



FOR IMMEDIATE RELEASE

10 March 2020

CAIRN ENERGY PLC ("Cairn")
Full Year Results Announcement
For the year ended 31 December 2019

Simon Thomson, Chief Executive Officer, Cairn Energy PLC said:

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

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

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

2019 Summary

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

2020 Outlook

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

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

Enquiries:

Analysts/Investors

David Nisbet, Corporate Affairs

Tel: 0131 475 3000

Media

Linda Bain, Corporate Affairs

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, local: +44 (0)330 336 9125

Code: 8693927

Transcript

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

Operational review

Reserves

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

Production

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

Catcher

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

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

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

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

Kraken

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

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

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

Developments

Senegal – Sangomar

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

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

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

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

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

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

The key contractors for the development are:

MODEC Inc	FPSO purchase	Oil processing capacity of 100,000 bbl/day
Subsea Integration Alliance (non-incorporated alliance Subsea 7 and OneSubsea)	Construction and installation	Integrated subsea production systems and subsea umbilicals, risers and flowlines

Diamond Offshore	Two well-based contracts for drill rigs	Ocean BlackRhino and Ocean BlackHawk with phased drilling targeted to commence in Q1 2021
Halliburton and BHGE	Main Drilling Services contracts	
Shearwater	High-density multi-azimuth 3D seismic acquisition contract over the field and neighbouring FAN discovery	Data acquisition for this survey was completed in Q4 2019 and is intended to improve reservoir definition to support development well placement

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

Norway asset disposals

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

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

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

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

Exploration

Mexico

Cairn has interests in four blocks in the Gulf of Mexico, two as operator (Blocks 9 and 15) and two as non-operator (Blocks 7 and 10).* Mexico provides an exciting opportunity to discover commercial quantities of hydrocarbons in a highly prolific, yet under-explored region and has been a focus for Cairn's exploration drilling activities in late 2019 and early 2020.

In its Operated Block 9 (50% WI), Cairn completed the first well of a two well programme in Q4 2019. The exploration objectives of the Alom-1 well was to prove hydrocarbons in stacked Pleistocene targets, these were found to be dry and the well was permanently plugged and abandoned. Preliminary analysis indicated that the well encountered over 500m of high-quality water bearing sands across multiple

targets. This information is helping to calibrate Cairn's seismic data and geological models and is being integrated to improve our understanding of the petroleum system offshore Mexico.

In Q1 2020, an oil discovery was confirmed on the non-operated Saasken-1 exploration well (15% WI)* in Block 10 in the Sureste Basin. Preliminary estimates by the Operator, Eni, indicate the discovery may contain 200 to 300 million barrels of oil in place. Eni estimate that Saasken-1 discovered 80m of net pay of good quality oil in the Lower Pliocene and Upper Miocene sequences with excellent petrophysical properties. An intensive data collection has been carried out on the well and Eni has indicated that a production capacity for the well of more than 10,000bopd may be possible. This first discovery across Cairn's Sureste acreage interest opens the potential for a development hub, allowing tie-back of future discoveries across Blocks 9 and 10. Cairn has identified a number of prospects and leads across Blocks 9 and 10 that could be possible future exploration targets and tie-back candidates.

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

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

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

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

*The National Hydrocarbon Commission (CNH) approved the 15% share of Capricorn Energy Mexico in Block 10 (contract CNH-R02-L01-A10.CS/2017). At the same time CNH approved the acquisition of a 15% share of Eni Mexico in the adjacent Block 9 (contract CNH-R02-L01-A09.CS/2017) operated by Capricorn Energy Mexico. The signature process of the revised Production Sharing Contracts to reflect the change in the JV working interest is ongoing. Capricorn Energy Mexico is a wholly owned subsidiary of Cairn Energy PLC.

UK & Norway

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

North Sea containing the Chimera prospect. All four wells were reported as dry and plugged and abandoned.

In early March 2020, Cairn entered into an asset exchange agreement with Shell UK Limited in which Cairn transferred a 50% WI in P2379 in exchange for 50% WI of P2380. Each licence contains a firm commitment to drill an exploration well (with both wells planned to be drilled in the period from H2 2020 to H1 2021).

Suriname

Cairn has an exploration agreement (Cairn operator 100% WI) on the largest block offshore Suriname. The licence covers an area of ~13,000 km² on the Demerara plateau in the Guyana-Suriname basin, conjugate to the West Africa Margin which includes the Sangomar field in Senegal. In H1, 4,500 km of 2D seismic data was acquired and has been fully processed. Block-wide interpretations and an update of the prospect inventory are ongoing, with a decision on future 3D seismic acquisition to be made later this year with a view to potential drilling activity thereafter. Several projects supporting local initiatives are in early stage development, including industry capacity-building through training and education and a project focused on the coastal environment.

Israel

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

Mauritania

Cairn has exercised its option agreement with Total to enter block C7, targeting a turbidite fan play in a large offshore exploration block in a proven oil province. Cairn has acquired a 40% WI (Total Operator 50% WI and Société Mauritanienne des Hydrocarbures 10% WI), subject to government approval. Final interpretation of ~7,000km² seismic data was completed in H1 2019 with a possible well planned in H2 2021.

Côte d'Ivoire

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

Nicaragua

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

Republic of Ireland

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

India

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

Board changes

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

Outlook

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

Principal risks and uncertainties

Managing the Group's key risks and associated opportunities is essential to Cairn's long-term success and sustainability. The Group endeavours to pursue investment opportunities which offer an appropriate level of return whilst ensuring the level of associated political, commercial and technical risk remain within the defined risk appetite of the Group.

The Group's risk management framework provides a systematic process for the identification and management of the key risks and opportunities which may affect the delivery of the Group's strategic objectives. Key Performance Indicators are set annually and determining the level of risk the Group is willing to accept in the pursuit of these objectives is a fundamental component of the Group's risk management framework.

