EMBARGOED FOR RELEASE AT 0700 **13 March 2018**

CAIRN ENERGY PLC ("Cairn")

Preliminary Results Announcement

Simon Thomson, Chief Executive, Cairn Energy PLC said:

"With first oil production from its North Sea developments, Cairn continues to deliver a strong and balanced business with a growing production base supporting further development and a multi-well exploration programme offering significant growth potential.

The SNE field in Senegal is now fully-appraised and the Joint Venture is targeting Government approval of the Exploitation Plan by the end of this year.

The company continues to maintain balance sheet strength and financial flexibility as we focus on creating, adding and realising value for shareholders from a portfolio of attractive exploration, development and production assets."

HIGHLIGHTS

Senegal Development

- SNE field development concept select achieved with planned key milestones leading up to first oil expected in 2021-2023;
  - Invitations to Tender (ITT) commenced in Q1 2018 with major Floating Production Storage and Offloading Vessel (FPSO) and subsea infrastructure contractors; a redeployed FPSO is the preferred development option
  - Evaluation Report in preparation and expected to be submitted to the Government of Senegal in H1 2018
  - Front end engineering and design (FEED) to commence in H2 2018
  - Formal transfer of Operatorship (TOO) to Woodside expected to take place in H2 2018, subject to Government approval
  - Exploitation Plan targeted for submission and approval in H2 2018 with the Final Investment Decision (FID) to follow: Cairn targeting initial production rate of ~100,000 barrels of oil per day (bopd) and estimates up to 25 wells in initial development phase, targeting ~240 mmbbls principally in S500 lower reservoir: subsequent phases targeting >250 mmbbls in the S400 upper reservoir

Senegal Exploration & Appraisal

- Five successful wells drilled in 2017 (Cairn 40% WI, Operator) in third phase of exploration and appraisal activity with operations delivered safely and successfully completed ahead of schedule and under budget
- Ongoing evaluation of further Cairn operated exploration opportunities

UK & Norway Production

- Catcher (Cairn 20% working interest (WI)) and Kraken (Cairn 29.5% WI) developments in the UK North Sea achieved first oil production in 2017, with total project capex expenditure estimated by the Operators to be ~30% and ~25% below original project sanction
- 2018 full year production, net to Cairn, estimated to be 17,000-20,000 bopd*, with ongoing project commissioning on both fields expected to be completed in H1 2018
- Full capacity production expected to be achieved by mid-year, with peak net production to Cairn of 25,000 bopd, delivering significant cash flow for reinvestment
- Nova development (formerly Skarfjell) (Cairn 20% WI) in Norway: JV completed FEED in 2017 and the Plan for Development and Operation (PDO) is anticipated in H1 2018
- Nova first oil is targeted in H2 2021 and expected to deliver plateau production of 50,000 bopd, ~10,000 bopd net to Cairn

*excludes 4.5% FlowStream interest in Kraken production

Exploration - UK & Norway

- In 2017, Cairn continued to build an extensive exploration portfolio primarily focused on light oil
- Exploration drilling campaign currently underway for 2018/19, with plans to drill up to ten wells over the next two years targeting more than 1.5 billion boe gross unrisked resources (~725 mmboe net to Cairn unrisked resource) across a variety of play types
- Tethys exploration well (35/9-14) has reached TD and operations are continuing on well 35/9-14A
- Raudåsen exploration well spudded in Q1 2018 and is currently operating
- Cairn awarded non-operated interests in three new licences and one licence extension in APA 2017 in Q1 2018
- Applications submitted in UK 30th Licensing Round

Exploration - International

- Two new licences in the Mexico offshore bid round in H1 2017; one operated and one non-operated licence located in the prolific yet under-explored Sureste basin
- Plan to drill four wells in 2019/2020 on Blocks 7 and 9 which are offsetting recent world class discoveries and targeting more than 1 billion boe gross unrisked potential
- Interest in the Boujdour Maritime licence (Cairn 20% WI) offshore Western Sahara was relinquished, alongside the Operator, in Q4 2017
- Cairn did not extend its Exploration Study Agreement for Area 3, Blocks 1, 2 and 3 in Malta in H1 2017
- Cairn participated in one unsuccessful well on FEL 2/14 in the Porcupine basin offshore Ireland in H2 2017 (Cairn 30% WI)
- Extensive new 3D acquired in West Porcupine basin during 2017

New Ventures

- In Q1 2018, Cairn was awarded an operated exploration agreement (Cairn 100% WI) and is finalising the Production Sharing Contract (PSC) with Staatsolie (State Oil Company of Suriname), on acreage on the Demerara plateau offshore Suriname, with 2D seismic and contingent 3D seismic activity proposed, beginning in 2019

Financial

- Group cash at 31 December 2017 US$86m
- Reserves Based Lending (RBL) bank facility was undrawn at year end with expected peak availability of US$350-400m, of which US$200m was available at year end 2017
- Drawings under the Norway Exploration Finance Facility of US$30m
- Forecast Kraken and Catcher development expenditure for 2018 is ~US$140m* and currently committed E&A expenditure for 2018 is ~US$95m*
- Outstanding Norwegian exploration rebate receivables are US$38m at 31 December 2017

* Remaining cash outflows in respect of activities undertaken in 2017 of ~US$35m are included in these forecasts

Resources & Reserves

- A total of 53.8 mmboe booked as 2P reserves (an increase from 51.5 mmboe in 2016 following reserves upgrade on Catcher)
- An aggregate of 215.1 mmboe booked as 2C Contingent Resources (a decrease from 239.1 mmboe in 2016 mainly due to a reclassification of resources in Ireland)

India Tax Dispute

- International arbitration proceedings are well advanced with the final hearing of Cairn's claim under the UK-India Bilateral Investment Treaty scheduled for August 2018 in The Hague
- The Tribunal has stated that it will make appropriate arrangements to progress with the drafting of the award as expeditiously as possible after the final hearing
- Cairn is currently unable to access the value in its ~5% shareholding in Vedanta Limited (VL), valued at US$1.1billion at 31 December 2017, and the Indian Income Tax Department (IITD) continues to pursue enforcement of the tax demanded

Enquiries:

Analysts/Investors

David Nisbet, Corporate Affairs	**Tel: 0131 475 3000**

Media

Linda Bain, Corporate Affairs, Cairn Energy PLC	**Tel: 0131 475 3000**
Patrick Handley, David Litterick, Brunswick Group LLP	**Tel: 0207 404 5959**

Webcast

There will be a live audio webcast of the results presentation available to view on the website (www.cairnenergy.com) at 9am GMT. This can be viewed on PC, Mac, iPad, iPhone and Android mobile devices.

An 'on demand' version of the webcast will be available on the website as soon as possible after the event. This can be viewed on PC, Mac, iPad, iPhone and Android mobile devices.

Presentation

The results presentation slides will be available on the website from 7:00am GMT.

Conference call

You can listen to the results presentation by dialling in to a listen only conference call at 9am GMT using the below dial-in details.

Dial-in details:

UK:	020 3936 2999
All other locations:	+44 20 3936 2999
Participant Access code:	**24 89 19**

A recording of the conference call will be available from 11am on Tuesday 13 March 2018 until Tuesday 20 March 2018.

Recording dial-in details:

UK:	020 3936 3001
US:	1 845 709 8569
All other locations:	+44 20 3936 3001
Passcode:	**386275**

Transcript

A transcript of the results presentation will be available on the website as soon as possible after the event.

Chief Executive Statement

Cairn's strategy is to create, add and realise value for shareholders through exploration, development and production of oil and gas within a self-funding business model. 2017 was a successful year for Cairn as we achieved several important milestones and progressed our strategy as a full cycle exploration and production company. Over the last year, we delivered an active programme across a balanced business creating opportunities for both exploration growth and future production and we are well-placed to deliver our long-standing strategy of sustainable value creation.

In Senegal, a key area of focus for the business with the potential to deliver significant future production, we successfully executed five further exploration and appraisal wells. This third phase of drilling achieved an excellent performance in health, safety, environment and corporate responsibility management, with no lost time incidents, alongside significant cost and schedule reductions.

The appraisal activity is now complete for the SNE field and the Joint Venture (JV) has agreed the concept select. We are targeting Government approval of a phased SNE development by the end of this year to deliver first oil for Senegal in 2021-2023. Given the scale of the potential resource in place, we look forward to continuing to work closely with the Government of Senegal to deliver lasting and positive social and economic benefits in country. A successful oil and gas industry can greatly benefit the people of Senegal and Cairn is investing in and supporting economic growth and good governance.

In terms of current production, the non-operated Kraken and Catcher developments were highlights in the year, both achieving first oil with total project capital expenditure significantly below the original sanction estimates. Kraken experienced ramp up issues during 2017 which resulted in an extended commissioning phase. Catcher was on stream by the year end and production levels were deliberately constrained and will increase in phases before capacity is reached. These two major UK North Sea developments will continue to ramp up to plateau production rates, with peak net production to Cairn of approximately 25,000 bopd, delivering significant cash flow and capacity for reinvestment.

In addition, the non-operated Nova development project in Norway is in the final stages of project sanction and is expected to deliver first oil in 2021 with peak net production to Cairn of 10,000 bopd. The three projects of Catcher, Kraken and Nova can be expected to provide production and cash flow to Cairn over the next five years as the Senegal development comes on stream.

In 2017, we have continued to focus on creating a strong platform for future growth from exploration. We have successfully grown and diversified the portfolio across three core areas of the mature basins of UK and Norway, emerging basins in Senegal, Barents Sea and Mexico and frontier basins along the Atlantic Margin in Ireland and most recently, Suriname.

We were delighted to secure a new country entry with a large acreage position in Suriname which has a conjugate margin with Senegal where we have excellent proprietary insight and understanding. Cairn has 100% equity in the Suriname licence.

The UK and Norway region is a key focus for Cairn and we have successfully built an extensive portfolio across a variety of play types. Cairn has a material drilling programme planned which includes up to ten wells, targeting more than 700 mmboe net unrisked resource. The Tethys exploration well has achieved TD and operations are continuing. The Raudåsen exploration well spudded in Q1 2018 and is currently operating. The first Cairn operated UK exploration well (Ekland) is expected to commence operations in Q3 2018.

In international exploration, in addition to the Suriname new country entry, Cairn was delighted to secure two new licences in Mexico which are located in the prolific but under-explored Sureste basin, offsetting recent world class oil discoveries. Exploration planning is underway for four wells targeting more than one billion boe gross unrisked resource with drilling in 2019/2020.

In Ireland, we have grown our acreage position in the Porcupine Basin with an interest in five licences with multiple play types. In 2017, Cairn participated in one unsuccessful exploration well with Operator Providence Resources. We also supported a multi-client 3D acquisition where interpretation work is ongoing to assess future exploration opportunities.

In conclusion, 2017 was a year when Cairn's investments in the Catcher and Kraken developments started to bear fruit and the company firmly established its position as a sustainable explorer with the cash flow to invest in a measured way in the drill bit and in the next key developments of SNE and Nova. We continue to shape the business for the future and actively assess new ventures within the context of our balanced offering, whether they be potential additions to our portfolio of future exploration opportunities or cash flow generating assets.

Corporate Responsibility is at the heart of the Cairn business, and remained the priority in 2017 with a strong focus on the health, safety, security and wellbeing of our people. We promote safe behaviours of contractors and partners and in Senegal, where the industry is relatively new, Cairn has been able to provide strong leadership in this area. We are committed to protecting the environment in all of the areas where we operate, and good governance is also key to our commitment to meet all obligations in a responsible, open and transparent manner.

Iain McLaren, our Senior Independent Non-Executive Director has informed the Board that he will not be seeking re-election at the company's Annual General Meeting in May 2018 and will retire from the company on that day. I would like to thank Iain for his excellent contribution to the Board during the last nine years of service to Cairn. Following Iain's retirement from the Board, Keith Lough will assume the role of Chair of the audit committee and Peter Kallos will assume the role of Senior Independent Non-Executive Director.

I would also like to recognise and sincerely thank all our employees across the group as well as the contractors and suppliers for their excellent efforts and hard work during 2017 in what has been another successful year for Cairn. We look forward to working together in the exciting year ahead.

Operational Review

Cairn's portfolio offers exposure to high impact exploration drilling at appropriate equity levels with production assets providing cash flow to sustain exploration and development activity.

Senegal

Cairn drilled the first deep water wells offshore Senegal in 2014 and made two basin opening discoveries. Since then, the region has evolved from a frontier basin to an emerging oil play attracting the attention of the global industry. In the last three years, Cairn has operated three drilling programmes and has now successfully laid the foundation for a multi-phase development plan.

The third phase of drilling took place in 2017, completing the appraisal activity for the development of SNE. Cairn successfully drilled five exploration and appraisal wells in the year: SNE-5, VR-1, SNE-6, FAN South-1 and SNE North-1.

The SNE-5 and SNE-6 wells were drilled and successfully tested and an interference test was completed between the two wells confirming reservoir connectivity. The VR-1 well confirmed the predictability of the mapped reservoir but was unsuccessful at a deeper carbonate horizon. The FAN South-1 well results are being integrated with the FAN-1 basin discovery to assess greater FAN complex potential. The SNE North-1 well encountered a deeper and separate reservoir to the SNE field and further work is underway to determine commerciality. The SNE North-1 well has positive implications for further hydrocarbon potential.

