Cairn

Interim Report and Accounts **2000**

It is our **vision,** our **focus**
and our **energy,** that give us the **edge**

High

Strong financial results, 3 gas discoveries including major find in core Indian market and commencement of multi-well exploration programme.

lights

Turnover up 86% year on year to £55.9m (H1 1999: £30.1m)

Operating profit up fourfold to record £30.0m (H1 1999: £7.9m)

Pre-tax profit up 167% to £29.9m (H1 1999: £11.2m)

Operating cash flow of £33.9m (H1 1999: £9.2m)

Net cash of £7.2m at 30 June 2000

Signature of Production Sharing Contract for 100% interest in new Indian block

Significant gas discoveries in western India and Bangladesh,

with additional drilling success in The Netherlands

"We are delighted to be reporting record turnover, cashflow and profits. Cairn has recently commenced a high impact drilling programme in the Indian sub-continent and we expect continuing strong financial performance in the second half."

Bill Gammell, Chief Executive

Chairman's Statement

Overview

In order to create shareholder value in a cyclical industry, exploration and production companies must have a compelling vision augmented with a real competitive business edge. Cairn's core area of focus since the early 1990s has been the Indian sub-continent where the Group now has commanding positions strategically placed to access key growing energy markets.

The Group's portfolio in the Indian sub-continent offers substantial organic growth potential in four proven but under-explored hydrocarbon provinces combined with a long life, low operating cost production base.

Cairn's focus on high impact exploration met with success in May 2000 with the discovery of the Lakshmi gas field in Block CB-OS/2 in western India, immediately adjacent to one of the main energy demand centres in the state of Gujarat. The Company's robust financial position has enabled it to plan a continuous multi-well exploration programme across its entire acreage portfolio in the Indian sub-continent. This drilling campaign is now underway and significantly, it offers the potential to add material new reserves over the next 12 months.

Financial Highlights

	H1 2000	H1 1999	% Increase/(Decrease)
Production (boepd)	21,180	21,265	(0.4)
Average price per boe($)	22.45	12.58	78
Turnover (£m)	55.9	30.1	86
Average production costs per boe ($)	5.05	4.79	5
Pre-tax profit (£m)	29.9	11.2	167
Profit after tax (£m)	18.3	7.7	138
Operating cash flow (£m)	33.9	9.2	268

Results and Financial Performance

The first half of 2000 has seen a continuation of the high oil price environment experienced during the latter half of 1999. These conditions, together with the Group's low cost production base, have ensured that Cairn remains in a strong financial position as it enters a period of increased capital expenditure.

The average oil price realised for the first half of 2000 was $22.45 per boe compared with $12.58 per boe for the equivalent period in 1999. Average daily production was 21,180 boepd, a modest decrease on the record 21,265 boepd achieved during the corresponding period last year.

Turnover from continuing operations increased by 86% year on year to £55.9m (HI 1999: £30.1m). Average production costs for the period were just $5.05 per boe (H1 1999: $4.79 per boe). Operating profit after an exceptional item of £0.9m relating to restructuring costs was a record £30.0m (H1 1999: £7.9m).

Administrative expenses excluding exceptionals for the period were £3.6m (H1 1999: £3.6m). Net interest payable was £0.3m (H1 1999: net received £0.1m) and the Group realised a foreign currency exchange gain of £0.2m (H1 1999: £1.2m). An £11.6m tax charge arises on profits in India and the UK, resulting in profit after tax of £18.3m (H1 1999: £7.7m). This represents a 138% increase year on year.

The Group's operating cash flow remained strong during the period with net cash inflow from operations after administrative expenses, interest and taxation totalling £31.1m.

Cash outflow from capital expenditure for the period was £14.1m, the majority of which was exploration spend.

At 30 June 2000 the Group had net cash at £7.2m.

Share Buy-Back Programme

On 6 and 7 July 2000 the Company purchased a total of 3,670,000 of its own shares thereby continuing its successful share buy-back programme. Over the past 10 months the Company has purchased 23,720,322 of its own shares (representing approximately 15% of the

Chairman's Statement

issued share capital) at an average price of £1.38 and a total cost of £33m. The buy-backs are in accordance with the Company's stated objective of enhancing net asset value per share for shareholders.