Overall responsibility for the system of risk management and internal control and reviewing the effectiveness of such systems rests with the Board. Principal risks, as well as progress against key risk projects, are reviewed at each Board meeting and at least once a year the Board undertakes a risk workshop to review the Group's principal risks. This integrated approach to risk management has been and continues to be critical to the delivery of strategic objectives

Responding to Changing Risks during 2019

Cairn has assessed the principal risks and uncertainties at the end of 2019 and concluded that the majority of principal risks identified at H1 2019 remain relevant. Two new principal risks were added relating to the energy transition and the Senegal development project. The Senegal funding risk is captured in the diminished access to debt markets risk. The principal risks are:

- Lack of exploration success
- Volatile oil and gas prices
- Failure to secure new venture opportunities
- Delay in Senegal production start-up schedule
- Underperformance on Kraken and Catcher assets
- Misalignments with JV operators
- Lack of adherence to health, safety, environment and security policies
- Fraud, bribery and corruption
- Climate change policy and its impacts on energy transition
- Inability to secure or repatriate value from India
- Political and fiscal uncertainties
- Diminished access to debt markets

As part of the embedded risk management process, the Group actively considers emerging risks and threats which could impact on the business. The Group identified the increasing threat from cyber security attacks, the continued uncertainty around Brexit and the potential direct and indirect impacts from the Coronavirus as potential emerging risks which will be actively assessed and monitored.

Financial Review

Key Statistics

	Year ended	Year ended
	31 December	31 December
	2019	2018
Production – net WI share (boepd) ¹	23,739	17,533
Sales volumes (boepd) ²	21,412	15,946
Average price per bbl (US\$) ³	65.70	67.55
Revenue from production (US\$m)	504.2	395.7
Average production costs per boe (US\$) ⁴	17.38	20.49
Depletion and amortisation costs per boe (US\$)	24.87	26.75
Net cash inflow from oil and gas production (US\$m)	390.2	228.9
Net cash inflow from operating activities (US\$m)	406.5	209.0

¹ Based on 20% Catcher production and 29.5% of Kraken production before deducting FlowStream's entitlement to Kraken volumes during the year of 1,460 boepd (2018: 1,360 boepd)

² Working interest share of cargoes sold during the period, net of FlowStream entitlement

³ Excluding hedging gains of US\$1.42/bbl (2018 : loss of US\$1.34/bbl)

⁴ Based on total production costs of US\$150.5m (2018: US\$131.1m), including total lease payments; see table below

Production

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

Revenue

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

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

Cost of sales

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

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

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

¹Fixed lease costs for FPSOs are included in total lease costs disclosed in note 3.3

²Total lease cost per boe are included in total production costs per boe

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

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

Sale of Capricorn Norge AS

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

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

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

Net cash inflow for the Year

	US\$m
Opening cash at 1 January 2019	66.3
Net cash inflow from operations	390.2
Pre-award costs and new venture activities ¹	(29.7)
Net exploration expenditure ²	(146.5)
Development and pre-development expenditure ²	(116.6)
Net cash inflow on disposal of Nova development asset	77.1
Norway tax refund	30.9
Administration expenses, office leases and corporate assets	(20.3)
Net repayment of drawings under RBL	(85.0)
Net finance costs & EFF repayment, equity and other movements	(12.7)
Closing cash at 31 December 2019 ³	153.7

¹ Cash outflows on new venture activities of US\$8.5m not relating to pre-award activities are reallocated from administration expenses

² US\$48.1m of Senegal pre-development expenditure categorised as exploration expenditure in the Statutory Cash Flow Statement has been reallocated to "pre-development" in this table and US\$7.0m of lease reimbursements have been deducted from development expenditure

³ Includes cash balance of US\$7.2m held by Capricorn Norge AS

Reconciliation of statutory cash flow to cash inflow from operations:

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

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

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

Development and pre-development cash outflows in the period primarily relate to costs on Kraken, Nova and Senegal. On Kraken, cash spend of US\$18.3m included the completion of final development drilling on Drill Centre 4 and on Nova cash expenditure of US\$52.3m was incurred, net of working capital refunded by Dyas, prior to the asset being reclassified as held-for-sale. Cash outflows in relation to Senegal pre-development of US\$48.1m included FEED costs prior to FID formally approved in January 2020.

Capital expenditure on Oil and Gas Assets

	US\$m
Opening oil and gas assets at 1 January 2019*	1,765.5
Exploration and appraisal asset additions	168.1
Pre-development asset additions	55.9
Development and producing asset additions	84.7
Development asset disposals – Norway - 10% of Nova	(82.1)
Unsuccessful exploration costs – UK & Norway	(44.6)
Unsuccessful exploration costs – LATAM & East Atlantic	(101.1)
Reversal of impairment – UK Kraken producing asset	147.3
Depletion and amortisation – UK producing assets	(217.2)
Transfer to held-for-sale – Norway oil and gas assets	(119.1)
Foreign exchange movements	(6.2)
Closing oil and gas assets at 31 December 2019	1,651.2

* after opening IFRS 16 adjustment

Analysis of additions:

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

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

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

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

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

Impairment reversal on Kraken producing asset

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

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

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

Impairment of Goodwill

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

Results for the year – Other operating income and expense

Other operating income and costs, administrative expenses and net finance costs

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

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

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

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

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

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

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

Taxation

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

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

Resilience testing

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

Critical Resource is an independent consultant advising on political, stakeholder and sustainability issues. Based in London they specialise in provision of Group-level strategy and engagement services including climate change to extractive industries. They maintain a network of over 200 experts and issue specialists drawing on intelligence from over 80 countries, from industry, investor, government, academic and NGO sectors with a strategic Senior Advisory Panel to provide input to them on emerging sustainable business issues.

Using the International Energy Agency's climate modelling framework, Critical Resource has created multiple scenarios, including a Sustainable Development Scenario (SDS) which envisages a transition to a lower carbon economy well beyond current stated government policies, in order to meet the United Nations Sustainable Development Agenda and limit long term temperature rises to 1.5°C. The SDS sees global CO₂ emissions at roughly half current levels by 2040, and global oil demand gradually falling from now to below half of current levels by 2050.