The drilling operations were completed under budget and significantly ahead of schedule. Once again, the campaign was delivered with an excellent health, safety, environment and corporate responsibility performance.

The JV has passed the development concept for the SNE field and is aligned on a phased and cost effective development plan. The first phase will focus on the lower S500 reservoirs. A vessel with a capacity of ~100,000 bopd is being targeted. Cairn estimates up to 25 wells in the initial development phase, targeting ~240 mmbbls.

Subsequent phases of the development, which are anticipated to follow phase one after two to four years, will target >250 mmbbls in the S400 upper reservoir and include potential gas export. These are also expected to focus on maximising the economic recovery of the field within the twenty five year term of the Production Sharing Contract, for which a ten year extension is also provided.

The key deliverables for SNE development of geophysical, environmental baseline and geotechnical surveys have all been completed. Invitations to tender have commenced with major FPSO and subsea infrastructure contractors, with a redeployed FPSO seen as the preferred development option. Detailed work has also commenced on project debt financing.

The development timetable is now focused on the JV's Evaluation Report which will outline the basis of commerciality of the project. The Evaluation Report is close to finalisation and is expected to be submitted to the Government of Senegal in H1 2018. Key work is also progressing on detailed concept and front end engineering and design (FEED) with preferred contractors beginning in H2 2018.

The Exploitation Plan which will outline the full life of the PSC development plans and options, including a detailed definition of the first phase, is targeted for submission in H2 2018. At the same time the formal TOO of the development to Woodside will commence. Government approval is targeted for the end of 2018, with the FID thereafter. First oil from Senegal is expected in the period 2021-2023.

Alongside development planning, we are evaluating the potential for further exploration opportunities around the SNE discovery where there is significant untested prospectivity.

Cairn (Operator) has a 40% Working Interest (WI) in the three blocks offshore Senegal (Sangomar Deep, Sangomar Offshore, Rufisque Offshore) alongside partners: Woodside 35% WI, FAR Ltd 15% WI and the Senegal National Oil Company, Petrosen 10% WI. Petrosen have the option to increase to 18% WI on development.

UK & Norway

The UK and Norway is a core region for Cairn where the company has an extensive portfolio across a variety of plays. We have built a balanced portfolio of exploration, appraisal and development assets.

Cairn has a material exploration drilling campaign underway with up to ten wells planned, subject to partner approvals, targeting ~725 mmboe net unrisked resources. This includes, Ekland, which is Cairn's first operated UK exploration well and is expected to spud in Q3 2018 (Cairn 45% WI).

The Tethys well has reached TD and operations are continuing. The Raudåsen exploration well spudded in Q1 2018 and is currently operating.

Developments

The three developments of Catcher, Kraken and Nova are a key part of our strategy to build steady future cash flows to sustain the business model and fund future exploration and appraisal across the group.

Kraken

Kraken is a large heavy oil accumulation, located in the East Shetland basin, ~125km east of the Shetland Islands.

Following first oil from Kraken in June 2017, the development had a number of FPSO commissioning issues resulting in an extended commissioning phase during which the performance of production facilities has continued to be optimised, initially through the first processing train. The second processing train was brought online in November, resulting in gross production rates of more than 40,000 bopd. All Drill Centre (DC) 3 wells have now been brought online and operational efficiency has improved. In January and February 2018, average gross production was consistently between 40-50,000 bopd when all 11 producers and 10 injectors were on line.

Completion of firm development drilling with the DC4 well campaign in the central part of the field is expected to commence later this year. The cost of this programme has been reduced following the renegotiated terms agreed with Transocean.

Following the delivery of the DC3 drilling programme and lower market rates for the remaining subsea campaign, full cycle gross Kraken project capex was further reduced during the year and is currently estimated by the Operator to be more than 25% lower than originally sanctioned.

With regular liftings now established from Kraken, there has been strong interest in this crude from European, US and Asian buyers and consequently the average discount to Brent is expected to narrow.

Catcher

Catcher lies in the UK Central North Sea, ~180km off the North East coast of Scotland and comprises three separate fields: Catcher, Burgman and Varadero. The fields will be produced from up to 20 subsea wells with a combination of production and water injection wells tied back via subsea infrastructure to the newly built BW Catcher FPSO. The vessel receives, processes and stores crude oil from the Catcher area and exports associated gas.

The FPSO hull was built and the topsides constructed in Singapore before arriving on location in October. Successful commissioning activities resulted in the start-up of Catcher with first oil in December 2017.

As planned, production has been ramped up in phases, firstly from the Catcher field, then Varadero in January which will be followed shortly by Burgman. Production levels have been deliberately constrained during the ramp up phase while commissioning of the full gas processing modules and the water injection systems on the FPSO is being carried out. Full production from the Catcher Area of 60,000 bopd (gross) is expected in Q2 2018. The first two export cargos of over 500,000 barrels each were lifted in January and February and sold at a premium to Brent.

Drilling activities have continued, with 14 production and injection wells drilled and completed with positive reservoir results, with 12 of these wells being tied in ahead of first oil. The rig is currently drilling the CCP6 well on the second Catcher template and will drill a further Catcher well before moving to the Burgman field. A total of 18 wells will be drilled by September 2018 before a planned drilling break. The Operator remains encouraged about the overall recovery from the Catcher Area and continues to forecast peak plateau production of ~60,000 bopd (gross), 20% higher than the production level envisaged which the project was sanctioned.

The JV is examining future Catcher Area development opportunities to make full use of the newly commissioned facilities. Studies are underway for the future development of the 2016 Laverda discovery in conjunction with an infill well in the northern area of the Catcher Field.

Nova

The planned Nova development sits ~16km south west of the Gjøa field in Norway. The JV has completed FEED for the Nova development. Based on the proposed plan, hydrocarbons from the Nova reservoir will be developed with two subsea templates tied back to the Gjøa platform for processing and export. Gjøa will also provide lift gas to the field and water injection for pressure support. One template will be used for water injection, while the other will be used to produce hydrocarbons.

In Q1 2018, the Operator awarded the contracts for the subsea production system and umbilicals, risers and flowlines, which allows the JV to progress towards the execution phase of the project with the PDO anticipated for submission to the Government in Q2 2018. It is expected that debt funding from existing RBL facility will be available to fund the development. First oil is targeted in 2021 and expected to deliver gross plateau production of 50,000 bopd.

International Exploration

Cairn seeks to generate value with an evolving portfolio of prospects, offering the potential to mature into a choice of material drilling targets. Cairn's geographical focus is on the Atlantic Margin where, in addition to Senegal, we have key interests in Mexico, Ireland and most recently Suriname.

Cairn was successful in securing both of our targeted, two new licences in the highly competitive Mexico offshore bid round in H1 2017. The company was awarded one operated and one non-operated licence located in the Gulf of Mexico in the shallow water Sureste basin in water depths of 100-500 metres and ~50km offshore.

These licence awards provide an exciting opportunity to build a portfolio over time in this highly prolific yet under-explored region. Cairn and its partners identified and secured favoured blocks with multiple stand-alone prospects and numerous follow-on tie-back opportunities based on 3D seismic data.

Cairn is partnering with ENI, an experienced explorer and operator in Mexico, and Citla Energy, a Mexican focused Exploration Company and we look forward to working with our new partners and the Government of Mexico to deliver the work programme in the coming years. The approval process is underway to commence drilling three wells in 2019 and a fourth well in 2020 on Blocks 7 and 9 (offsetting recent world class discoveries), targeting more than 1 billion boe gross unrisked potential resource. Cairn plans to submit an Exploration Plan to the Government of Mexico in March on the operated block 9 and following approval will commence the four year period of the licence.

In Q1 2018, Cairn was awarded an operated exploration agreement (Cairn 100% WI) and is in final negotiations on the PSC with Staatsolie on acreage in the Demerara plateau offshore Suriname with 2D seismic and contingent 3D seismic activity and significant future drilling opportunity. The licence covers an area of ~13,000 km^2 and has a conjugate margin to Senegal where Cairn has significant proprietary data.

In Q1 2017, Cairn advised the Maltese Continental Shelf Department that it would not be extending its Exploration Study Agreement for Area 3, Blocks 1, 2 and 3. Cairn and its JV partner, had fully explored its offshore licences in the Ragusa Basin between 2012 - 2017 through the acquisition and evaluation of 5,500km^2 of new and reprocessed 3D seismic. All licence commitments were exceeded.

At the year end 2017, Cairn along with the Operator, Kosmos Energy, relinquished the interest in the Boujdour Maritime licence offshore Western Sahara. The JV will fulfil its contractual obligations and complete the 3D seismic acquisition currently underway.

In Ireland, Cairn has a growing acreage position in the Porcupine Basin with an interest in five licences over an area of more than 4,000km^2. In the year, Cairn farmed in to LO 16/19 (Cairn 70% WI, Operatorship) which added further acreage to the previously awarded adjacent LO 16/18. Activity in 2017 focused on developing a lead and prospect inventory across the licences 16/19 and 16/18 where the company participated in a large multi-client 3D acquisition programme to be processed in 2018. Cairn also farmed-in to FEL 2/14 and participated in one unsuccessful exploration well with Operator Providence Resources; the 53/6-1 well, which spud in H2 2017 and targeted two large stratigraphic traps, Druid and the deeper independent Drombeg target.   This was the deepest water exploration well drilled to date offshore Atlantic Ireland.

Outlook

We have made excellent progress against our strategic objectives in the year, delivering key milestones in the development planning of the resource base in Senegal, achieving first oil and cash flow from our North Sea developments and continuing to replenish and extend future exploration opportunities. Our portfolio provides exposure to high impact exploration drilling whilst the group's production assets provide the cash flow to sustain exploration and development activity. The strategic development and progress of the Cairn business has been achieved whilst maintaining balance sheet strength and funding flexibility.

Financial Review

Cairn achieved first production from both Kraken and Catcher during the year with both fields expected to reach plateau by H2 2018. Cairn expects the JV to shortly sanction the Nova development in the Norwegian North Sea, where first oil is expected in 2021, and is progressing development planning in Senegal where first oil is targeted between 2021 and 2023. Together, these assets will provide long term sustainable production and cashflows which the Group will continue to deploy across its portfolio.

Cashflow and liquidity

At 31 December 2017, Cairn held cash balances of US$86m, representing a net cash outflow of US$249m.

	US$m
Opening cash and cash equivalents at 1 January 2017	334.9
Development expenditure	(145.6)
Exploration and appraisal expenditure	(186.6)
Pre-award costs	(43.8)
Net cash inflow from oil production and royalty	8.0
Administration expenses and net finance income	(8.3)
Proceeds from borrowings under EFF	29.2
Proceeds from Norwegian tax refund	30.4
Proceeds from stream agreement	74.6
Corporate fixed assets	(7.9)
Foreign exchange movements	1.6
Closing cash and cash equivalents at 31 December 2017	**86.5**

Major cash outflows during the year arose on the continued spend on the Group's development projects of US$146m and exploration and appraisal spend of US$187m, of which US$103m related to Senegal. In addition, the Group spent US$44m on pre-award costs and new venture activities.

Cash flow from UK production and Mongolia royalty interests was US$8m. A further US$1m of interest relating to historic Mongolian royalty claims is included in finance income.

Cash administration costs were US$12m. This was offset by US$4m of net finance income, including the costs of shares purchased and finance lease refunds.

During 2017, Cairn agreed an Exploration Finance Facility (EFF) in Norway which allows the Group to borrow in advance of the tax refund due on qualifying exploration expenditure. By the year end US$30m had been drawn on the facility. The Group also received a tax refund in Norway of US$30m relating to qualifying exploration expenditure incurred in 2016. The other significant cash inflow was the US$75m received from the FlowStream streaming agreement (see below).

The Group's RBL facility remained undrawn at the year end, with peak availability expected to be between US$350m and US$400m during 2018. Work is underway to include Nova within the borrowing base assets and amend the facility terms to increase availability.

Cairn has commenced a hedging programme in order to protect debt capacity and support committed capital programmes. To date, Cairn has hedged ~2m barrels of 2018 oil production using put and call options and collar structures with a weighted average floor and ceiling price of US$58.4/bbl and US$70.2/bbl respectively. The hedge instruments have been designated for hedge accounting where permissible under the accounting standards. The time value of the options is not designated as part of the hedged item and the mark-to-market movements of US$3m through the Income Statement are the only impact on the results for the year as the closing oil price remained above the floor and below the ceilings created.