Operations

BANGLADESH

Production

Sangu (Shell operator, Cairn 37.5%)

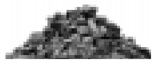
During the first half of 2000, offtake from the Sangu gas field averaged 128 MMscfd, an increase of 33% on the 96 MMscfd achieved for the corresponding period last year and 13% on the second half of 1999 (113 MMscfd). The realised gas price for the period was $2.87/mcf, close to the contract ceiling price of $2.89/mcf. Production volumes continue to be published on a monthly basis on Cairn's website.

Pursuant to the terms of the Sangu GSPA, the Cairn/Shell Joint Venture ("the Joint Venture") and Petrobangla await the outcome of an expert re-determination regarding an increase in the DCQ from the present 160 MMscfd to 200 MMscfd.

Exploration

Blocks 15 and 16 (Shell operator, Cairn 50.0%)

The South Sangu-1 exploration well, in which Cairn was carried 100% by Shell, discovered an extension of the producing Sangu gas field in January 2000. The well intersected 34 gross metres of normally pressured gas-bearing sandstone at depths of around 3,300m. The well then drilled into the highly over-pressured "deep" reservoir section to a depth of over 4,600m, encountering gas shows in several sections. Prior to log evaluation, an internal blow-out occurred which resulted in cross-flow of fluids (assumed to be high pressure water) between zones at different depths. Technical difficulties prevented operations which could have stopped this cross-flow and the well had to be abandoned. The Joint Venture plans to re-drill the Sangu deep prospect from a nearby surface location as soon as practicable. It is anticipated that almost the entire cost of the re-drill will be covered by a claim under the Joint Venture's insurance policy. The Joint Venture is continuing to use the Cairn-owned EEIV in the forward programme and the rig is currently operating on Sandwip East-1.



In addition, the Joint Venture initialled PSCs for Blocks 5 and 10 (Cairn 45%) with the Government of Bangladesh in June 2000. The PSCs are yet to be signed. It has been agreed with the Government that commitment exploration wells will not have to be drilled on the acreage until there is a demonstrable market. Twenty-five million dollars ($25m) of Cairn's net expenditure will be carried by Shell as part of the original farm-in agreement.

INDIA

EASTERN INDIA - Krishna-Godavari Basin

Production

Ravva (Cairn operator, 22.5%)

Ravva remains on plateau production and averaged 49,200 bopd and 24 MMscfd for the first half of 2000. In February 2000, Ravva cumulative production exceeded 50 million barrels of oil.

All necessary approvals have now been obtained to develop the non-associated (dry gas) satellite gas fields at Ravva. The Development Plan anticipates 30 MMscfd of additional gas production commencing Q3 2001. The gas is to be sold to GAIL at a price linked to a premium over HSFO but between $2.30 and $3.30/mcf.

A 310 km^2 3D seismic survey was completed over the Ravva block in Q2 2000.

Exploration

Block KG-OS/6 (Cairn operator, 50%)

Cairn acquired two 3D seismic programmes, totalling 760 km^2, over this block during the first half of 2000, supplementing the 1,500 km of 2D seismic acquired over winter 1999/2000. The first of a two well exploration programme on the block is planned commencing Q4 2000.

Block KG-DWN-98/2 (Cairn operator, 100%)

Cairn signed a PSC with the Government of India for this block on 12 April 2000.

A 1,500 km^2 3D seismic survey was acquired in Q2 2000 over the northern portion of the block, which includes a pre-existing oil discovery. An exploration well is anticipated to commence in early Q1 2001.

Chairman's Statement

WESTERN INDIA

Block CB-OS/2, Cambay Basin

(Cairn operator, 75%)

Cairn drilled its first offshore exploration well in Block CB-OS/2 in April making a significant gas discovery (Lakshmi). Further appraisal drilling is required and planned to commence in October. Cairn's current estimated gross unrisked mean reserves for Lakshmi are approximately 400 Bcf.

ONGC has a right to increase its stake on declaration of commerciality (Government back-in right pursuant to the PSC). In this case, Cairn's equity interest in the Lakshmi Development Area would reduce from 75% to 50%.

Exploration drilling will re-commence during Q4 2000 with up to four exploration wells planned.

Block RJ-ON-90/1, Rajasthan Basin

(Cairn operator, 50%)

Cairn has commenced a comprehensive seismic acquisition programme consisting of 1,000 km of 2D infill seismic across the basin and 200 km^2 of 3D seismic over the structural trend of the Guda oil discovery. Exploration drilling is planned to commence during the first half of 2001.