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

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

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

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

Cairn Energy PLC

Group Income Statement

For the year ended 31 December 2019

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

Cairn Energy PLC

Group Statement of Comprehensive Income

For the year ended 31 December 2019

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

Cairn Energy PLC

Group Balance Sheet

As at 31 December 2019

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

Cairn Energy PLC

Group Statement of Cash Flows

For the year ended 31 December 2019

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

Cairn Energy PLC

Group Statement of Changes in Equity

For the year ended 31 December 2019

	Equity share capital and share premium US\$m	Shares held by ESOP/ SIP Trusts US\$m	Foreign currency translation US\$m	Merger and capital reserves US\$m	Hedge reserve US\$m	Retained earnings US\$m	Total equity US\$m
At 1 January 2018	500.5	(10.2)	(174.9)	296.7	(2.9)	1,885.3	2,494.5
Loss for the year	-	-	-	-	-	(1,135.5)	(1,135.5)
Fair value on hedge options	-	-	-	-	36.1	-	36.1
Hedging loss recycled to the Income Statement	-	-	-	-	7.8	-	7.8
Currency translation differences	-	-	(15.6)	-	-	-	(15.6)
Total comprehensive expense	-	-	(15.6)	-	43.9	(1,135.5)	(1,107.2)
Share-based payments	-	-	-	-	-	14.7	14.7
Shares issued for cash	0.1	(0.1)	-	-	-	-	-
Cost of shares purchased	-	(13.6)	-	-	-	-	(13.6)
Exercise of employee share options	1.7	-	-	-	-	-	1.7
Cost of shares vesting	-	4.3	-	-	-	(4.3)	-
At 31 December 2018	502.3	(19.6)	(190.5)	296.7	41.0	760.2	1,390.1
Profit for the year	-	-	-	-	-	93.6	93.6
Fair value on hedge options	-	-	-	-	(29.7)	-	(29.7)
Hedging gain recycled to the Income Statement	-	-	-	-	(10.9)	-	(10.9)
Currency translation differences	-	-	0.4	-	-	-	0.4
Total comprehensive income	-	-	0.4	-	(40.6)	93.6	53.4
Share-based payments	-	-	-	-	-	11.9	11.9
Exercise of employee share options	0.1	-	-	-	-	-	0.1
Cost of shares vesting	-	3.8	-	-	-	(3.8)	-
At 31 December 2019	502.4	(15.8)	(190.1)	296.7	0.4	861.9	1,455.5

Section 1 – Basis of Preparation

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 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 2019, which will be delivered to the Registrar of Companies. Those accounts have an unqualified audit opinion.

The Group's Financial Statements are prepared on a going concern basis.

b) Accounting standards

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

Effective 1 January 2019, Cairn has adopted the following standards and amendments to standards:

- Amendments to IAS 28 'Investments in Associates and Joint Ventures'
- Amendments to IFRS 9 'Financial Instruments'
- IFRS 16 'Leases'
- Annual improvements to IFRS 2015-2017 cycle

In 2018, Cairn early adopted the following interpretation issued by IFRS IC:

- IFRIC 23 'Uncertainty over Income Tax Treatments'

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

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

c) Annual report and accounts

Full accounts are due to be made available on the Company's website in April 2020 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 Thursday 14 May 2020 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.

Section 1 – Basis of Preparation (continued)

1.3 Adoption of IFRS 16 ‘Leases’

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

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

In assessing the impact of IFRS 16, Cairn identified the following assets where right-of-use assets and lease liabilities are recognised on adoption:

- Accounting for the FPSO on the UK Catcher producing asset; and
- Accounting for non-cancellable leases of the Group’s office premises in Edinburgh, London, Stavanger and Mexico City.

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

In applying IFRS 16, Cairn has used the following practical expedients permitted by the standard:

- Accounting for leases with a remaining term of less than 12 months at 1 January 2019 as short-term leases; and
- The exclusion of initial direct costs for the measurement of the right-of-use assets at the date of adoption.

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

Kraken FPSO

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

Catcher FPSO

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

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

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

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

Other property, plant & equipment – leasehold property

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

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

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

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

Section 1 – Basis of Preparation (continued)

1.3 Adoption of IFRS 16 ‘Leases’ (continued)

Adjustments recognised on adoption of IFRS 16: Reconciliation to 2018 operating lease commitment

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

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

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

Impact on Financial Statements at 31 December 2019

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

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

Both basic and diluted earnings per share decreased by 1.7 cents per share for the year ended 31 December 2019.

In the Cash Flow Statement, lease payments of US\$36.2m, which would previously have been classified as operating cash outflows, are now included in financing activities.

Section 1 – Basis of Preparation (continued)

1.3 Adoption of IFRS 16 ‘Leases’ (continued)

In the Group Balance Sheet at 31 December 2019, property, plant & equipment - development/producing assets have increased by US\$110.9m, other property, plant & equipment by US\$7.0m and lease liabilities by US\$128.8m as a result of adoption. The impact on assets and liabilities per segment as disclosed in note 4.1 is as follows:

	US\$m
Increase in segment assets:	
UK & Norway	110.9
Other Cairn Energy PLC Group	6.6
LATAM	0.4
Increase in segment liabilities:	
UK & Norway	120.9
Other Cairn Energy PLC Group	7.5
LATAM	0.4

Section 2 – Oil and Gas Assets and Operations

2.1 Gross Profit: Revenue and Cost of Sales

	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 US\$m
Oil sales	501.6	393.2
Gas sales	2.6	2.5
Gain/(Loss) on hedge options	10.9	(7.8)
Release of deferred revenue (see note 3.7)	17.2	21.2
Revenue from oil and gas sales	532.3	409.1
Royalty income	1.1	1.2
Total revenue	533.4	410.3
Production costs	(68.1)	(64.2)
Oil inventory and underlift adjustment	20.6	(7.7)
Variable and operating lease charges	(25.6)	(59.5)
Cost of sales	(73.1)	(131.4)
Depletion and amortisation (see note 2.3)	(217.2)	(171.2)
Gross profit	243.1	107.7

Revenue

Cairn receives revenue from its producing assets in the UK North Sea, Kraken and Catcher. On Kraken, where only oil is sold, Cairn takes a full lifting of crude on a scheduled basis to reflect the Group's working interest, whereas on Catcher, Cairn receives its working interest percentage share of each lifting of crude and the Group's working interest share of gas sales. Payment terms are within 30 days.

Net sales volumes during the year averaged ~21,400 boepd (2018: ~16,000 boepd) for the two assets combined, realising an average sales price of US\$64.52/boe (2018: US\$67.99/boe).