Oil and Gas assets

	US$m
Opening oil and gas assets at 1 January 2017	1,206.4
Exploration and appraisal additions	
Senegal	104.2
UK & Norway	33.7
International	63.1
Development additions	
UK & Norway	212.5
UK & Norway leased assets (Kraken FPSO)	168.5
Unsuccessful exploration costs – UK & Norway/International	(60.7)
Reversal of impairment loss	23.0
Depletion and amortisation	(20.8)
Foreign exchange movements	96.0
Closing oil and gas assets at 31 December 2017	**1,825.9**

A reconciliation of additions on oil and gas assets to cashflow movements is set out below:

	Exploration/ Appraisal				Development/ Producing
	Senegal	UK & Norway	International	**Total**	**UK & Norway**
	US$m	US$m	US$m	**US$m**	**US$m**
Additions	104.2	33.7	63.1	**201.0**	**381.0**
Working capital and provisions	(1.6)	(4.1)	(8.7)	**(14.4)**	**(71.3)**
Finance lease liability	-	-	-	**-**	**(169.7)**
Carried (non-cash)	-	-	-	**-**	**5.6**
Cash Outflow	102.6	29.6	54.4	**186.6**	**145.6**

Exploration assets

Senegal

During the year, Cairn completed a further five exploration and appraisal wells in Senegal. The objective of this third phase of drilling was to better define the resource base in advance of submitting field exploitation plan to the Senegalese authorities in H2.

Cairn continues to carry the costs of all exploration and appraisal wells drilled to date. Total costs capitalised to date of US$434m, include US$342m directly relating to drilling activities with the balance incurred on related exploration activities. Additions in 2017 of US$104m included US$72m of drilling costs. The remaining spend included work on pre-development activities.

UK & Norway

2017 saw significant progress in the UK & Norway region as the portfolio was re-shaped ahead of an exciting drilling programme in 2018/19. The first exploration well, the Tethys well in the Norwegian North Sea, commenced operations in December 2017. At least three further exploration wells are planned in 2018 with up to a further six in 2018/2019, subject to partner approval.

Significant progress has also been made on the planned development of the Nova discovery, with development plan submission targeted in the first half of 2018. Capitalised costs on Nova at 31 December account for US$90m of the UK & Norway total net book value of US$162m.

International

In Ireland, Cairn completed the farm-in to the offshore FEL2/14 block prior to drilling the dual prospect 53/6-A well targeting the Druid and Drombeg prospects. The well was unsuccessful and costs of US$30m capitalised were subsequently written off.

In Mexico, the Group was awarded two blocks in the 2017 licencing round, Block 7 and Block 9, with exploration drilling planned from 2019.

Total costs capitalised at 31 December 2017 of US$23m relate to two further licences in Ireland and the two new blocks in Mexico. Costs relating to the Boujdour Maritime licence offshore Western Sahara and licences in Malta, totalling US$17m, have been written off following relinquishment of those licences.

Development/producing assets

Kraken

Kraken development asset additions in the year of US$110m include a US$10m increase in decommissioning assets. On commencement of production in June, Cairn also recognised a right-of-use leased asset for the Kraken FPSO, recorded at a value equal to the finance lease liability.

The Kraken FPSO finance lease liability was initially recorded at a value of US$201m, equal to the present value of the minimum lease commitments due at the date of commencement of the lease. Subsequent to initial recognition, the terms of the lease were adjusted under an Interim Production Period agreement to allow the lessor to address operational issues with the vessel. During this period, the lease rate was wholly dependent on the performance of the FPSO with no minimum amount payable. Consequently, the lease asset and liability were reduced by US$36m to reflect this reduction in the minimum lease commitment. All lease costs that were incurred in the period relating to the Kraken FPSO of US$6m were therefore charged against profit as variable lease costs.

The closing carrying value of the right-of-use leased asset was US$174m after including a decommissioning provision of US$4m and accounting for depletion and exchange differences.

Remaining capital commitments on Kraken are US$81m to completion of the development asset and the lease liability at the year-end was US$170m. Impairment tests performed on the Kraken asset identified no impairment at the year end.

Catcher

Additions in the year of US$103m include the final amounts carried by Dyas of US$6m following the 2015 farm-down. Decommissioning asset increases included in additions of US$19m reflect the work undertaken during the year. Remaining development commitments on Catcher to completion are US$85m.

Unlike Kraken, the Catcher FPSO has been classified as an operating lease, consequently no asset or finance liability has been recognised. The FPSO has a shorter lease term than that of the Kraken FPSO and it is considered unlikely that the joint operation will purchase the FPSO at the end of the lease contract. Under IFRS 16, effective 1 January 2019, Cairn will be required to reflect minimum lease commitments on the Catcher FPSO as a lease liability with a corresponding right-of-use asset being recognised at that time. Had IFRS 16 been applicable in the current year, Cairn would have recognised a right-of-use asset and a lease liability of US$177m on commencement of the lease.

Encouraging results from the testing of development wells drilled on Catcher indicate performance levels in advance of pre-drill expectations, leading to an increase in the 2P reserves booked on the asset at the year end. This reserves increase and improved production profile is incorporated into the fair value models, increasing the recoverable value of the asset in the impairment test.

The results of the impairment test conducted at the year-end indicate that the impairment of US$23m charged in prior years should be reversed in full and this credit has been recorded in the profit for the year.

Available-for-Sale Financial Assets and Dividends Receivable

The merger of Cairn India Limited (CIL) with Vedanta Limited (VL) completed in April 2017. Under the terms of the merger, Cairn received ordinary shares and preference shares in VL in exchange for the Group's residual ~10% shareholding in CIL. As a result, Cairn now has a shareholding of ~5% in VL, valued at US$1,072m at 31 December, including US$121m of redeemable preference shares. Cairn remains unable to access the value of this investment pending the outcome of its ongoing Indian tax dispute.

The merger of CIL with VL has resulted in a net gain of US$403m presented in the Income Statement. This comprises an accounting loss of US$33m on the difference in market value of the Group's holding in CIL and VL immediately before and after the merger, offset by the gain on derecognition of the CIL shares which led to a recycling of the surplus on valuation of the CIL shares held in equity of US$436m.

On the merger, a final dividend of US$52m was declared, bringing total amounts of dividends due to the Company to US$104m at the year end. Subsequent to the merger, the IITD seized the dividend income due to Cairn in partial settlement of the tax demand issued in relation to the Indian tax dispute. Cairn has therefore fully provided against the amounts receivable.

The IITD holds CUHL as an assessee in default in respect of tax demanded on the 2006 transactions, and as such has continued to pursue enforcement against CUHL's assets in India. To date these enforcement actions have included attachment of CUHL's shareholding in VL (valued at US$1.1 billion at year end) for potential sale, seizure of the US$104m dividends due to CUHL as described above, and offset of a US$249m tax refund due to CUHL in respect of another matter.

Cairn is seeking restitution under the UK India Bilateral Investment Treaty for losses resulting from the attachment of its shares in VL and failure to treat the Company and its investments fairly and equitably. Arbitral proceedings are well progressed and Cairn has a high level of confidence in its case. In addition to resolution of the retrospective tax dispute, Cairn's request for relief to the arbitration panel is seeking damages equal to the value of Group's residual shareholding in CIL in 2014 plus further assets seized since (approximately US$1.3 billion).

Results for the Year

Gross Profit

Year ended 31 December 2017	UK & Norway US$m	Other US$m	Total US$m
Revenue			
Oil sales	19.9	-	19.9
Release of deferred revenue	3.0	-	3.0
Royalty interest	-	10.4	10.4
	22.9	10.4	33.3
Cost of sales			
Production and lease costs	(22.3)	-	(22.3)
Inventory and underlift adjustments	16.4	-	16.4
	(5.9)	-	(5.9)
Depletion and amortisation	(20.8)	-	(20.8)
Gross profit/(loss)	(3.8)	10.4	6.6

UK North Sea revenue & gross profit

During 2017 Cairn commenced production from its Kraken and Catcher North Sea fields. First oil from Kraken was delivered in June 2017, with gross production of ~2.5 mmbbls to the end of the year. Catcher first oil was achieved late December 2017 and volumes for the year were not significant. Daily production volumes in 2018 from both fields have steadily increased as production wells are brought on line and processing facilities are commissioned.

In the first half of the year, Cairn entered into a streaming agreement with FlowStream Thruer Limited ("FlowStream"). Under the agreement, Cairn received US$75m with FlowStream receiving an initial stream of 4.5% of Kraken production. FlowStream's share of production reduces in steps as the company achieves specified rates of return. The income from the stream agreement is treated as deferred revenue in the financial statements which is released to the profit or loss for the year in line with production volumes received by FlowStream. During 2017, US$3m of deferred revenue was released.

Crude sales from Kraken in the year totalled US$20m. This represents a single cargo of crude lifted by Cairn, with sales volumes of 386,000bbls (net of the FlowStream entitlement).

Cost of sales for the period include operating costs of crude produced plus marketing and transportation costs of crude sold. Also included are inventory and underlift adjustments. Differences between produced volumes and lifted volumes in the period are recorded in the financial statements either as inventory, where crude is held at the FPSO at the year end, or as underlift where JV partners have lifted more crude than their working interest entitlement. Inventory and underlift at the year-end totalled US$16m based on the year end closing Brent price.

Lease charges through cost of sales of US$7m include all lease payments made under the Kraken and Catcher FPSO charter agreements. The Kraken lease is classified as a finance lease however, as minimum lease commitments were reduced to nil, all payments were charged against profit. Once the Interim Production Period concludes, lease payments will be allocated to the lease liability for amounts equal to the minimum commitment with additional charges payable dependent on uptime of the vessel charged to production costs as variable lease payments. The Catcher FPSO lease is classified as an operating lease therefore all lease costs are charged directly to cost of sales.

Depletion and amortisation charges in the year of US$21m are calculated on a unit-of-production basis.

Other revenue and gross profit

During the year, Cairn received US$10m of royalty income relating to fields in Mongolia. Cairn's right to this royalty interest was retained under the terms of a historic sale of assets previously held by the Group. The current operators of the licences had disputed Cairn's right to royalty, however following international arbitration proceedings which concluded in 2016, Cairn's right to royalty was established and the calculation of royalty due agreed. Revenue recorded in the year represents royalty due to Cairn, from commencement of production from the fields in 2005, to the present date. Cairn will continue to receive royalty payments going forward though annual income is not expected to be significant.

Profit/(loss) for the year

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Gross Profit	6.6	-
Pre-award costs	(43.8)	(17.7)
Unsuccessful exploration costs	(60.7)	(70.3)
Administrative expenses and other income/costs	(30.3)	(34.9)
Related tax credit	30.4	13.2
Operational and administrative expenses	(104.4)	(109.7)
Net finance costs, excl. dividends	11.3	(11.5)
Net gain on derecognition of financial asset	402.6	-
Dividends receivable	52.4	8.2
Provision against dividends receivable	(104.7)	-
Related tax charge	(27.7)	-
Cairn India/Vedanta investment and dividends	322.6	8.2
Reversal of impairment/(impairment) of oil and gas assets	23.0	(25.3)
Asset related tax credit	4.0	43.3
Oil and gas asset impairment and tax credits	27.0	18.0
Profit/(loss) for the year	**263.1**	(95.0)

Pre-award costs

During 2017, Cairn added 10 new licences to its exploration asset portfolio; 7 in the UK & Norway segment (3 as Operator), two new licences offshore Mexico and one offshore Ireland.

The work in advance of obtaining these new licences is reflected in the increased costs in the year to US$44m. This includes US$23m of seismic acquisitions in the UK & Norway and US$5m of costs in pursuit of new opportunities in countries where the Group held no interests at the year end.

Unsuccessful exploration costs

With the one unsuccessful exploration well drilled in the year and a further write-down of inventory, unsuccessful exploration costs relating to Ireland of US$35m was the largest component of the Group's charge. Other costs include US$18m on the relinquishment of licences in Western Sahara and Malta, within the International region, and US$8m on costs in the UK & Norway, where a number of licences were relinquished.

Administrative costs and other income

The Group's administrative charges ran at a level consistent with prior years with a charge of US$33m (2016: US$34m). Cairn incurred costs of US$8m (2016: US$7m) in relation to the ongoing arbitration under the UK-India Bilateral Investment Treaty.

Taxation

Taxable profit from the Group's income generated on production in the year was offset by available tax losses and as such no corporation tax was payable in the year.

The Group had a net tax credit of US$7m in the year, comprising a Norwegian current tax credit of US$40m and net deferred tax charges of US$33m across Norway, the UK and India.

The Norwegian current tax credit reflects the tax refunds receivable in respect of qualifying expenditure in the year.

The net deferred tax charge includes Indian deferred tax charges of US$28m that arise on financial assets and the accounting treatment of the merger of CIL and VL. Norwegian deferred tax charges of US$9m arise on capitalised exploration expenditure where current tax refunds have been claimed. A deferred tax credit in the UK of US$4m relates to costs on development assets settled through the carry from prior years.

At 31 December 2017, Cairn had total UK ring fence losses of US$1,010m. US$872m of losses are recognised as deferred tax assets (at the applicable UK tax rate of 40%) and fully offset deferred tax liabilities of US$349m. The remaining US$138m of losses are represented by an unrecognised deferred tax asset of US$55m.

Deferred tax liabilities of US$164m are recognised in respect of India and Norway. An Indian deferred tax liability of US$89m (2016: nil) relates entirely to the available for sale financial asset. The recovery in the Vedanta Limited share price during the year has reversed an unrecognised deferred tax asset into a deferred tax liability.