NORTH SEA

Cairn continues to hold small interests in several non-operated UK and Dutch producing properties in the North Sea. Average net production for these two areas in the first half of 2000 was 3,507 boepd. Whilst non-core, these assets provide relatively stable cash flows to help fund Cairn's projects in the Indian sub-continent. The Gryphon Joint Venture (Cairn 10%) is currently operating an infill well, 9/18b-Cent-A. If successful, this well could significantly add to Gryphon's total daily production, which is currently approximately 18,000 bopd (1,800 bopd net to Cairn).

In April 2000, the operator of block P6 (Cairn 9.75%) announced a gas discovery with the P6-9 exploration well. Further appraisal of this discovery is planned with the P6-10 well in Q4 2000. Early development options are currently being reviewed by the P6 Group with the aim of achieving first production in 2001. In addition, a small gas discovery was recently made on block P9 (Cairn 4.7%), the commerciality of which remains to be established.

Reserves

Booked 2P reserves at 30 June 2000 were 84 million boe on a net entitlement basis (equivalent to 108 million boe on a working interest basis), with 93% of these reserves in the Indian sub-continent. Reserves attributed to the Lakshmi, South Sangu and P6-9 gas discoveries are expected to be booked at the year end following completion of the respective development plans.

Outlook

Cairn intends to move quickly with its focused drilling and exploration programme in key blocks across India and Bangladesh. Commencing with the Sandwip East-1 exploration well in August, Cairn has embarked on a continuous multi-well programme which it is hoped will see at least 13 high impact exploration prospects drilled in India (10 wells) and Bangladesh (3 wells) over the next 12 months. The estimated mean unrisked reserve potential of these prospects is 1.86 billion boe gross and 930 million boe net to Cairn on a working interest basis. The estimated cost of drilling these exploration wells net to Cairn is approximately £40m.

Early monetisation of the Lakshmi gas discovery is a key objective for Cairn. This will entail appraisal of the discovery and securing a GSPA during the second half of 2000, followed by a rapid development programme throughout 2001 in order to achieve first gas by January 2002.

Board of Directors

I am pleased to report that Malcolm Thoms BSc MBA was appointed to the Board as an Executive Director with effect from 1 July 2000. Malcolm (44) joined Cairn in 1989 in a commercial role and, in addition to his existing duties as Group General Manager, has assumed specific responsibility for the Group's assets in Bangladesh.

Norman Lessels CBE
Chairman

7 September 2000

Consolidated Profit and Loss Account (unaudited)

For the six months to 30 June 2000

	Notes	Continuing operations £'000	Continuing operations exceptional items £'000	**Six months to 30 June 2000 £'000**	Six months to 30 June 1999 £'000	Year ended 31 December 1999 £'000
Turnover						
Producing		55,112	—	**55,112**	30,055	74,611
Rig		816	—	**816**	—	2,210
		55,928	—	**55,928**	30,055	76,821
Cost of sales						
Production costs		(12,458)	—	**(12,458)**	(11,030)	(24,435)
Rig operating costs		(579)	—	**(579)**	—	(2,861)
Depletion		(6,952)	—	**(6,952)**	(5,954)	(14,317)
Decommissioning charge		(179)	—	**(179)**	(133)	(304)
Depreciation of rig		(1,243)	—	**(1,243)**	—	(3,139)
Gross Profit		34,517	—	**34,517**	12,938	31,765
Write-down of oil and gas assets		—	—	**—**	—	(1,246)
Write-down of rig		—	—	**—**	—	(2,291)
Administrative expenses	1	(3,634)	(911)	**(4,545)**	(5,056)	(8,675)
Operating profit/(loss)		30,883	(911)	**29,972**	7,882	19,553
Gain on disposal of listed investment		—	—	**—**	—	2,128
Write back value of listed investment		—	—	**—**	1,980	—
Profit/(loss) on ordinary activities before interest		30,883	(911)	**29,972**	9,862	21,681
Interest receivable and similar income		504	—	**504**	1,668	1,932
Interest payable and similar charges		(569)	—	**(569)**	(338)	(669)
Profit/(loss) on ordinary activities before taxation		30,818	(911)	**29,907**	11,192	22,944
Taxation on profit on ordinary activities						
- current		(5,767)	—	**(5,767)**	(470)	(2,532)
- deferred		(5,812)	—	**(5,812)**	(3,050)	(4,160)
		(11,579)	—	**(11,579)**	(3,520)	(6,692)
Profit/(loss) for the period		19,239	(911)	**18,328**	7,672	16,252
Earnings per ordinary share - basic	2			**12.17p**	4.50p	9.66p
Earnings per ordinary share - diluted	3			**12.13p**	4.50p	9.63p