Commodity price hedging

During 2019, Cairn realised gains on hedge options of US\$10.9m (2018: loss of US\$7.8m) as the oil price fell below the floor on several hedge contracts. Hedging gains and losses are recycled to the Income Statement from Other Comprehensive Income when the option matures.

Details on the Group's hedging position at 31 December 2019 can be found in note 3.5.

Cost of sales

Inventory of oil held at the year end is recorded at a market value of US\$13.8m (2018: US\$8.2m). Underlift adjustments on Kraken production volumes were US\$15.1m (2018: US\$0.1m) at 31 December 2019. The total inventory and underlift increase in the year was US\$20.6m (2018: decrease of US\$7.7m).

Variable lease costs on the Kraken FPSO of US\$10.5m (2018: variable finance lease costs of US\$22.7m) and on the Catcher FPSO of US\$15.1m (2018: operating lease charge of US\$36.8m) are charged to the Income Statement. Details on leases can be found in note 3.3.

Section 2 – Oil and Gas Assets and Operations (continued)

2.2 Intangible Exploration/Appraisal Assets

	Senegal US\$m	UK & Norway US\$m	LATAM US\$m	East Atlantic US\$m	Total US\$m
Cost					
At 1 January 2018	434.5	210.2	13.1	24.3	682.1
Foreign exchange	-	(0.6)	-	-	(0.6)
Additions	28.5	102.2	19.6	(1.9)	148.4
Disposals	-	(8.2)	-	-	(8.2)
Transfer to development/ producing assets	-	(115.7)	-	-	(115.7)
Unsuccessful exploration costs	-	(19.9)	-	14.4	(5.5)
Unsuccessful exploration costs – discontinued operations	-	(42.7)	-	-	(42.7)
At 31 December 2018	463.0	125.3	32.7	36.8	657.8
Foreign exchange	-	(0.4)	-	-	(0.4)
Additions	58.9	37.3	108.3	19.5	224.0
Unsuccessful exploration costs	-	(5.9)	(84.7)	(31.0)	(121.6)
Unsuccessful exploration costs – discontinued operations	-	(38.7)	-	-	(38.7)
Transfer to development/ producing assets	(378.8)	(30.3)	-	-	(409.1)
Transfer to assets held-for-sale	-	(30.1)	-	-	(30.1)
At 31 December 2019	143.1	57.2	56.3	25.3	281.9
Impairment					
At 1 January 2018 and 31 December 2018	-	48.1	-	14.6	62.7
Unsuccessful exploration costs	-	-	-	(14.6)	(14.6)
Transfer to development/ producing assets	-	(12.1)	-	-	(12.1)
At 31 December 2019	-	36.0	-	-	36.0
Net book value					
At 31 December 2017	434.5	162.1	13.1	9.7	619.4
At 31 December 2018	463.0	77.2	32.7	22.2	595.1
At 31 December 2019	143.1	21.2	56.3	25.3	245.9

All additions to exploration/appraisal assets have been funded through cash and working capital.

Senegal

Additions in the year of US\$58.9m were predominantly on pre-development activities as the joint operation partners worked towards submission of the exploitation plan and FID approval.

At the year end costs relating to the Sangomar Phase 1 development area of US\$378.8m were transferred to development/producing assets following joint operator approval of the development plan. Formal Government of Senegal approval of the development plan was received early in January 2020. Impairment tests were performed on the asset prior to transfer, with no impairment arising.

Remaining costs capitalised at the year end relate to costs incurred outside the current development area and include drilling costs associated with the SNE North and FAN exploration and appraisal wells.

UK & Norway

During the year, four unsuccessful exploration wells were drilled in the UK & Norway. In Norway additions of US\$25.1m relate to the drilling of the operated PL758 Lynghaug and PL842 Godalen wells and the non-operated PL885 Presto well. In the UK additions of US\$3.0m were incurred on the operated P2312 Chimera well, with Cairn agreeing a farm-down prior to drilling reducing the Group's capital exposure. Other exploration additions of US\$9.2m were incurred across the portfolio of licences in both countries. Additions relating to drilling in the year include US\$7.7m of rig costs incurred under short-term lease contracts.

US\$44.6m charged to the Income Statement as unsuccessful costs in the year include the costs of the four wells drilled in 2019 which were all unsuccessful and the write-off of costs on other licences where no further exploration activity is planned.

Section 2 – Oil and Gas Assets and Operations (continued)

2.2 Intangible Exploration/Appraisal Assets (continued)

UK & Norway (continued)

In July 2019, Cairn completed a farm-down on the UK Laverda licence, equalising the working interest shares of partners in the Catcher development and allowing the proposed development of the Laverda and Catcher North satellite fields to proceed. Costs of US\$18.2m, net of impairment recorded in previous years, have been transferred to development/producing assets after testing for impairment.

In December 2019, Cairn announced the proposed sale of its Norwegian subsidiary, Capricorn Norge AS to Sval Energi AS. The deal completed in February 2020. At 31 December 2019, the Group's exploration assets in Norway were reclassified as assets held-for-sale (see note 6.2). Remaining costs capitalised in the UK at 31 December 2019 of US\$21.2m include US\$18.8m relating to the 2018 Agar-Plantain discovery where Cairn is assessing farm-down opportunities ahead of proceeding with the development of the asset.

Additions in 2018 of US\$102.2m included US\$25.9m incurred on pre-development costs in Nova prior to transfer into development/producing assets. Well cost additions were US\$58.2m as the Group completed exploration wells on PL1863 Agar-Plantain and P2184 Ekland in the UK North Sea and on PL582 Tethys and PL790 Raudåsen in the Norwegian North Sea. Remaining additions of US\$18.1m were incurred across remaining licences in the portfolio. Unsuccessful exploration costs in 2018 included the costs of the Ekland, Tethys and Raudåsen wells which did not result in the discovery of commercial hydrocarbons.

LATAM

Additions of US\$108.3m, include US\$70.3m in Mexico, where Cairn commenced a planned six-well exploration programme during the year, US\$30.5m in Nicaragua following a farm-in to four non-operated blocks and US\$7.5m in Suriname.