A Norwegian deferred tax liability of US$90m represents the temporary differences recognised in respect of costs incurred on assets held on the Balance Sheet in respect of which a full tax refund has been claimed. This liability is partially offset by a deferred tax asset of US$15m on Norwegian tax losses available at the year-end resulting in a net deferred tax liability of US$75m recorded at the year end.

Cairn Energy PLC

Group Income Statement

For the year ended 31 December 2017

	Note	**2017 US$m**	2016 US$m
Continuing operations			
Revenue	4.2	**33.3**	-
Cost of sales	4.2	**(5.9)**	-
Depletion and amortisation	2.2	**(20.8)**	-
Gross profit		**6.6**	-
Pre-award costs	4.3	**(43.8)**	(17.7)
Unsuccessful exploration costs	2.1	**(60.7)**	(70.3)
Net administrative expenses	4.4	**(30.3)**	(34.9)
Impairment of intangible exploration/appraisal assets	2.1	**-**	(25.3)
Reversal of impairment of property, plant & equipment - development/producing assets	2.2	**23.0**	-
Operating loss		**(105.2)**	(148.2)
Net gain on derecognition of financial assets	3.1	**402.6**	-
Finance income	4.5	**77.0**	14.0
Exceptional provision against finance income receivable	4.6	**(104.7)**	-
Finance costs		**(13.3)**	(17.3)
Profit/(loss) before taxation from continuing operations		**256.4**	(151.5)
Taxation			
Tax credit	5.1	**6.7**	56.5
Profit/(loss) for the year attributable to equity holders of the parent		**263.1**	(95.0)
Profit/(loss) per ordinary share – basic (cents)	4.7	**45.58**	(16.56)
Profit/(loss) per ordinary share – diluted (cents)	4.7	**44.52**	(16.56)

Group Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	**2017 US$m**	2016 US$m
Profit/(loss) for the year		**263.1**	(95.0)
Other comprehensive income – items that may be recycled to the income statement			
Surplus on valuation of financial assets	3.1	**449.1**	272.1
Deferred tax charge on valuation of financial assets	5.1	**(96.5)**	-
Surplus on valuation recycled to income statement	3.1	**(435.6)**	-
Deferred tax charge on surplus on valuation recycled to income statement	5.1	**34.8**	-
Currency translation differences		**76.1**	(104.2)
Other comprehensive income for the year		**27.9**	167.9
Total comprehensive income for the year attributable to equity holders of the parent		**291.0**	72.9

Cairn Energy PLC

Group Balance Sheet

As at 31 December 2017

	Note	**2017 US$m**	2016 US$m
Non-current assets			
Intangible exploration/appraisal assets	2.1	**619.4**	471.3
Property, plant & equipment – development/producing assets	2.2	**1,206.5**	735.1
Intangible assets – goodwill		**128.2**	118.9
Other property, plant & equipment and intangible assets		**10.8**	1.9
Available-for-sale financial assets	3.1	**1,072.2**	656.1
		3,037.1	1,983.3
Current assets			
Income tax asset	5.2	**38.4**	26.1
Inventory	4.2	**10.4**	-
Trade and other receivables	3.5	**83.1**	113.7
Cash and cash equivalents	3.2	**86.5**	334.9
		218.4	474.7
Total assets		**3,255.5**	2,458.0
Current liabilities			
Loans and borrowings	3.3	**29.8**	-
Trade and other payables	3.6	**199.2**	123.0
Deferred revenue	3.7	**24.3**	-
Finance lease liabilities	3.4	**1.5**	-
Provisions – other		**2.8**	-
		257.6	123.0
Non-current liabilities			
Finance lease liabilities	3.4	**168.2**	-
Deferred tax liabilities	5.3	**164.4**	62.7
Deferred revenue	3.7	**49.7**	-
Provisions - decommissioning	2.3	**121.1**	79.6
Provisions - other		**-**	2.8
		503.4	145.1
Total liabilities		**761.0**	268.1
Net assets		**2,494.5**	2,189.9
Equity attributable to equity holders of the parent			
Called-up share capital		**12.5**	12.4
Share premium		**488.0**	488.0
Shares held by ESOP/SIP Trusts		**(10.2)**	(10.2)
Foreign currency translation		**(174.9)**	(250.1)
Capital reserves – non-distributable		**40.8**	40.8
Merger reserve		**255.9**	255.9
Available-for-sale reserve		**223.9**	272.1
Retained earnings		**1,658.5**	1,381.0
Total equity		**2,494.5**	2,189.9

Cairn Energy PLC

Group Statement of Cash Flows

For the year ended 31 December 2017

	Note	**2017 US$m**	2016 US$m
Cash flows from operating activities			
Profit/(loss) before taxation from continuing operations		**256.4**	(151.5)
Unsuccessful exploration costs		**60.7**	70.3
Depreciation, depletion and amortisation		**23.4**	2.7
Share-based payments charge		**17.5**	16.7
Impairment of intangible exploration/appraisal assets		**-**	25.3
Reversal of impairment of property, plant & equipment - development/producing assets		**(23.0)**	-
Inventory disposal		**-**	0.7
Net gain on derecognition of financial assets		**(402.6)**	-
Finance income		**(77.0)**	(14.0)
Exceptional provision against finance income receivable		**104.7**	-
Finance costs		**13.3**	17.3
Interest paid		**(0.6)**	-
Income tax received from operating activities		**2.8**	6.8
Movement on inventory		**(10.4)**	-
Trade and other receivables movement	3.5	**(10.5)**	(0.8)
Trade and other payables movement	3.6	**(0.5)**	5.9
Deferred revenue received	3.7	**74.6**	-
Net cash used from/(used in) operating activities		**28.8**	(20.6)
Cash flows from investing activities			
Expenditure on intangible exploration/appraisal assets		**(186.6)**	(149.1)
Expenditure on property, plant & equipment - development/producing assets		**(145.6)**	(125.2)
Income tax received from investing activities		**27.6**	28.7
Movement on inventory		**-**	0.6
Purchase of other property, plant & equipment and intangible assets		**(7.9)**	(4.5)
Interest received and other finance income		**15.3**	2.3
Net cash used in investing activities		**(297.2)**	(247.2)
Cash flows from financing activities			
Facility fees, arrangement fees and bank charges		**(8.3)**	(5.0)
Proceeds from borrowings	3.3	**29.2**	-
Cost of shares purchased		**(3.9)**	-
Proceeds from exercise of share options		**-**	0.9
Finance lease reimbursement	3.4	**1.4**	-
Net cash flows used from/(used in) financing activities		**18.4**	(4.1)
Net decrease in cash and cash equivalents		**(250.0)**	(271.9)
Opening cash and cash equivalents at beginning of year		**334.9**	602.8
Foreign exchange differences		**1.6**	4.0
Closing cash and cash equivalents	3.2	**86.5**	334.9

Cairn Energy PLC

Group Statement of Changes in Equity

For the year ended 31 December 2017

	Equity share capital and share premium US$m	Shares held by ESOP/ SIP Trust US$m	Foreign currency translation US$m	Merger and capital reserves US$m	Available-for-sale reserve US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2016	499.5	(23.0)	(146.2)	296.7	-	1,472.4	**2,099.4**
Loss for the year	-	-	-	-	-	(95.0)	**(95.0)**
Surplus on valuation of financial assets	-	-	-	-	272.1	-	**272.1**
Currency translation differences recycled on disposal of subsidiary	-	-	0.3	-	-	(0.3)	**-**
Currency translation differences	-	-	(104.2)	-	-	-	**(104.2)**
Total comprehensive income	-	-	(103.9)	-	272.1	(95.3)	**72.9**
Share-based payments	-	-	-	-	-	16.7	**16.7**
Exercise of employee share options	0.9	-	-	-	-	-	**0.9**
Cost of shares vesting	-	12.8	-	-	-	(12.8)	**-**
At 31 December 2016	500.4	(10.2)	(250.1)	296.7	272.1	1,381.0	**2,189.9**
Profit for the year	-	-	-	-	-	263.1	**263.1**
Surplus on valuation of financial assets	-	-	-	-	449.1	-	**449.1**
Deferred tax charge on valuation of financial assets	-	-	-	-	(96.5)	-	**(96.5)**
Surplus on valuation recycled to income statement	-	-	-	-	(435.6)	-	**(435.6)**
Deferred tax charge on surplus on valuation movement recycled to income statement	-	-	-	-	34.8	-	**34.8**
Currency translation differences recycled on disposal of subsidiary	-	-	(0.9)	-	-	0.9	**-**
Currency translation differences	-	-	76.1	-	-	-	**76.1**
Total comprehensive income	-	-	75.2	-	(48.2)	264.0	**291.0**
Share-based payments	-	-	-	-	-	17.5	**17.5**
Shares issued for cash	0.1	(0.1)	-	-	-	-	**-**
Cost of shares purchased	-	(3.9)	-	-	-	-	**(3.9)**
Cost of shares vesting	-	4.0	-	-	-	(4.0)	**-**
At 31 December 2017	**500.5**	**(10.2)**	**(174.9)**	**296.7**	**223.9**	**1,658.5**	**2,494.5**

Section 1 – Basis of Preparation

1.1 Significant Accounting Policies

a) Basis of preparation

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

The Group's financial statements are prepared on a going concern basis.

The financial information contained in this announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. However, the financial statements contained in this announcement are extracted from audited statutory accounts for the financial year ended 31 December 2017, which will be delivered to the Registrar of Companies. Those accounts have an unqualified audit opinion.

b) Accounting standards

Cairn prepares its financial statements in accordance with applicable IFRS, issued by the International Accounting Standards Board ("IASB") as adopted by the EU, and interpretations issued by the IFRS Interpretations Committee, and Companies Act 2006 applicable to companies reporting under IFRS. The Group's financial statements are also consistent with IFRS as issued by the IASB as they apply to accounting periods ended 31 December 2017.

Effective 1 January 2017, Cairn has adopted the following amendments to standards:

- Amendments to IAS 7 Statement of Cash Flows
- Amendments to IAS 12 Income Taxes
- Amendments to IFRS 12 Disclosure of Interests in Other Entities

The adoption of the amendment of IAS 7 results in further disclosure in the financial statements reconciling opening and closing loans and borrowings and finance lease liabilities to respective movements in the cash flow statement (see notes 3.3 and 3.4). The adoption of the other two amendments has had no material impact on Cairn's results or financial statement disclosures.

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

- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2018)
- Amendments to IFRS 2 Share Based Payments (effective 1 January 2018)
- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)

No early adoption of the above new standards is intended. The amendments to IAS 28 and IFRS 2 are not expected to have any material impact on Cairn's results or financial statement disclosures.

IFRS 9 Financial Instruments
The adoption of IFRS 9 will result in re-classification of the Group's available-for-sale financial asset as a financial asset held at fair value through profit and loss. As a result mark-to-market movements currently recorded in other comprehensive income and recycled to the income statement only on disposal or impairment shall now go direct to the income statement. There will be no change to the valuation of the asset.

IFRS 9 also requires entities to adopt an "expected loss" approach to measuring impairment when considering trade and other receivables. Cairn's exposure to credit risk at the year end is low and a provision for expected losses is not expected to be material. This reflects both the low volume of receivables due from third parties at the year end and historic rate of recovery of amounts due from partners in joint operations. There will therefore be no material impact on the Group's financial statements on adoption.

Section 1 – Basis of Preparation

1.1 Significant Accounting Policies (continued)

b) Accounting standards (continued)

IFRS 15 Revenue from Contracts with Customers
Cairn recognised revenue in 2017 on the sale of oil from the Kraken field in the UK and royalty interest receivable relating to producing fields in Mongolia. The adoption of IFRS 15 is not expected to have any impact on revenue recorded, given that customers are clearly identified, the performance obligations are easily identified and price is readily determinable.

On commencement of Kraken production in 2017 and in accordance with industry practice Cairn elected to classify underlift adjustments within cost of sales rather than as additional revenue. Under IFRS 15, Cairn believe this is the only permissible treatment for such an adjustment.

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

During the year, Cairn recognised a right-of-use asset and a finance liability in respect of the Kraken FPSO. All joint operators were party to the lease agreement, therefore Cairn recognised only the Group's 29.5% working interest share in the asset and liability. There will be no change in the accounting on adoption of IFRS 16. The Catcher FPSO is classified as an operating lease under the current accounting standard (see significant accounting judgements in section 3). Under IFRS 16 Cairn will recognise a right-of-use asset and lease liability for the vessel based on the expected charter period. Had IFRS 16 been applicable in the current period, Cairn would have recognised a right-of-use asset and a lease liability of US$177.1m on commencement of the lease. The impact on the income statement for the year would not have been material.

Other operating leases that are currently capitalised in property, plant & equipment - development/producing assets, including drilling rigs, are not considered likely to result in separate right-of-use assets as the lease agreements are less than one year (or will have less than one year remaining on adoption of IFRS 16). Cairn will reassess on adoption on the effective date.

Cairn is continuing to assess accounting for leases held through joint operations, particularly where the operator enters into a lease agreement on behalf of the joint operation but where the joint operators are not direct parties to the lease agreement. Discussions are ongoing with industry peers to reach conclusion on this issue.