Notes:

1. The exceptional charge relates to the costs of restructuring the Group.
2. The earnings per ordinary share is calculated on a profit of £18,328,000 (H1 1999: £7,672,000) on a weighted average of 150,607,060 (H1 1999: 170,539,327) ordinary shares.
3. The diluted earnings per ordinary share is calculated on a profit of £18,328,000 on 151,142,454 (H1 1999: 170,550,322) ordinary shares, being the basic weighted average of 150,607,060 (H1 1999: 170,539,327) ordinary shares and the dilutive potential ordinary shares of 535,394 (H1 1999: 10,995) ordinary shares relating to share options.
4. No dividend has been declared.

Consolidated Balance Sheet (unaudited)

As at 30 June 2000

	As at 30 June 2000 £'000	As at 30 June 1999 £'000	As at 31 December 1999 £'000
Fixed assets			
Exploration assets	**154,384**	117,756	130,041
Development/producing assets	**112,898**	122,473	110,706
Other fixed assets	**17,571**	22,014	17,813
Investments	**555**	758	685
	285,408	263,001	259,245
Current assets			
Debtors	**47,331**	56,495	38,342
Investments	**—**	3,765	—
Cash at bank	**10,535**	19,017	8,517
	57,866	79,277	46,859
Creditors: amounts falling due within one year	**44,651**	49,066	42,247
Net current assets	**13,215**	30,211	4,612
Total assets less current liabilities	**298,623**	293,212	263,857
Provision for liabilities and charges	**5,240**	8,355	6,212
Deferred taxation	**15,340**	13,315	8,627
Net assets	**278,043**	271,542	249,018
Capital and reserves - equity interests			
Called-up share capital	**15,067**	17,055	15,060
Share premium	**72,489**	182,370	182,439
Special reserve	**36,435**	—	—
Capital reserves - non distributable	**50,120**	48,115	50,120
Capital reserves - distributable	**41,537**	68,193	41,537
Profit and loss account	**62,395**	(44,191)	(40,138)
Shareholders' funds	**278,043**	271,542	249,018

Notes:

1. In accordance with a Special Resolution passed at the Annual General Meeting on 2 May 2000, and after receiving clearance from the Court of Session on 30 June 2000, the Group's share premium account has been reduced by £110,000,000. £73,565,000 has been transferred to the Group's Profit and Loss account and the remaining £36,435,000 has been transferred to a Special reserve.
2. The disclosed figures are not statutory accounts in terms of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 1999, on which the auditors gave an unqualified report, have been filed with the Registrar of Companies.

Group Statement of Total Recognised Gains and Losses (unaudited)

For the six months to 30 June 2000

	Six months to 30 June 2000 £'000	Six months to 30 June 1999 £'000	Year ended 31 December 1999 £'000
Profit for the period	**18,328**	7,672	16,252
Unrealised foreign exchange differences	**10,640**	7,132	1,779
Total recognised gains and losses for the period	**28,968**	14,804	18,031

Reconciliation of Movements in Shareholders' Funds (unaudited)

For the six months to 30 June 2000

	Six months to 30 June 2000 £'000	Six months to 30 June 1999 £'000	Year ended 31 December 1999 £'000
Total recognised gains and losses for the period	**28,968**	14,804	18,031
New shares issued in respect of employee share options	**57**	5	84
Repurchase of shares	**—**	—	(26,656)
Net additions/(deductions) to shareholders' funds	**29,025**	14,809	(8,541)
Opening shareholders' funds	**249,018**	256,733	257,559
Closing shareholders' funds	**278,043**	271,542	249,018

Group Statement of Cash Flows (unaudited)