Mexico

Additions of US\$70.3m predominantly relate to Block 9, in the Gulf of Mexico, where US\$61.6m was incurred as Cairn completed its first operated wells in the country. The Alom-1 well was completed during the year while the Bitol-1 well was operating over the year end. Both wells were ultimately declared unsuccessful and costs of US\$54.2m were written off as unsuccessful during the year. Additions in the year in Mexico include US\$15.8m incurred under short-term lease contracts.

The carrying value of assets in Mexico at the year end of US\$47.0m included US\$31.1m of costs on Block 9 and US\$11.4m on Block 7, where exploration drilling is planned in 2020, with the remaining balance relating to Block 15.

Cairn has agreed farm-in and farm-down agreements with Eni effectively creating a 'swap' of a 15% interest in Block 9 for a 15% non-operated interest in neighbouring Block 10, containing the Saasken discovery. At the year end the agreements were subject to final completion of the signature process of the revised Production Sharing Contracts to give effect to the change in the joint operators' working interests and therefore are not reflected in the Financial Statements.

Nicaragua

Additions in the year of US\$30.5m relate to the farm-in to four non-operated blocks offshore Nicaragua. Cairn has subsequently decided to withdraw from the licences and therefore all additions in the year were written off as unsuccessful exploration costs.

Suriname

Additions in the year of US\$7.5m include US\$3.8m of seismic acquisitions and all costs remain capitalised at the year end.

East Atlantic

East Atlantic additions of US\$19.5m primarily relate to Côte d'Ivoire. In 2018, the credit to additions resulted from the release of remaining accruals of US\$15.4m in Western Sahara following the close out of licences, which offset spend across other assets. The release of accruals also resulted in the reversal of prior year charges to the Income Statement through unsuccessful exploration costs.

Côte d'Ivoire

Cairn completed the farm-in to seven adjacent blocks offshore Côte d'Ivoire following an agreement with the operator Tullow, with total costs incurred in the year of US\$15.2m.

Mauritania

Costs capitalised at the year end of US\$9.8m relate to Block 7. Additions in the year were minimal. Subsequent to the year end Cairn has exercised its option to convert the licence option into a full exploration licence.

Ireland

Cairn has chosen to withdraw from its interests offshore Ireland and the remaining net costs of US\$16.7m have been charged as unsuccessful, reducing the net book value to nil at the year end.

Impairment review

Impairment tests were conducted on assets that were reclassified from intangible exploration/appraisal assets to property, plant & equipment - development/producing assets during the year.

At the year end, Cairn reviewed its remaining intangible exploration/appraisal assets for indicators of impairment. No indicators of impairment were identified.

Section 2 – Oil and Gas Assets and Operations (continued)

2.3 Property, Plant & Equipment – Development/Producing Assets

	Senegal US\$m	UK & Norway US\$m	UK & Norway right-of-use leased assets US\$m	Total US\$m
Cost				
At 1 January 2018	-	1,050.2	177.4	1,227.6
Foreign exchange	-	(6.8)	-	(6.8)
Additions	-	51.2	-	51.2
Increase in decommissioning asset	-	5.3	-	5.3
Transfer from exploration/appraisal assets	-	115.7	-	115.7
Remeasurement of right-of-use leased asset	-	-	(11.5)	(11.5)
At 31 December 2018	-	1,215.6	165.9	1,381.5
Right-of-use leased asset – IFRS 16 opening balance adjustment (see note 1.3)	-	-	147.5	147.5
At 1 January 2019	-	1,215.6	313.4	1,529.0
Foreign exchange	-	(5.8)	-	(5.8)
Additions	-	66.5	-	66.5
Increase in decommissioning asset	-	15.3	2.9	18.2
Transfer from exploration/appraisal assets	378.8	18.2	-	397.0
Disposals	-	(82.1)	-	(82.1)
Transfer to assets held-for-sale (see note 6.2)	-	(89.0)	-	(89.0)
At 31 December 2019	378.8	1,138.7	316.3	1,833.8
Depletion, amortisation and impairment				
At 1 January 2018	-	17.6	3.5	21.1
Depletion and amortisation charges	-	153.0	18.2	171.2
Impairment charge	-	166.3	-	166.3
At 31 December 2018	-	336.9	21.7	358.6
Depletion and amortisation charges	-	160.7	56.5	217.2
Reversal of impairment	-	(147.3)	-	(147.3)
At 31 December 2019	-	350.3	78.2	428.5
Net book value				
At 31 December 2017	-	1,032.6	173.9	1,206.5
At 31 December 2018	-	878.7	144.2	1,022.9
At 31 December 2019	378.8	788.4	238.1	1,405.3

All current year additions of US\$66.5m were funded through cash and working capital and include US\$3.8m of costs under short-term lease contracts.

Nova exploration/appraisal costs were transferred to development assets during 2018, with a further US\$13.6m of additions in 2018 incurred in relation to the field. In 2019, additions were US\$50.2m as development activity continued prior to the asset being transferred to assets held-for-sale (see note 6.2).

Kraken producing asset additions of US\$12.1m include the completion of the final sub-surface drill centre, DC-4. 2018 additions of US\$31.8m were offset by a US\$23.0m reversal of accruals following the successful renegotiation of the development drilling rig contract.

Remaining additions of US\$4.2m (2018: US\$28.8m) were incurred on the Catcher producing asset.

The increase in the decommissioning asset in the current year of US\$18.2m primarily relates to a change in estimates for Kraken and Nova. The 2018 increase was due to a revision to the Catcher decommissioning cost estimate.

Disposals in the year relate to the sale of a 10% working interest in the Nova asset. See note 6.1.

Combined depletion and amortisation charges for the year of US\$217.2m (2018: US\$171.2m) were charged to the Income Statement based on production during the year and total reserves over the life of the asset.

Section 2 – Oil and Gas Assets and Operations (continued)

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

Leased assets

At 1 January 2019, US\$147.5m, the net present value of future fixed lease payments was recorded on the Balance Sheet for the Catcher FPSO, as a right-of-use producing asset following adoption of IFRS 16. There were no changes to the Kraken FPSO right-of-use asset on adoption.

In the second half of 2018, the Kraken FPSO lease agreement was amended resulting in a reduction of the lease liability and right-of-use asset by US\$11.5m – see note 3.3. There were no such revisions to either the Catcher or Kraken lease agreements during 2019.

