumptions on employee exercise trigger points are applicable to all share option plans described in this note:

	25% profit	50% profit	75% profit	100% profit	125% profit	No trigger
Percentage of employees exercising options	15%	25%	25%	15%	10%	10%

For details on the vesting conditions attached to the LTIPs refer to the Directors' Remuneration Report on pages 69 to 87.

Cairn Energy PLC Group and Company

No difference in the schemes in Section 6.3 apply for Group and Company other than charges for these schemes that are made to Cairn India companies where their staff are members of these schemes.

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 £3.679 (2010: £4.073).

The Cairn Energy PLC share options have been valued using a binomial model. The main inputs to the model 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 the profit points at which the relevant percentage of employees are assumed to exercise their options.
- 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 69 to 87, over a ten year period to the date of award.

Notes

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Glossary of Terms

The following are the main terms and abbreviations used in this annual report.

Corporate

AGM	Annual General Meeting
Bn	Billion
Board	the Board of Directors of Cairn Energy PLC
BRMS	Business Risk Management System
BSE	Bombay Stock Exchange
Cairn/ Cairn Energy/PLC	Cairn Energy PLC and/or its subsidiaries as appropriate
Cairn India/ CIL	Cairn India Limited and/or its subsidiaries as appropriate
Cairn India Group	Cairn India and/or its previously named subsidiaries as appropriate
Capricorn/ Group	Capricorn Oil Limited (previously named Capricorn Energy Limited) and/or its subsidiaries as appropriate
Companies Act	the Companies Act 2006 (as amended)
Company	Cairn Energy PLC
CRT	Crisis Response Team
CT	Corporate Team
EGM	Extraordinary General Meeting
ERG	Emergency Response Group
EU	European Union
FSA	Financial Services Authority
GoI	Government of India
Group	the Company and its subsidiaries
GBRMS	Group Business Risk Management System
GDP	Gross Domestic Product
GRMC	Group Risk Management Committee
IFC	International Finance Corporation
IPO	initial public offering of shares in Cairn India Limited
JV	Joint Venture
KPIs	key performance indicators
Listing Rules	the Listing Rules of the United Kingdom Listing Authority
LSE	London Stock Exchange
LTIP	Long-Term Incentive Plan
M&A	merger and acquisition
MBA	Mangala, Bhagyam and Aishwariya
MT	Management Team
NOC	national oil company
NSE	National Stock Exchange of India Limited
OECD	Organisation for Economic Cooperation and Development
ONGC	Oil and Natural Gas Corporation Ltd
OPEC	Organisation of Petroleum Exporting Countries
PDMR	Person discharging managerial responsibilities
PETRONAS	PETRONAS International Corporation Ltd
PSC	production sharing contract
QVRs	Quarterly Valuation Reports
RMC	Risk Management Committee
Santos	Santos International Holdings Pty Limited
SEBI	Securities and Exchange Board of India
Statoil	Statoil ASA
UN	United Nations
Vedanta	Vedanta Resources plc

Glossary of Terms
Continued

Technical

3D	3 dimensional
bbl	barrel
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
EOR	enhanced oil recovery
FDP	field development plan
LNG	liquefied natural gas
mmboe	million barrels of oil equivalent
mmbopd	million barrels of oil per day
MPT	Mangala Processing Terminal

Accounting

~	approximately
$	United States Dollars
bn	billion
ESOP	Employee Share Ownership Plan
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
INR	Indian Rupee
LIBOR	London Inter-Bank Offered Rate
m	million
SIP	share incentive plan
TSR	total shareholder return
WAEP	weighted average exercise price
WAGP	weighted average grant price
WAFV	weighted average fair value

Corporate Responsibility

ALARP	As low as reasonably practicable
CO_2E	carbon dioxide equivalent
CR	Corporate Responsibility
CRMS	Corporate Responsibility Management System
DNV	Det Norske Veritas
EIA	Environmental Impact Assessment
ESIAs	Environmental and Social Impact Assessments
ERM	Environmental Resource Management
GHG	greenhouse gas
GRI	Global Reporting Initiative
HAZID	hazard identification
HSE	Health, Safety and Environment
IBA	Impact Benefit Agreement
LTIFR	lost time injury frequency rate
NGO	non-governmental organisations
OGP	The International Association of Oil and Gas Producers
PCDP	Public Consultation and Disclosure Plans
PEIA	Preliminary environmental impact assessment
RFSU	Ready for Start Up
SIA	Social Impact Assessment
TRIR	total recordable incident frequency rate

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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.

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