Operating leases for land and buildings, including the Group's head office in Edinburgh and subsidiary offices in London and Stavanger, will be recorded as right-of-use assets and lease liabilities on adoption of IFRS 16 but amounts are not expected to be material. The Group has no other significant lease agreements.

Details of current finance leases can be found in note 3.4, while current operating lease commitments are disclosed in notes 2.4, 4.2 and 4.4 as they relate to property, plant & equipment – development/producing assets, production costs and administrative expenses respectively.

c) Annual report and accounts

Full accounts are due to be made available on the Company's website in April 2018 and will be available at the Company's registered office, 50 Lothian Road, Edinburgh, EH3 9BY. The Annual General Meeting is due to be held on Tuesday 15 May 2018 at 12 midday.

1.2 Going Concern

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

In assessing whether the going concern assumption is appropriate, the Board and audit committee considered the Group cash flow forecasts under various scenarios, identifying risks and mitigants and ensuring the Group has sufficient funding to meet its current commitments as and when they fall due for a period of at least 12 months from the date of signing these financial statements.

The directors have a reasonable expectation that the Group will continue in operational existence for this 12-month period and have therefore used the going concern basis in preparing the financial statements.

The Board and audit committee assessments of risk and mitigants to the Group's operational existence beyond this 12-month period is included in the viability statement.

Section 2 – Assets and Investments: Oil and Gas Assets and Decommissioning Provisions

2.1 Intangible Exploration/Appraisal Assets

	Senegal US$m	UK & Norway US$m	International US$m	**Total US$m**
Cost				
At 1 January 2016	228.2	173.3	82.6	484.1
Foreign exchange	-	(13.4)	0.3	(13.1)
Additions	102.1	40.9	7.5	150.5
Unsuccessful exploration costs	-	(28.2)	(57.7)	(85.9)
At 31 December 2016	330.3	172.6	32.7	**535.6**
Foreign exchange	-	12.0	0.7	**12.7**
Additions	104.2	33.7	63.1	**201.0**
Unsuccessful exploration costs	-	(8.1)	(59.1)	**(67.2)**
At 31 December 2017	**434.5**	**210.2**	**37.4**	**682.1**
Impairment				
At 1 January 2016	-	39.3	21.4	60.7
Foreign exchange	-	(6.4)	0.3	(6.1)
Impairment charge	-	11.0	14.3	25.3
Unsuccessful exploration costs	-	-	(15.6)	(15.6)
At 31 December 2016	-	43.9	20.4	**64.3**
Foreign exchange	-	4.2	0.7	**4.9**
Unsuccessful exploration costs	-	-	(6.5)	**(6.5)**
At 31 December 2017	**-**	**48.1**	**14.6**	**62.7**
Net book value				
At 31 December 2015	228.2	134.0	61.2	423.4
At 31 December 2016	330.3	128.7	12.3	471.3
At 31 December 2017	**434.5**	**162.1**	**22.8**	**619.4**

Senegal

During 2017, Cairn completed five exploration and appraisal wells in Senegal; the SNE-5 and SNE-6 appraisal wells, the VR-1 dual target exploration/appraisal well and the FAN South-1 and SNE North exploration wells. Cairn has now drilled nine further exploration and appraisal wells to date, following on from the SNE-1 and FAN-1 discovery wells of 2014.

Additions in the year of US$104.2m include US$72.2m of drilling costs associated with the exploration and appraisal wells completed in the year. A further US$32.0m of non-well specific exploration costs and pre-development costs were incurred in 2017.

All costs incurred in Senegal to date remain capitalised. SNE field appraisal and concept select definition are concluding for the first phase of development of the extensive resource base. The joint operators aim to have a government-approved exploitation plan in place by the end of 2018, with a target of first oil in 2021-2023. Work continues to assess the commerciality of the FAN resource base. With the potential future development of the FAN discovery possible as a tie-back to the planned SNE development asset, costs incurred in Senegal are deemed to form a single cash-generating unit.

UK & Norway

Additions in the current year of US$33.7m include US$9.4m incurred on Nova pre-development activities (Nova was formerly called Skarfjell but has been renamed by the Operator) and US$7.2m for the PL682 Tethys well. Further costs of US$17.1m were incurred across the Group's other licences in the region.

Portfolio turnover in the UK & Norway during the year has resulted in the addition of six new licences in Norway, with six relinquished or planned for relinquishment, and one new licence in the UK and two relinquished. Total costs written off in the year relating to relinquished licences were US$8.1m.

Section 2 – Assets and Investments: Oil and Gas Assets and Decommissioning Provisions

2.1 Intangible Exploration/Appraisal Assets (continued)

UK & Norway (continued)

The net book value of exploration/appraisal assets remaining capitalised at the year end of US$162.1m includes costs of US$107.4m relating to discovered resource across two fields: the Norwegian Nova discovery (US$90.0m) and the Laverda discovery in the UK North Sea (US$17.4m). The Nova joint operators' plan for development and operation (PDO) is anticipated in H1 2018, with first oil targeted in 2021.

The remaining US$54.7m of cost has been incurred across further exploration licences in the UK and Norwegian North Sea, the Norwegian Sea and the Barents Sea.

International

Ireland
During 2017 Cairn completed the farm-in to FEL 2/14 in Ireland in advance of the 53/6-1 exploration well. Cairn paid back-costs and an additional share of drilling costs under the farm-in agreement. The subsequent dual-prospect well, targeting the Druid and Drombeg prospects, failed to discover commercial hydrocarbons and the well was plugged and abandoned. Exploration additions and unsuccessful costs include US$29.8m relating to this well.

Further exploration additions in Ireland of US$9.1m were incurred on LO16/18 and LO 16/19 during the year and include the acquisition of seismic data. Inventory adjustments on FEL 2/04 (38%) - Spanish Point resulted in unsuccessful costs of US$4.9m being written off.

Mexico
Cairn secured interests in two new licences, Block 7 and Block 9, in the Mexico offshore bid round in H1 2017. The licences, one operated and one non-operated, are located in the highly prolific yet under-explored Sureste basin. Additions of US$13.1m were incurred in 2017 on these licences, principally licence entry costs including signature bonus.

Western Sahara
The Group has relinquished its interest in the Boujdour Maritime licence offshore Western Sahara, with expenditure of US$11.2m charged as unsuccessful costs. Additions in the year of US$10.2m include amounts provided for remaining work programme commitments to be carried out in 2018.

Other
The remaining additions of US$0.9m and unsuccessful exploration costs of US$6.7m primarily relate to the relinquishment of the Malta Blocks 1, 2 and 3 Area 03 licence.

Impairment review

At the year end, Cairn reviewed its intangible exploration/appraisal assets for indicators of impairment. Indicators were identified where future exploration plans remain uncertain or where the carrying value of assets relating to discovered resource may not be fully recovered through future development and production.

Impairment tests were conducted on two UK exploration licences where future development or exploration drilling remains uncertain and on the Nova discovery to ensure the carrying amount is expected to be recovered from future development. No impairment arose.

In 2016, impairments of US$11.0m and US$14.3m were recorded on licences in the UK & Norway and Ireland respectively, where costs of exploration activities to date were not expected to be recovered through subsequent development or no further exploration activity was planned. There are no indicators at 31 December 2017 to suggest that the impairments may be reversed.

Section 2 – Assets and Investments: Oil and Gas Assets and Decommissioning Provisions

2.2 Property, Plant & Equipment – Development/Producing Assets

	UK & Norway US$m	UK & Norway leased asset US$m	**Total US$m**
Cost			
At 1 January 2016	604.7	-	604.7
Foreign exchange	(125.2)	-	(125.2)
Additions	276.6	-	276.6
At 31 December 2016	756.1	-	**756.1**
Foreign exchange	81.6	8.9	**90.5**
Additions	212.5	204.9	**417.4**
Re-measurement of leased assets	-	(36.4)	**(36.4)**
At 31 December 2017	**1,050.2**	**177.4**	**1,227.6**
Depletion, amortisation and impairment			
At 1 January 2016	25.1	-	25.1
Foreign exchange	(4.1)	-	(4.1)
At 31 December 2016	21.0	-	**21.0**
Foreign exchange	2.2	0.1	**2.3**
Depletion and amortisation	17.4	3.4	**20.8**
Reversal of impairment	(23.0)	-	**(23.0)**
At 31 December 2017	**17.6**	**3.5**	**21.1**
Net book value			
At 31 December 2015	579.6	-	579.6
At 31 December 2016	735.1	-	735.1
At 31 December 2017	**1,032.6**	**173.9**	**1,206.5**

Both Kraken and Catcher developments achieved first oil in 2017. Kraken came on stream in June 2017 and gross production volumes of 2,465,000 barrels were achieved during the period as performance issues connected with FPSO were addressed. Catcher commenced production late December 2017. Additions to development assets in the year of US$109.6m (2016: US$181.1m) and US$102.9m (2016: US$95.5m) relate to the Kraken and Catcher developments respectively.

Kraken additions represent development activity spend of US$100.0m (2016: US$139.0m), all funded through cash and cash equivalents, and a further US$9.6m (2016: US$26.3m) of non-cash decommissioning asset increases.

On Catcher, additions during the year of US$102.9m (2016: US$95.5m) include a final US$5.6m (2016: US$65.2m), settled on Cairn's behalf under prior year carry agreements. Further non-cash additions of US$19.0m (2016: US$26.5m) relate to the increase to the Catcher decommissioning asset.

Depletion of US$17.4m was charged based on production on both assets during the period.

In February 2016 Cairn increased its working interest in Kraken by 4.5% to 29.5%. The additional interest was acquired from First Oil plc for nominal consideration with Cairn liable for working capital liabilities that existed at the date of the agreement. US$15.8m is therefore included within 2016 additions relating to this transaction.

Leased assets

On the commencement of Kraken production, US$200.8m was recorded on the balance sheet for the FPSO, as a right-of-use producing asset. This amount represents the net present value of future minimum lease payments of the finance lease liability as at that date – see note 3.4. Subsequent to initial recognition, the lease agreement was amended to include an interim production period to allow the lessor to address operational issues with the FPSO. During this interim production period, minimum lease commitments are reduced to nil, resulting in a reduction to the finance lease liability of US$36.4m and a corresponding reduction to the leased production asset.

Further additions of US$4.1m represents the recognition of a decommissioning asset associated with the FPSO.

Section 2 – Assets and Investments: Oil and Gas Assets and Decommissioning Provisions

2.2 Property, Plant & Equipment – Development/Producing Assets (continued)

Impairment review

At the year end, Cairn reviewed its development/producing assets for indicators of impairment.

Impairment tests were conducted on the two UK production assets and this resulted in the reversal of US$23.0m impairments, previously recognised for Catcher. No impairment arose for Kraken. The reversal of impairment results from an expected improvement in performance of the asset and has resulted in an increase in the volume of oil reserves estimated to be recoverable through production.

2.3 Provisions - Decommissioning

	Exploration well abandonment US$m	Development/ producing assets US$m	**Total US$m**
At 1 January 2016	6.2	30.9	37.1
Foreign exchange	(1.0)	(10.3)	(11.3)
Unwinding of discount	0.1	0.9	1.0
Provided in the year	-	52.8	52.8
At 31 December 2016	5.3	74.3	**79.6**
Foreign exchange	0.4	7.7	**8.1**
Unwinding of discount	-	2.2	**2.2**
(Released)/provided in year	(1.5)	32.7	**31.2**
At 31 December 2017	**4.2**	**116.9**	**121.1**

The decommissioning provisions represent the present value of decommissioning costs related to the Kraken and Catcher development/producing projects. The provisions are based on Operator cost estimates, subject to internal review and amendment where considered necessary and are calculated using assumptions based on existing technology and the current economic environment, with a discount rate of 2% per annum (2016: 2%). The reasonableness of these assumptions is reviewed at each reporting date to take into account any material changes required.

The decommissioning provisions represent management's best estimate of the obligation arising based on work undertaken at the balance sheet date. Actual decommissioning costs will depend upon the prevailing market conditions for the work required at the relevant time.

The decommissioning of the Group's development/producing assets is forecast to occur between 2026 and 2040.

2.4 Capital Commitments

	2017 US$m	2016 US$m
Oil and gas expenditure:		
Intangible exploration/appraisal assets	**63.2**	126.4
Property, plant & equipment – development/producing assets	**120.8**	208.8
Contracted for	**184.0**	335.2

Capital commitments represent Cairn's share of obligations in relation to its interests in joint operations. These commitments include Cairn's share of the capital commitments of the joint operations themselves.

The capital commitments for intangible exploration/appraisal assets include US$54.3m relating to operations in the UK and Norway. The remaining US$8.9m is evenly split between the Senegal and International business units.

The capital commitments for property, plant & equipment – development/producing assets, which relate entirely to the Group's UK North Sea producing assets, exclude costs of the Kraken FPSO finance lease obligations, which are disclosed in note 3.4.

Cairn enters into operating leases both at a corporate level and together with partners through its interests in joint operations. Operating lease costs for items directly attributable to oil and gas exploration and development activities, such as drilling rigs, are capitalised within intangible exploration/appraisal assets or property, plant & equipment - development/producing assets as appropriate.