Impairment review

At 31 December 2018, impairment tests were conducted on the Group's UK & Norway development/producing assets, resulting in an impairment charge of US\$166.3m on the UK Kraken producing asset. No impairment arose on either Catcher or Nova. The Kraken impairment followed a reserves downgrade arising from poor performance of the asset from inception to the previous balance sheet date.

During 2019, production performance on Kraken has improved significantly and in addition the Operator has conducted more regular well testing to improve reservoir monitoring. Consequently Cairn have revised production profile estimates upward to reflect this improvement while also incorporating new volumes associated with the Worcester satellite field to be developed in 2020. The changes to the production profile resulting from improved performance is an indicator that the impairment charge recorded in 2018 may no longer exist or may have decreased. The resultant impairment test, incorporating the revised fair value of the Kraken cash-generating unit, indicated that a full reversal of the 2018 impairment charge should be recorded, despite the reduction to the Group's long-term oil price assumption. The reversal is capped to US\$147.3m, being the original impairment adjusted for the depletion that would have been charged in 2019 had no impairment been recorded.

Sensitivity analysis on the Group's impairment tests can be found in note 2.7.

2.4 Provisions – Decommissioning

	Exploration well abandonment US\$m	Development/ Producing assets US\$m	Total US\$m
At 1 January 2018	4.2	116.9	121.1
Foreign exchange	(0.2)	(6.7)	(6.9)
Unwinding of discount	-	2.3	2.3
(Released)/Provided in the year	(2.7)	5.3	2.6
At 31 December 2018	1.3	117.8	119.1
Foreign exchange	0.1	5.7	5.8
Unwinding of discount	-	2.6	2.6
Provided in the year	-	18.2	18.2
Released on disposal (note 6.1)	-	(1.8)	(1.8)
Transferred to liabilities held-for-sale (see note 6.2)	-	(2.7)	(2.7)
At 31 December 2019	1.4	139.8	141.2

The decommissioning provisions at 31 December 2019 represent the present value of decommissioning costs related to the Kraken and Catcher development/producing assets. The provisions are based on operator cost estimates, subject to internal review and amendment where considered necessary and are calculated using assumptions based on existing technology and the current economic environment, with a discount rate of 2.0% per annum (2018: 2.0%). The reasonableness of these assumptions is reviewed at each reporting date to take into account any material changes required.

A provision of US\$4.5m was introduced in 2019 for development activities undertaken on Nova, which has been partially released through disposal with the balance transferred to liabilities held-for-sale. Further provisions during the year relate to revised decommissioning estimates for Kraken including the incorporation of provision for work undertaken during the year.

During 2018, the decommissioning estimate for Catcher increased by US\$5.3m. The Kraken decommissioning estimate remained unchanged.

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

The decommissioning of the Group's development/producing assets is forecast to occur between 2026 and 2043.

Section 2 – Oil and Gas Assets and Operations (continued)

2.5 Capital Commitments

	At 31 December 2019 US\$m	At 31 December 2018 US\$m
Oil and gas expenditure:		
Intangible exploration/appraisal assets	96.7	146.1
Property, plant & equipment – development/producing assets	460.0	80.1
Contracted for	556.7	226.2

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

The capital commitments for intangible exploration/appraisal assets include US\$40.4m for operations in the UK. The remaining US\$56.3m includes US\$37.9m of commitments in LATAM, predominantly Mexico.

The capital commitments for property, plant & equipment – development/producing assets relate principally to Senegal.

As at 31 December 2019, Cairn had the following commitments relating to short-term leases and leases yet to commence. These amounts are also included in the total of capital commitments shown above.

	Exploration/ Appraisal assets US\$m	Development/ Producing assets US\$m	Total US\$m
Lease commitments at 31 December 2019	9.5	10.6	20.1

2.6 Intangible Assets – Goodwill

	UK & Norway US\$m	Total US\$m
Cost		
At 1 January 2018	388.9	388.9
Foreign exchange	(4.3)	(4.3)
At 31 December 2018	384.6	384.6
Foreign exchange	(1.4)	(1.4)
Transferred to assets held-for-sale (see note 6.2)	(82.1)	(82.1)
At 31 December 2019	301.1	301.1
Impairment		
At 1 January 2018	260.7	260.7
Foreign exchange	(1.9)	(1.9)
At 31 December 2018	258.8	258.8
Foreign exchange	(0.6)	(0.6)
Transferred to assets held-for-sale (see note 6.2)	(36.1)	(36.1)
Impairment charge	79.0	79.0
At 31 December 2019	301.1	301.1
Net book value		
At 31 December 2017	128.2	128.2
At 31 December 2018	125.8	125.8
At 31 December 2019	-	-

Goodwill, net of impairment, allocated to Capricorn Norge AS has been transferred to assets held-for-sale and tested for impairment as part of the disposal group. The subsequent impairment charged is detailed in note 6.2 and recorded in Discontinued Operations.

The remaining goodwill was tested for impairment at the year end. With the Group's reduced long-term oil price assumption and the lack of exploration success in the year, and the impairment reversal recorded on the Kraken development asset, the fair value of assets within the UK & Norway operating segment (including assets and liabilities held-for-sale which are recorded at fair value following the impairment of assets held-for-sale as per note 6.2) can no longer support the carrying value of goodwill. An impairment charge of US\$79.0m has been recorded in the year through continuing operations.

Section 2 – Oil and Gas Assets and Operations (continued)

2.7 Impairment Testing Sensitivity Analysis

UK & Norway

At 31 December 2019, impairment tests were conducted on the Group's development/producing assets.

The recoverable amount for all assets is based on fair value less costs of disposal estimated using discounted cash flow modelling. The key assumptions used in determining the fair value are often subjective, such as the future long-term oil price assumption and estimates of recoverable hydrocarbon reserves. In 2018, Cairn downgraded Kraken reserves estimates on the back of disappointing performance of the asset and facilities reducing future production estimates, resulting in an impairment charge. 2019 has seen much improved performance on Kraken, which together with more regular well testing, has led to an upward revision of production profile estimates, indicating a possible reversal or decrease of impairment, and the subsequent impairment test results in the 2018 impairment being reversed in full in the 2019 profit for the year, even though the Group's long-term price assumption has reduced to US\$65/bbl.