For the six months to 30 June 2000

	Six months to 30 June 2000 £'000	Six months to 30 June 1999 £'000	Year ended 31 December 1999 £'000
Net cash inflow from operating activities	**33,902**	9,151	36,624
Returns on investment and servicing of finance	**(224)**	286	675
Taxation	**(2,539)**	(1,020)	(14,053)
Capital expenditure and financial investment			
Purchase of exploration assets	**(11,199)**	(7,275)	(25,282)
Purchase of development/producing assets	**(2,352)**	(454)	(1,309)
Purchase of other fixed assets (including Energy Explorer IV)	**(500)**	(1,898)	(3,758)
Purchase of own shares	**—**	(802)	(802)
Sale of other fixed assets	**—**	183	226
Sale of current asset investment	**—**	—	3,857
Cash receipts from Shell	**—**	52,763[1]	52,763[1]
	(14,051)	42,517	25,695
Equity dividends paid	**—**	—	—
Net cash inflow before use of liquid resources and financing	**17,088**	50,934	48,941
Management of liquid resources[2]			
Cash on short term deposit	**(6,812)**	(16,944)	—
Financing			
Issue of shares	**57**	5	84
Repurchase of own shares	**—**	—	(26,656)
Debt drawdowns	**—**	—	18,070
Repayment of debt	**(15,127)**	(36,995)	(36,995)
	(15,070)	(36,990)	(45,497)
(Decrease)/increase in cash in the period	**(4,794)**	(3,000)	3,444

Notes:
1. During 1998, the Group sold part of its interests in Bangladesh to Shell for consideration of US$65m, plus recovery of back costs. The proceeds were included within the debtors at 31 December 1998.
2. Short term deposits of less than one year are disclosed as liquid resources.

Reconciliation of Operating Profit to Operating Cash Flows (unaudited)

For the six months to 30 June 2000

	Six months to 30 June 2000 £'000	Six months to 30 June 1999 £'000	Year ended 31 December 1999 £'000
Operating profit	**29,972**	7,882	19,553
Depletion, depreciation and decommissioning	**8,817**	6,648	18,862
Amortisation of long term incentive plan	**134**	44	178
Exceptional write-down of oil and gas assets	**—**	—	1,246
Exceptional write-down of rig	**—**	—	2,291
Exceptional administrative expenses	**911**	1,457	1,594
Working capital movement	**(6,051)**	(7,540)	(4,587)
Other provisions	**(1,310)**	738	(547)
Loss/(gain) on sale of other fixed assets	**—**	27	(137)
Foreign exchange differences	**1,940**	604	30
	34,413	9,860	38,483
Cash outflow on closure of Sydney office	**—**	(709)	(870)
Cash outflow on transfer of Operatorship and Group restructuring	**(511)**	—	(989)
Net cash inflow from operating activities	**33,902**	9,151	36,624

Independent Review Report to Cairn Energy PLC

Introduction

We have been instructed by the Company to review the financial information set out on pages 8 to 12 and we have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2000.

Ernst & Young
Edinburgh

7 September 2000

Glossary of Terms

The following are the main terms and abbreviations used in the Chairman's Statement:-

Corporate

The Board	the Board of Directors of Cairn Energy PLC
The Company	Cairn Energy PLC
The Group	the Company and its subsidiaries
Cairn	the Company and/or its subsidiaries as appropriate
EEIV	Energy Explorer IV drilling rig
GAIL	Gas Authority of India Limited
ONGC	Oil & Natural Gas Company Ltd. (Indian state oil and gas company)
Petrobangla	Bangladesh Oil, Gas & Mineral Corporation (Bangladesh state oil and gas company)
Shell	Shell Bangladesh Exploration and Development B.V.

Technical

Bcf	billion cubic feet
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
DCQ	Daily Contract Quantity
GSPA	Gas Sales and Purchase Agreement
HSFO	High Sulphur Fuel Oil
km	kilometres
km^2	square kilometres
/mcf	per metric cubic foot
MMscf	million standard cubic feet of gas
MMscfd	million standard cubic feet of gas per day
PSC(s)	Production Sharing Contract(s)
2D	two dimensional
3D	three dimensional
2P	proved and probable

Note:

This Report contains forward looking statements that reflect Cairn's expectations regarding future events. Forward looking statements involve risks and uncertainties. Actual events could differ materially from those projected herein and depend on a number of factors including the uncertainties relating to oil and gas exploration and production and sale of oil and gas.

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