Section 2 – Assets and Investments: Oil and Gas Assets and Decommissioning Provisions

2.4 Capital Commitments (continued)

At the year end, Cairn had the following operating lease commitments relating to oil and gas assets. These amounts are also included in total capital commitments above:

	2017 US$m	2016 US$m
Intangible exploration/appraisal assets		
Not later than one year	**3.1**	44.9
	3.1	44.9
Property, plant & equipment - development/producing assets		
Not later than one year	**34.5**	42.4
After one year but no more than five years	**10.3**	44.8
	44.8	87.2

The Group has no further material capital expenditure committed at the balance sheet date.

Section 3 – Assets, Liabilities and Investments: Financial Assets, Cash and Borrowings, Lease liabilities and Working Capital

3.1 Available-for-Sale Financial Assets

	Listed equity shares US$m	7.5% Redeemable preference shares of INR10 US$m	Total US$m
Fair Value			
As at 1 January 2016	384.0	-	384.0
Surplus on valuation	272.1	-	272.1
As at 1 January 2017	**656.1**	**-**	**656.1**
Surplus on valuation of Cairn India Limited shares prior to merger	**163.6**	**-**	**163.6**
Disposal of shares in Cairn India Limited on merger	**(819.7)**	**-**	**(819.7)**
Addition of shares in Vedanta Limited on merger	**671.8**	**114.9**	**786.7**
Surplus on valuation of Vedanta Limited shares after merger	**279.7**	**5.8**	**285.5**
As at 31 December 2017	**951.5**	**120.7**	**1,072.2**

In April 2017, Cairn India Limited underwent a merger with Vedanta Limited as a result of which the Group holds both equity shares and redeemable preference shares in Vedanta Limited. Prior to that date the Group held a 9.8% stake in Cairn India Limited via equity shares, the market value of which at the time of the merger was US$819.7m. The market value of the Vedanta shares on the merger date was US$786.7m, resulting in a loss on disposal of US$33.0m.

Movements in the fair value during the year are recognised directly in equity and are disclosed in the statement of comprehensive income. On derecognition, the cumulative surplus arising on the valuation of shares in Cairn India Limited of US$435.6m was recycled from equity, through other comprehensive income, to the income statement, generating a net gain on disposal as summarised below:

	US$m
Loss on disposal of shares in Cairn India Limited on merger with Vedanta Limited	(33.0)
Cumulative surplus on valuation of shares in Cairn India Limited recycled from equity	435.6
Net gain on derecognition of financial assets	**402.6**

The derecognition of the financial asset relating to Cairn India Limited also resulted in the recycling of the related deferred tax charge of US$34.8m to the income statement and a credit of US$7.1m direct to the income statement as per note 5.1.

The listed equity shares held at 31 December 2017 in the ordinary share capital of Vedanta Limited, listed in India, have by their nature no fixed maturity or coupon rate. These listed equity securities present the Group with an opportunity for return through dividend income and trading gains and are Level 1 assets measured at fair value. The redeemable preference shares have a coupon of 7.5%, a term of 18 months and will be cash settled in October 2018. These too are Level 1 assets measured at fair value.

Cairn is currently restricted from selling its shares in Vedanta Limited pending conclusion of the ongoing arbitration proceedings. See note 5.4. As timing of the arbitration award may extend beyond one year from the balance sheet date, all available-for-sale financial assets are classified as non-current.

The Group is exposed to equity price risks arising from the listed equity investments it holds in Vedanta Limited.

Section 3 – Assets, Liabilities and Investments: Financial Assets, Cash and Borrowings, Lease liabilities and Working Capital

3.2 Cash and Cash Equivalents

	2017	2016
	US$m	US$m
Cash at bank	**24.7**	24.0
Short-term bank deposits	**24.0**	147.7
Money market funds	**19.5**	137.5
Tri-party repurchase transactions	**18.3**	25.7
Cash and cash equivalents	**86.5**	334.9

Cash and cash equivalents earn interest at floating rates. Short-term investments are made for varying periods ranging from instant access to unlimited, but generally not more than three months depending on the cash requirements of the Group.

Cairn invests surplus funds into high-quality liquid investments, including money market funds, short-term bank deposits and tri-party repurchase transactions ("repos"). Cairn limits the placing of such funds and other investments to banks or financial institutions that have ratings of A- or above from at least two of Moody's, Standard & Poor's or Fitch, unless a sovereign guarantee is available from an AAA rated government. The counterparty limits vary between US$50.0m and US$200.0m depending on the ratings of the counterparty. No investments are placed with any counterparty with a five-year credit default swap exceeding 250 bps. Investments in money market liquidity funds are only made with AAA rated liquidity funds and the maximum holding in any single fund is 5% of total investments. Where investments are made in repos, collateral is fixed income debt securities with a minimum rating of BBB- which is managed by Euroclear. No adjustment is made to the counterparty credit rating to reflect the collateral held when assessing investment options. The Group's Treasury function manages the credit risk associated with such investments.

3.3 Loans and Borrowings

	2017	2016
Reconciliation of opening and closing liability to cash flow movements:	**US$m**	US$m
Opening liability	**-**	-
Loan advanced recognised in cash flow statement	**29.2**	-
Foreign exchange differences	**0.6**	-
Closing liability	**29.8**	-

On 3 March 2017, the Group's Norwegian subsidiary, Capricorn Norge AS, signed a two-year exploration financing facility with a syndicate of two international banks, BNP Paribas and Commbank Europe Limited. The facility can be drawn to fund the part of exploration costs, incurred and paid in Norway, which are eligible for a tax refund in accordance with Section 3 of the Norwegian Petroleum Tax Act. It can also be used to fund applicable facility finance costs.

As at 31 December 2017, US$29.8m (NOK 245m) was drawn under the facility. The maximum available amount is currently forecast to be US$51.2m (NOK 421m).

Interest on outstanding debt is charged at the appropriate NIBOR plus an applicable margin. Debt is repayable by the final maturity date, which is the earlier of 31 December 2019 or the date of receipt of the tax refund relating to exploration spend for 2018.

On 18 July 2014, Cairn Energy PLC signed a seven-year reserve-based lending facility, effective 1 August 2014, with a syndicate of international banks. Prior to completion of specified criteria on the Catcher and Kraken developments, the facility can be drawn to fund development costs on those projects and facility finance costs. Once the conditions are met (expected H1 2018) the facility can used for general corporate purposes. The facility had no cash drawings at 31 December 2017 though drawings were made subsequent to the year end. The maximum available is currently forecast to be US$400.0m during the life of the facility. The facility may also be used to issue letters of credit and performance guarantees for the Cairn Group of up to US$175.0m.

Interest on outstanding debt will be charged at the appropriate LIBOR for the currency drawn plus an applicable margin. The facility is subject to bi-annual redeterminations, has a market standard suite of covenants and is cross-guaranteed by all Group companies party to the facility. Debt is repayable in line with the amortisation of bank commitments over the period from 1 July 2018 to the final maturity date of 30 June 2021.

Section 3 – Assets, Liabilities and Investments: Financial Assets, Cash and Borrowings, Lease liabilities and Working Capital

3.4 Finance Lease Liabilities

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2017 US$m	31 December 2016 US$m	**31 December 2017 US$m**	31 December 2016 US$m
Not later than one year	**1.6**	-	**1.5**	-
After one year but no more than five years	**88.5**	-	**77.2**	-
After five years	**130.5**	-	**91.0**	-
Total future minimum rentals payable	**220.6**	-	**169.7**	-
Less future finance charges	**(50.9)**	-		
Present value of minimum lease payments	**169.7**	-		

Reconciliation of opening and closing liability to cash flow movements:	**2017 US$m**	2016 US$m
Opening liability	**-**	-
Leases commenced and revisions to leases in the year:		
Finance lease recognised on commencement	**200.8**	-
Revision to finance lease	**(36.4)**	-
	164.4	-
Finance lease reimbursements in cash flow statement:		
Lease payments net of reimbursements received	**(4.6)**	-
Variable lease payments through cost of sales (note 4.2)	**6.0**	-
	1.4	-
Other movements:		
Reimbursement due transferred to other receivables	**1.4**	-
Finance lease interest	**2.5**	-
	3.9	-
Closing liability	**169.7**	-

On 20 December 2013, the Group entered into a bareboat charter agreement with Armada Kraken PTE Limited (a subsidiary of Bumi Armada) for the lease of an FPSO vessel for the Kraken field. The lease agreement became effective on commencement. This agreement is considered to be a finance lease and commenced on the date of first oil production on 23 June 2017.

Subsequent to initial recognition, the lease agreement was amended to incorporate an interim production period while the Kraken FPSO achieves the targeted throughput of oil. During this interim period, minimum lease payments are reduced to nil, with all lease payments dependent upon the availability and performance of the FPSO.

Amounts due to Cairn from the lessor of US$1.4m have been offset by the lessor against outstanding invoices disputed by the operator. Cairn fully expects to recover this amount and the receivable is recognised within other receivables.

Section 3 – Assets, Liabilities and Investments: Financial Assets, Cash and Borrowings, Lease liabilities and Working Capital

3.5 Trade and Other Receivables

	2017 **US$m**	2016 US$m
Trade and other receivables	**12.9**	7.4
Accrued income – underlift (see note 4.2)	**5.6**	-
Prepayments	**18.8**	21.4
Dividends receivable	**-**	50.6
Joint operation receivables	**45.8**	34.3
	83.1	113.7

Trade and other receivables includes recharges to joint operations of US$3.7m and accrued income relating to finance lease reimbursement of US$1.4m.

Prepayments include US$15.1m (2016: US$14.6m) of facility arrangement fees relating to the reserve based lending facility which will be amortised over the expected useful life commencing from the date the facility is drawn down, in January 2018.

US$50.6m of dividends receivable from Cairn India Limited were accrued to 31 December 2016. In April 2017, on the merger of Cairn India Limited with Vedanta Limited, a further dividend of US$52.4m was declared, which increased the total due to Cairn to US$104.7m, after exchange adjustments. Post declaration of the April dividend, the Indian Income Tax Department has seized the funds due to Cairn from Vedanta Limited in part-settlement of the assessment order issued relating to the disputed retrospective tax demand. See note 5.4. Consequently this receivable was fully provided against during the year.

Joint operation receivables include Cairn's working interest share of the receivables relating to joint operations and amounts recoverable from partners in joint operations.

At 31 December 2017 and 31 December 2016, no material amount within the Group's other receivables or joint operation receivables was past due or impaired. In determining the recoverability of other receivables the Group carries out a risk analysis based on the type and age of the outstanding receivable.

Cash flow impact of movements in Trade and Other Receivables
The movement in trade and other receivables and accrued income predominately relates to cash flows arising on operating activities.

The movement in prepayments is mainly attributed to investing activities. There are no movements in prepayments relating to financing activities during the year.

Movements in joint operation receivables are recorded through investing activities as either exploration/appraisal or development/producing asset cash flows as appropriate.

The reduction in dividends receivable is a non-cash movement and has no impact on the cash flow statement.

Section 3 – Assets, Liabilities and Investments: Financial Assets, Cash and Borrowings, Lease liabilities and Working Capital

3.6 Trade and Other Payables

	2017 US$m	2016 US$m
Trade payables	**6.9**	3.1
Other taxation and social security	**2.5**	2.1
Accruals and other payables	**22.6**	19.1
Financial liability	**1.4**	-
Joint operation payables	**165.8**	98.7
	199.2	123.0

Joint operation payables include Cairn's share of the trade and other payables of joint operations in which the Group participates. Where Cairn is operator of the joint operation, joint operation payables also include amounts that Cairn will settle to third parties on behalf of joint operation partners. The amount to be recovered from partners for their share of such liabilities are included within joint operation receivables.

Cash flow impact of movements in Trade and Other Payables
Trade and joint operation payables movement primarily relates to investing activities in the cash flow statement. The movement in accruals and other payables and financial liability predominately relates to cash flows arising on financing activities. Other taxation and social security cost movements are recorded though operating cash flows.

3.7 Deferred Revenue

FlowStream deferred revenue	Note	2017 US$m
Opening deferred revenue		-
Fair value of proceeds received		**74.6**
Released during the year	4.2	**(3.0)**
Foreign exchange differences		**2.4**
Closing deferred revenue		**74.0**
Amounts expected to be released within one year		**24.3**
Amounts expected to be released after one year		**49.7**
		74.0

Deferred revenue of US$74.0m relates to the stream agreement with FlowStream. Under the initial stream agreement, Cairn received US$74.6m in June 2017 with FlowStream receiving 4.5% of future Kraken production. FlowStream's entitlement to Kraken production reduces to 1.35% after FlowStream achieves a 10% return and would further reduce to 0.675% if FlowStream achieves a 15% return.

Section 4 – Results for the Year

4.1 Segmental Analysis

Operating segments

Cairn's strategy is to create, add and realise value from a balanced portfolio within a self-funding business model.

Each business unit is headed by a regional director (a regional director may be responsible for more than one business unit) and the Board monitors the results of each segment separately for the purposes of making decisions about resource allocation and performance assessment.