Cairn has run sensitivities on its long-term oil price assumption of US\$65/bbl, using alternate long-term price assumptions of US\$60/bbl, US\$55/bbl and US\$50/bbl. These are considered to be reasonably possible changes for the purposes of sensitivity analysis. The impact on the carrying value of development/producing assets is shown below.

Reduction in long-term oil price assumption to:	US\$60/bbl US\$m	US\$55/bbl US\$m	US\$50/bbl US\$m
Reduction in carrying value of development/producing assets	36.0	95.1	213.6

The Group's proved and probable and contingent reserve estimates are based on P50 probabilities. P10 and P90 estimates are also produced but would not provide a reasonable estimate to be used in calculating the fair value of the Group's assets.

The reserve estimates are incorporated into production profiles which include assumptions on the performance of the asset. Cairn's current assumptions imply a maximum uptime for producing assets of 85%-90%. Given the improvement and stability of the performance of the assets over 2019, Cairn does not believe reducing this assumption would provide a reasonable estimate of fair value at the year end.

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities

3.1 Cash and Cash Equivalents

	At 31 December 2019 US\$m	At 31 December 2018 US\$m
Cash at bank	7.0	9.1
Money market funds	139.5	57.2
	146.5	66.3

Closing cash and cash equivalents disclosed in the Cash Flow Statement of US\$153.7m include cash and cash equivalents shown above together with US\$7.2m of cash balances held by Capricorn Norge AS included in assets held-for-sale (see note 6.2).

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

At 31 December 2018 and 2019, Cairn has invested surplus funds into money market funds.

Cairn limits the placing of funds and other investments to banks or financial institutions that have ratings of A- or above from at least two of Moody's, Standard & Poor's or Fitch, unless a sovereign guarantee is available from a AAA- rated government. The counterparty limits vary between US\$50.0m and US\$200.0m depending on the ratings of the counterparty. No investments are placed with any counterparty with a five-year credit default swap exceeding 250 bps. Investments in money market liquidity funds are only made with AAA rated liquidity funds and the maximum holding in any single fund is 20% of total investments.

3.2 Loans and Borrowings

Cairn has two loan facilities at the year end; the Reserve-Based Lending ("RBL") facility available to several Group companies and the Norwegian Exploration Finance Facility ("EFF").

Reconciliation of opening and closing liabilities to cash flow movements:	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 US\$m
Opening liabilities	101.7	29.8
Loan advances disclosed in the Cash Flow Statement:		
RBL advances in the year	20.0	85.0
EFF advances in the year	27.4	32.4
	47.4	117.4
Loan repayments disclosed in the Cash Flow Statement:		
RBL repayments in the year	(105.0)	-
EFF repayments in the year	(29.0)	(31.2)
	(134.0)	(31.2)
Other movements in Cash Flow Statement:		
Debt arrangement fees paid	-	(10.4)
Non-cash movements:		
Amortisation of debt arrangement fees	1.9	-
Foreign exchange	(1.6)	(3.9)
Transfer of unamortised arrangement fees to prepayments	8.5	-
Transferred to liabilities held-for-sale (see note 6.2)	(23.9)	-
Closing liabilities	-	101.7
Amounts due less than one year:		
EFF	-	26.2
Amounts due greater than one year:		
RBL facility	-	75.5
	-	101.7

Debt arrangement fees of US\$10.4m paid in 2018 (2019: US\$nil) relate to both the RBL (US\$9.5m) and the EFF (US\$0.9m). Foreign exchange differences also relate to both facilities. Unamortised fees relating to the RBL at 31 December 2019 have been reclassified as prepayments pending further drawdowns on the facility that are currently forecast.

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities (continued)

3.2 Loans and Borrowings (continued)

RBL

The Group's RBL facility was undrawn at 31 December 2019 with the opening balance of cash drawings of US\$85.0m, advanced during 2018, fully repaid in the year.

Cairn signed an extension to its existing RBL facility with a syndicate of international banks, effective on 20 December 2018. Interest on outstanding debt is charged at the appropriate LIBOR for the currency drawn plus an applicable margin. The facility remains subject to biannual redeterminations, has a market standard suite of covenants and is cross-guaranteed by all Group companies party to the facility. Debt is repayable in line with the amortisation of bank commitments over the period from 1 July 2022 to the extended final maturity date of 31 December 2025.

Under IFRS 9, the extension of the facility to December 2025 constituted substantially different terms from the original and as such the financial liability relating to the original facility was extinguished on the date of the extension and replaced with a new liability based on the revised terms. This resulted in the acceleration of the amortisation of borrowing costs relating to the previous facility, resulting in a charge of US\$15.1m to the Income Statement in 2018.

Total commitments remain unchanged at US\$575.0m under the revised facility, but an accordion feature permits additional future commitments of up to US\$425.0m. The maximum available drawdown at 31 December 2019 was US\$317.0m. The facility can also be used for general corporate purposes and may also be used to issue letters of credit and performance guarantees for the Group of up to US\$250.0m.

EFF

As at 31 December 2019, US\$24.4m (NOK 214.2m) (2018: US\$27.1m (NOK 233.8m)) was drawn under the Norwegian EFF, before offsetting capitalised fees. The liability outstanding at 31 December 2019 has been reclassified as a liability held-for-sale (see note 6.2).

During the year, US\$27.4m was drawn under the facility and US\$29.0m repaid following receipt of the tax refund.