The Senegal business unit's focus is to have a government-approved exploitation plan by the end of 2018, with first oil expected between 2021 and 2023. The UK & Norway business unit includes exploration activities in the North Sea, Norwegian Sea and Barents Sea and management of the Group's producing assets in the UK North Sea. The International business unit consists of all other regions where Cairn currently holds (or held during the year) exploration licences, including Mexico, Ireland, Western Sahara and the Mediterranean.

The Other Cairn Energy Group segment exists to accumulate the activities and results of the holding company and other unallocated expenditure and net assets/liabilities including amounts of a corporate nature not specifically attributable to any of the business units

Non-current assets as analysed on a segmental basis consist of intangible exploration/appraisal assets; property, plant & equipment – development/producing assets; intangible assets – goodwill; and other property, plant & equipment and intangible assets

Geographical information: non-current assets

	2017 US$m	2016 US$m
Senegal	**434.5**	330.3
UK	**1,236.3**	760.5
Norway	**134.9**	104.0
Goodwill (allocated to segment)	**128.2**	118.9
UK & Norway	**1,499.4**	983.4
Ireland	**9.7**	5.6
Mexico	**13.1**	-
Malta	**-**	5.8
Western Sahara	**-**	0.9
International	**22.8**	12.3
Other UK	**8.2**	1.2
Total non-current assets	**1,964.9**	1,327.2

Section 4 – Results for the Year

4.1 Segmental Analysis (continued)

The segment results for the year ended 31 December 2017 are as follows:

	Senegal US$m	UK & Norway US$m	International US$m	Other Cairn Energy Group US$m	**Total US$m**
Revenue	**-**	**22.9**	**10.4**	**-**	**33.3**
Cost of sales	-	(5.9)	-	-	**(5.9)**
Depletion and amortisation	-	(20.8)	-	-	**(20.8)**
Gross (loss)/profit	**-**	**(3.8)**	**10.4**	**-**	**6.6**
Pre-award costs	-	(30.2)	(8.5)	(5.1)	**(43.8)**
Unsuccessful exploration costs	-	(8.1)	(52.6)	-	**(60.7)**
Depreciation	-	(0.6)	-	(0.5)	**(1.1)**
Amortisation	-	-	-	(1.5)	**(1.5)**
Other income and administrative expenses	-	(2.2)	0.3	(25.8)	**(27.7)**
Reversal of impairment of oil and gas assets	-	23.0	-	-	**23.0**
Operating loss	**-**	**(21.9)**	**(50.4)**	**(32.9)**	**(105.2)**
Net gain on derecognition of financial assets	-	-	-	402.6	**402.6**
Interest income	0.1	0.6	-	3.2	**3.9**
Other finance income and costs	(0.7)	(2.2)	-	62.7	**59.8**
Exceptional provision against finance income receivable	-	-	-	(104.7)	**(104.7)**
(Loss)/profit before taxation	**(0.6)**	**(23.5)**	**(50.4)**	**330.9**	**256.4**
Tax credit	-	34.4	-	(27.7)	**6.7**
(Loss)/profit for the year	**(0.6)**	**10.9**	**(50.4)**	**303.2**	**263.1**
Capital expenditure	**104.2**	**416.8**	**63.1**	**8.6**	**592.7**
Total assets	**463.3**	**1,674.2**	**40.3**	**1,077.7**	**3,255.5**
Total liabilities	**34.6**	**592.4**	**26.5**	**107.5**	**761.0**
Non-current assets	**434.5**	**1,499.4**	**22.8**	**8.2**	**1,964.9**

All transactions between the segments are carried out on an arm's length basis, other than where inter-group loans are made interest-free or at interest rates below market value.

Section 4 – Results for the Year

4.1 Segmental Analysis (continued)

The segment results for the year ended 31 December 2016 were as follows:

	Senegal US$m	UK & Norway US$m	International US$m	Other Cairn Energy Group US$m	Total US$m
Pre-award costs	-	(8.5)	(2.8)	(6.4)	(17.7)
Unsuccessful exploration costs	-	(28.2)	(42.1)	-	(70.3)
Depreciation	-	(0.3)	-	(0.4)	(0.7)
Amortisation	-	-	-	(2.0)	(2.0)
Inventory write-down	-	-	-	(0.7)	(0.7)
Administrative expenses	-	(2.9)	(0.8)	(27.8)	(31.5)
Impairment of oil and gas assets	-	(11.0)	(14.3)	-	(25.3)
Operating loss	-	(50.9)	(60.0)	(37.3)	(148.2)
Interest income	-	0.5	-	3.5	4.0
Other finance income and costs	-	(2.0)	(0.1)	(5.2)	(7.3)
Loss before taxation	-	(52.4)	(60.1)	(39.0)	(151.5)
Tax credit	-	56.5	-	-	56.5
Profit/(loss) for the year	-	4.1	(60.1)	(39.0)	(95.0)
Capital expenditure	102.1	318.0	7.5	0.8	428.4
Total assets	341.8	1,080.0	31.6	1,004.6	2,458.0
Total liabilities	16.7	217.6	17.6	16.2	268.1
Non-current assets	330.3	983.4	12.3	1.2	1,327.2

Section 4 – Results for the Year

4.2 Revenue and Cost of Sales

	2017 US$m	2016 US$m
Oil sales	**19.9**	-
Release of deferred revenue (see note 3.7)	**3.0**	-
Revenue from oil sales	**22.9**	-
Royalty income	**10.4**	-
Revenue	**33.3**	**-**
Production and other costs	**(15.3)**	-
Oil inventory and underlift adjustment	**16.4**	-
Variable and operating lease charges	**(7.0)**	-
Cost of sales	**(5.9)**	**-**
Depletion and amortisation (see note 2.2)	**(20.8)**	-
Gross profit	**6.6**	**-**

Revenue
During the period, Cairn lifted one cargo of Kraken crude, realising US$19.9m. No Catcher crude was sold during the period.

Royalty income of US$10.4m is receivable on production from two fields in Mongolia. Cairn was successful in international arbitration proceedings in proving the Group's title to royalty interest and the basis for calculating royalties due, and has recovered royalty income payable from commencement of production from the fields in 2005.

Other income received by the Group is netted against administration costs per note 4.4 and finance income received is disclosed in note 4.5.

Commodity price hedging
Having moved into production on its North Sea assets, Cairn commenced a hedging programme in 2017 in order to protect debt capacity and support committed capital programmes. At 31 December 2017 the Group had hedged ~1.4m barrels of 2018 Kraken oil production, using a combination of put and call options and collar structures effectively creating 'floor' and 'ceiling' prices for the Brent benchmark for the volumes hedged. The weighted average floor and ceiling prices are US$57.3/bbl and US$68.3/bbl respectively (all prices quoted relate to dated Brent).

The put option and collar structure have been designated as hedges for hedge accounting. The call option does not qualify for hedge accounting under IAS 39 (nor would it under IFRS 9) as it is not specifically combined with a put option to form a collar. At the year end, the closing oil price was approximately US$66.5/bbl, above the floor price of both the put option and collar and below the ceiling price of both the call option and the collar. The premium payable on the put option and collar was not designated within the hedged item. Fair value movements on the cost of the option are recorded in the income statement in the period.

Sensitivity analysis has been performed on hedges in place at the year end. The sensitivity analysis considers only the impact on line items directly relating to hedge accounting and does not include the impact of a change in the oil price on other income statement line items, such as inventory valuations. A 10% fall in the oil price would have had no impact on either the income statement or other comprehensive income. A 10% increase in the oil price would result in a charge to the income statement of US$3.3m and a charge through other comprehensive income of US$4.6m. These are considered to be reasonably possible changes for the purposes of sensitivity analysis.

Subsequent to the year end the Group entered into further hedging agreements on ~650,000 barrels of 2018 Catcher production. Combined with the Kraken hedges this increases the weighted average floor price to US$58.4/bbl and the weighted average ceiling price to US$70.2/bbl.

Cost of Sales
Inventory of oil held at the year end is recorded at a market value of US$10.4m. Underlift adjustments on Kraken production volumes were US$6.0m at 31 December 2017. Variable finance lease costs on the Kraken FPSO of US$6.0m are charged to the income statement with US$1.0m of operating lease charges on the Catcher FPSO.

Section 4 – Results for the Year

4.2 Revenue and Cost of Sales (continued)

Operating lease commitments
At the year end, Cairn had the following operating lease commitment relating to the Catcher FPSO:

	2017 US$m	2016 US$m
Production costs – operating lease charges		
Not later than one year	**33.9**	-
After one year but no more than five years	**124.0**	130.8
After five years	**47.4**	74.5
	205.3	205.3

4.3 Pre-Award Costs

	2017 US$m	2016 US$m
UK & Norway	**30.2**	8.5
International	**8.5**	2.8
Other	**5.1**	6.4
	43.8	17.7

UK & Norway pre-award costs of US$30.2m (2016: US$8.5m) include US$23.2m (US$3.9m) costs for purchase of seismic data, mostly in the Barents Sea. The International segment costs include US$5.0m relating to Mexico and US$3.1m (2016: US$2.8m) on other areas currently within the International segment. Further costs of US$5.1m (2016: US$6.4m) were incurred in pursuit of new opportunities in other regions which complement the Group's current licence interests and risk appetite.

During 2017, Cairn was awarded non-operated interests in five licences and operatorship in three licences in the UK & Norway and two licences in Mexico (one operated). In January 2018, Cairn was awarded a further four non-operated licences in the Norwegian licensing round.

Section 4 – Results for the Year

4.4 Net Administrative Expenses

	2017 US$m	2016 US$m
Administrative expenses	**32.7**	34.2
Inventory disposal/write-down	**-**	0.7
Other income	**(2.4)**	-
	30.3	34.9

Administrative expenses in 2017 include charges of US$8.1m (2016: US$7.2m) incurred defending the Group's tax position in India through the ongoing arbitration.

Operating lease commitments
Administration costs include operating lease charges for land and buildings representing the costs of Cairn's head office in Edinburgh and subsidiary offices globally. Operating lease commitments at the year end are shown below and are disclosed prior to recovery of cost through the Group's timewriting recharges.

	2017 US$m	2016 US$m
Administrative costs - land and buildings		
Not later than one year	**1.8**	1.4
After one year but no more than five years	**5.5**	0.4
After five years	**2.0**	-
	9.3	1.8

4.5 Finance Income

	2017 US$m	2016 US$m
Bank and other interest receivable	**3.9**	4.0
Other finance income	**8.1**	-
Dividend income	**52.4**	8.2
Exchange gain	**12.6**	-
Unwinding of discount – other receivables	**-**	1.8
	77.0	14.0

Dividend income was receivable from Vedanta Limited. See note 3.1.

4.6 Exceptional Provision Against Finance Income Receivable

Dividend income relating to the Group's residual interest in Cairn India was receivable from Vedanta Limited after the merger of the two companies. However, following the seizure by the Indian Tax Department of the income held in abeyance, the unpaid dividend receivable has been fully provided against, with an exceptional provision of US$104.7m charged to the income statement. While Cairn is restricted from selling the shares in Vedanta Limited, title to the shares remains with the company. Therefore the provision against the dividends receivable does not impact the carrying value of Cairn's investment in Vedanta Limited. See note 5.4 for further details.

Section 4 – Results for the Year

4.7 Earnings per Ordinary Share

Basic and diluted earnings per share are calculated using the following measures of profit/(loss):

	2017 US$m	2016 US$m
Profit/(loss) and diluted profit/(loss) attributable to equity holders of the parent	**263.1**	(95.0)

The following reflects the share data used in the basic and diluted earnings per share computations:

	2017 '000	2016 '000
Weighted average number of shares	**582,134**	576,733
Less weighted average shares held by ESOP and SIP Trusts	**(4,933)**	(3,111)
Basic weighted average number of shares	**577,201**	573,622
Potential dilutive effect of shares issuable under employee share plans:		
LTIP awards	**11,027**	-
Approved and unapproved plans	**346**	-
Employee share awards	**2,442**	-
Diluted weighted average number of shares	**591,016**	573,622
Potentially issuable shares:		
LTIP awards	**11,902**	18,048
Approved and unapproved plans	**3,957**	3,980
Employee share awards	**2,800**	1,629
Number of potentially issuable shares	**18,659**	23,657*

* 2016 potentially issuable shares were anti-dilutive due to the loss for the year.

Section 5 – Taxation

5.1 Tax Credit on Profit/(loss) for the Year

Analysis of tax credit on profit for the year

	2017 US$m	2016 US$m
Current tax (credit):		
Norwegian tax refunds receivable	**(39.9)**	(26.5)
	(39.9)	(26.5)
Deferred tax charge/(credit):		
Norwegian deferred tax charges	**9.0**	13.3
Release of provision on carried interests due to change in tax rate	**(0.7)**	(8.4)
UK deferred tax credits realised	**(2.8)**	(34.9)
Deferred tax liability on recognition of financial assets	**(7.1)**	-
Recycled from other comprehensive income on derecognition of financial assets	**34.8**	-
Total deferred tax charge/(credit)	**33.2**	(30.0)
Total tax credit on profit/(loss)	**(6.7)**	(56.5)
Tax included in other comprehensive income:		
Deferred tax charge on valuation of financial assets	**96.5**	-
Deferred tax charge on valuation movement recycled to income statement	**(34.8)**	-
Total tax charge in other comprehensive income	**61.7**	-

Norwegian deferred tax charges includes a charge of US$12.4m (2016: charge of US$14.2m) on temporary differences in respect of non-current assets and a credit of US$3.4m (2016: credit of US$0.9m) on losses and other temporary differences.

Expenditure incurred on Cairn's behalf by Dyas BV under the carry agreement following the disposal of a 10% working interest in Catcher in 2015 gave rise to a deferred tax liability on capitalisation within development assets. UK deferred tax credits of US$2.8m (2016: US$34.9m) were realised to offset this deferred tax liability.

Deferred tax movements through the income statement on the recognition and disposal of financial assets, and deferred tax movements through other comprehensive income on the valuation of financial assets, represent the deferred tax impact of movements in the year in respect of the shares that the Group holds in Vedanta Limited (Cairn India Limited prior to April 2017) detailed in note 3.1. The charge on the valuation of financial assets of US$96.5m is offset by the credit recorded in the income statement on derecognition of Cairn India Limited of US$7.1m, resulting in a closing deferred tax liability of US$89.4m relating to the financial assets held at 31 December 2017.

Section 5 – Taxation

5.1 Tax Credit on Profit/(loss) for the Year (continued)

Factors affecting tax credit for the year

A reconciliation of income tax credit applicable to profit before income tax at the UK statutory rate to income tax credit at the Group's effective income tax rate is as follows:

	2017 US$m	2016 US$m
Profit/(loss) before taxation	**256.4**	(151.5)
Profit/(loss) before tax multiplied by the UK statutory rate of corporation tax of 19.25% (2016: 20%)	**49.4**	(30.3)
Effect of:		
Special tax rates and reliefs applying to oil and gas activities	**(50.3)**	(21.2)
Impact of increase in available investment allowance	**-**	(19.5)
Impact on current tax of adjustments in respect of prior year	**(2.5)**	-
Impact on deferred tax of adjustments in respect of prior year	**(1.3)**	(5.0)
Impact of exceptional provision against finance income	**20.1**	-
Temporary differences not recognised	**(17.8)**	21.3
Release of provision on carried interests due to change in tax rate	**(0.6)**	(5.5)
Foreign exchange movements	**0.4**	0.1
Other	**(4.1)**	3.6
Total tax credit on profit/(loss)	**(6.7)**	(56.5)

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2017 of 19.25% (2016: 20%).

The UK main rate of corporation tax is currently 19% (20% prior to 1 April 2017). The change in the UK tax rate had no impact either on the Group's UK net deferred tax position at 31 December 2017 or on the tax credit for the year.

The applicable UK statutory tax rate applying to North Sea oil and gas activities is 40% (2016: 40%).

The applicable Norwegian rate applying to oil and gas activities is 78% (2016: 78%).

The effect of special tax rates and reliefs applying to oil and gas activities of US$50.3m comprises US$38.1m (2016: US$12.7m) in respect of differences between the average UK statutory rate and the special rates applying to oil and gas activities in the UK and Norway, and US$12.2m (2016: US$8.5m) in respect of the UK ring fence expenditure supplement (RFES) claimed in the year.

The effect of temporary differences not recognised of US$17.8m (2016: US$21.3m) includes:

- a US$52.8m (2016: nil) movement in the unrecognised deferred tax asset brought forward at the start of the year in respect of the shares that the Group held in Cairn India Limited (now Vedanta Limited); and
- a US$3.4m (2016: nil) movement in respect of the use in the year of brought forward UK non-trading losses on which no deferred tax asset was recognised.

These are offset by:

- a US$28.3m (2016: US$3.2m) movement in the year in respect of the unrecognised deferred tax asset on UK ring fence trading losses and the deferred tax liability on UK Ring Fence temporary differences in respect of non-current assets; and
- a further US$10.1m (2016: US$8.5m) unsuccessful exploration costs on which future tax relief is available but the expenditure has been expensed through the income statement.

The remaining US$9.6m in respect of 2016 related primarily to losses carried for which no deferred tax asset was recognised.

The effect of the exceptional provision against finance income of US$20.1m relates to the US$104.7m provision against dividends receivable from Vedanta Limited, which is not deductible for UK tax purposes. See note 4.6.

5.2 Income Tax Asset

The income tax asset of US$38.4m (2016: US$26.1m) relates to cash tax refunds due from the Norwegian authorities on the tax value of exploration and other qualifying expenses incurred in Norway during the year. This refund will be received in 2018.

Section 5 – Taxation

5.3 Deferred Tax Assets and Liabilities

Reconciliation of movement in deferred tax assets/(liabilities):

	Temporary difference in respect of non-current assets US$m	Losses US$m	Other temporary differences US$m	**Total US$m**
Deferred tax assets				
At 1 January 2016	(153.9)	153.9	-	-
Exchange differences arising	6.2	(6.2)	-	-
Deferred tax credit through income statement	(14.5)	57.9	-	43.4
Deferred tax movement on additions to development assets in respect of carried interests	(43.4)	-	-	(43.4)
At 1 January 2017	(205.6)	205.6	-	**-**
Exchange differences arising	(27.5)	27.5	-	**-**
Deferred tax credit through income statement	(112.4)	115.9	-	**3.5**
Deferred tax movement on additions to development assets in respect of carried interests	(3.5)	-	-	**(3.5)**
At 31 December 2017	**(349.0)**	**349.0**	**-**	**-**
Deferred tax liabilities				
At 1 January 2016	(59.3)	10.5	-	(48.8)
Exchange differences arising	(0.6)	0.1	-	(0.5)
Deferred tax charge through income statement	(14.4)	1.0	-	(13.4)
At 1 January 2017	(74.3)	11.6	-	**(62.7)**
Exchange differences arising	(3.9)	0.6	-	**(3.3)**
Deferred tax charge through income statement	(40.0)	3.1	0.2	**(36.7)**
Deferred tax charge to comprehensive income	(61.7)	-	-	**(61.7)**
At 31 December 2017	**(179.9)**	**15.3**	**0.2**	**(164.4)**

Deferred tax liabilities analysed by country	**2017 US$m**	2016 US$m
India	**(89.4)**	-
Norway	**(75.0)**	(62.7)
Total deferred tax liability	**(164.4)**	(62.7)

A deferred tax liability of US$89.4m has been recognised at the year end in respect of the shares the Group holds in Vedanta Limited, as a result of a recovery in the share price. In 2016 there was an unrecognised deferred tax asset in respect of the shares of US$2.7m.

Recognised deferred tax assets

As at the balance sheet date, no net deferred tax asset or liability has been recognised in the UK (2016: no net deferred tax asset or liability recognised) as other temporary differences and tax losses are only recognised to the extent that they offset the UK deferred tax liability arising on business combinations and carried interests attributable to UK Ring-Fence trading activity, as it is not considered probable that future profits will be available to recover the value of the asset given the detrimental change in market conditions continuing to impact the oil and gas industry.

A deferred tax asset has been recognised in respect of Norwegian tax losses of US$15.3m (2016: US$11.6m) against a Norwegian deferred tax liability arising from business combinations and expenditure on assets for which current tax refunds have been claimed.

Section 5 – Taxation

5.3 Deferred Tax Assets and Liabilities (continued)

Unrecognised deferred tax assets

No deferred tax asset has been recognised on the following as it is not considered probable that it will be utilised in future periods:

	2017 US$m	2016 US$m
UK fixed asset temporary differences	**386.5**	349.3
UK Ring Fence trading losses	**138.0**	169.3
UK non-Ring-Fence trading losses	**3.7**	3.4
UK non-Ring-Fence pre-trade losses	**3.3**	6.4
UK excess management expenses	**66.3**	305.1
UK non-trade deficits	**297.7**	68.8
UK temporary differences on share-based payments	**33.9**	37.7
UK other temporary differences	**0.1**	0.1
Senegal fixed asset temporary differences	**3.2**	-
Greenlandic tax losses	**1,143.1**	1,003.9
Temporary differences in respect of available-for-sale financial assets	**-**	2.7

At the balance sheet date the Group has US$1,010.5m (2016: US$683.3m) UK Ring Fence trading losses available to offset against future UK Ring Fence trading profits. A deferred tax asset has been recognised in respect of US$872.5m (2016: US$514.0m) of these losses, offsetting in full a deferred tax liability on Ring Fence fixed assets temporary differences. No deferred tax asset has been recognised on the remaining UK Ring Fence losses of US$138.0m (2016: US$169.3m) or on other ring fence temporary differences of US$116.9m (2016: nil) relating to decommissioning liabilities as it is not considered probable that this amount will be utilised in future periods.

The deferred tax liability recognised on UK Ring Fence fixed asset temporary differences of US$349.0m (2016: US$205.6m) includes temporary differences in respect of investment allowances (previously field allowances) of US$759.5m (2016: US$693.5m) on the Catcher and Kraken developments which will reduce future Ring Fence profits subject to supplementary charge.

5.4 Contingent Liability – Indian Tax Assessment

In January 2014 Cairn UK Holdings Limited ("CUHL"), a direct subsidiary of Cairn Energy PLC, received notification from the Indian Income Tax Department (the "IITD") that it was restricted from selling its approximately 10% shareholding in Cairn India Limited ("CIL"), which at that time had a market valuation of INR 60bn (US$1.0bn). In that notification, the IITD claimed to have identified unassessed taxable income resulting from certain intra-Group share transfers undertaken in 2006 (the "2006 Transactions"), such transactions having been undertaken in order to facilitate the IPO of CIL in 2007. The notification made reference to retrospective Indian tax legislation enacted in 2012, which the IITD was seeking to apply to the 2006 Transactions.

Following the merger in April 2017 of CIL and Vedanta Limited, CUHL's shareholding in CIL has been replaced by approximately a 5% shareholding in Vedanta Limited issued together with preference shares, which are both currently subject to IITD attachment on the same basis as CUHL's previous shares in CIL. At 31 December 2017, the market value of CUHL's equity and preference shares in Vedanta Limited was together INR 68.4bn (approximately US$1.1bn).

In addition to attaching CUHL's shares in Vedanta Limited, the IITD has seized dividends due to CUHL from those shares totalling INR 6.7bn (US$105m). The IITD has also notified Cairn that a tax refund of INR 15.9bn (US$249m) due to CUHL as a result of overpayment of capital gains tax on a separate matter in 2011, has been applied as partial payment of the tax assessment of the 2006 Transactions. This tax refund was previously classified as a contingent asset where the inflow of economic benefits was considered less than probable.

The IITD holds CUHL as an assessee in default in respect of tax demanded on the 2006 transactions, and as such has continued to pursue enforcement against CUHL's assets in India. To date these enforcement actions have included attachment of CUHL's shareholding in Vedanta Limited (valued at US$1.1 billion at year end) for potential sale, seizure of the US$104m dividends due to CUHL as described above, and offset of a US$249m tax refund due to CUHL in respect of another matter.

The assessment by the IITD of principal tax due on the 2006 Transactions is INR 102bn (US$1.6bn), plus applicable interest and penalties. Interest is currently being charged on the principal at a rate of 12% per annum from February 2016, although this is subject to the IITD's Indian court appeal that interest should be back-dated to 2007. Penalties are currently assessed as 100% of the principal tax due, although this is subject to appeal by CUHL that penalties should not be charged given the retrospective nature of the tax levied.

The Group has legal advice confirming that the maximum amount that could ultimately be recovered from Cairn by the IITD is limited to the value of CUHL's assets, principally the ordinary and preference shares in Vedanta Limited plus the seized dividends and tax refund from 2011.

Section 5 – Taxation

5.4 Contingent Liability – Indian Tax Assessment (continued)

In March 2015 Cairn filed a Notice of Dispute under the UK-India Bilateral Investment Treaty (the "Treaty") in order to protect its legal position and seek restitution of the value effectively seized by the IITD in and since January 2014. Cairn's principal claims are that the assurance of fair and equitable treatment and protections against expropriation afforded by the Treaty have been breached by the actions of the IITD, which is seeking to apply retrospective taxes to historical transactions already closely scrutinised and approved by the Government of India. The IITD has attached and seized assets to try to enforce such taxation. Cairn's plea is therefore that the effects of the tax assessment should be nullified and Cairn should receive recompense from India for the loss of value resulting from the 2014 attachment of CUHL's shares in CIL and the withholding of the tax refund, which together total approximately US$1.3bn.

The Treaty proceedings formally commenced in January 2016 following agreement between Cairn and the Republic of India on the appointment of a panel of three international arbitrators under the terms of the Treaty. Cairn's statement of claim was submitted to the arbitral tribunal in June 2016 and the Republic of India submitted its statement of defence in February 2017. A period of further submissions and document production has been ongoing. In September 2017 the arbitral tribunal confirmed the schedule for the remainder of the arbitration, with final hearings being in August 2018 and the tribunal's ruling issued expeditiously thereafter. Based on detailed legal advice, Cairn is confident that it will be successful in this arbitration and, accordingly, no provision has been made for any of the tax or penalties assessed by the IITD.