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities (continued)

3.3 Lease Liabilities

Reconciliation of opening and closing liabilities to cash flow movements:	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 US\$m
Opening finance lease liability brought forward	165.4	169.7
IFRS 16 opening balance adjustment (note 1.3)	157.5	-
Revised opening lease liabilities	322.9	169.7
Leases commenced and revisions to leases in year:		
Revisions to lease liabilities	0.4	(11.5)
	0.4	(11.5)
Lease payments disclosed in the Cash Flow Statement as financing cash flows:		
Total lease payments	(85.1)	(30.1)
Variable lease payments (note 2.1)	25.6	22.7
	(59.5)	(7.4)
Other movements in the Cash Flow Statement:		
Reimbursements received from lessors	7.0	4.7
Non-cash movements:		
Reimbursements due transferred (from)/to other receivables	(3.0)	2.1
Lease interest charges	15.3	7.8
Foreign exchange	0.4	-
Transferred to liabilities held-for-sale (note 6.2)	(0.6)	-
	12.1	9.9
Closing liabilities	282.9	165.4
Amounts due less than one year:		
Tangible development/producing assets - right-of-use assets	41.0	18.5
Other property, plant & equipment - right-of-use assets	2.1	-
	43.1	18.5
Amounts due greater than one year:		
Tangible development/producing assets - right-of-use assets	234.0	146.9
Other property, plant & equipment - right-of-use assets	5.8	-
	239.8	146.9
Total lease liabilities	282.9	165.4

Comparative information has not been restated on adoption of IFRS 16.

Variable lease costs are disclosed in note 2.1. Amortisation charges on right-of-use assets relating to property, plant & equipment - development/producing assets are disclosed in note 2.3. Depreciation charges on other right-of-use assets are disclosed in note 4.1. Costs relating to short-term leases and leases of low value assets, relating to exploration and development activities are disclosed in notes 2.2 and 2.3 where material. There are no further material short-term leases or charges for leases of low-value assets.

The carrying value of right-of-use development/producing assets at 31 December 2019 is US\$238.1m (see note 2.3) and the carrying value of right-of-use assets included in other property, plant & equipment is US\$7.0m.

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities (continued)

3.4 Trade and Other Receivables

	At 31 December 2019 US\$m	At 31 December 2018 US\$m
Trade receivables	22.3	39.0
Other receivables	9.0	12.7
Accrued income – underlift (see note 2.1)	15.1	0.1
Prepayments	14.0	4.4
Joint operation receivables	50.8	35.0
	111.2	91.2

Trade receivables are measured at amortised cost. Revenue is recognised at the point in time where title passes to the customer and payment becomes unconditional.

Following the repayment of borrowings under the RBL facility in 2019, facility fees of US\$8.5m have been transferred to prepayments at 31 December 2019, to be amortised over future forecast drawdowns. See note 3.2.

Where material Cairn has assessed the recoverability of trade and other receivables and no further loss allowance is recognised for expected credit losses on all financial assets held at the balance sheet date.

Reconciliation of opening and closing receivables to operating cash flow movements:	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 US\$m
Opening trade and other receivables	91.2	83.1
Closing trade and other receivables	(111.2)	(91.2)
Increase in trade and other receivables	(20.0)	(8.1)
Movements in joint operation receivables relating to investing activities	17.7	(20.8)
Movements in prepayments and other receivables relating to other non-operating activities	10.5	(12.4)
Other receivables transferred to assets held-for-sale (see note 6.2)	(7.3)	-
Foreign exchange	1.3	(0.3)
Trade and other receivables movement recorded in operating cash flows	2.2	(41.6)

The movements in joint operation receivables relating to investing activities, relate to the Group's share of the receivables of joint operations in respect of exploration, appraisal and development activities. Cash flow movements during the year include amounts for Norway operations. Movements relating to production activities are included in amounts through operating cash flows.

Other non-operating cash flow movements for 2019 primarily relate to the reclassification of prepaid facility fees.

In 2018, other non-operating cash flow movements primarily related to the release of prepaid facility fees. The increase in trade and other receivables movements through operating cash flows primarily reflects the increase in trade receivables held as at 31 December 2018.

3.5 Derivative Financial Instruments

	At 31 December 2019 US\$m	At 31 December 2018 US\$m
Non-current assets		
Financial assets – hedge options maturing after one year	-	7.7
Current assets		
Financial assets – hedge options maturing within one year	4.1	36.7
Current liabilities		
Financial liabilities – hedge options maturing within one year	(1.6)	-
	2.5	44.4

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities (continued)

3.5 Derivative Financial Instruments (continued)

Cairn currently has an active commodity price hedging programme in place to protect debt capacity and support committed capital programmes. Mark-to-market gains and losses on oil price hedge options are recorded as financial assets and financial liabilities as appropriate at 31 December 2019.

At 31 December 2019 the Group had hedged ~2.8m barrels of 2020 forecast Kraken and Catcher oil production, using collar and swap structures. ~1.9m barrels of production have been hedged through collars, with a weighted average floor and ceiling price of US\$62.09/bbl and US\$74.89/bbl respectively (all prices quoted relate to dated Brent). ~0.9m barrels of production have been hedged through swap options with a weighted average strike price of US\$61.85/bbl. At 31 December 2019, no production forecast beyond 31 December 2020 had been hedged.

The collars and swaps have been designated as hedges for hedge accounting. Hedge effectiveness is assessed at commencement of the option and prospectively thereafter. At the year end, the closing Brent oil price was US\$66.00/bbl (2018: US\$50.70/bbl). Fair value movements on the cost of the option are recorded in the Statement of Comprehensive Income in the year, with fair value losses of US\$40.6m being offset by fair value gains on options that matured in the year of US\$10.9m. The gain on matured options has been recycled to the Income Statement. In 2018 fair value gains of US\$43.9m were offset by a loss of US\$7.8m on options that matured in the year. The loss on matured options was recycled to the Income Statement.

	At 31 December 2019	At 31 December 2018
Hedge options outstanding at the year end		
Volume of oil production hedged	2.8mmbbls	3.2mmbbls
Weighted average floor price of options	US\$62.09	US\$67.14
Weighted average ceiling price of options	US\$74.89	US\$83.81
Weighted average strike price of swaps	US\$61.85	-
Maturity dates	January 2020 – December 2020	January 2019 – March 2020
	2019	2018
Effects of hedge accounting on financial position and profit/(loss) for the year	US\$m	US\$m
Financial assets	4.1	44.4
Financial liabilities	(1.6)	-
Accruals and other payables – accrued option costs	(2.1)	(3.4)
Hedging (loss)/gain recorded in Other Comprehensive Income	(29.7)	36.1
Hedging (gain)/loss recycled to Income Statement	(10.9)	7.8
Hedging gain/(loss) recorded in Income Statement against revenue (note 2.1)	10.9	(7.8)

Sensitivity analysis

Sensitivity analysis has been performed on equity movements that would arise from changes in the year end oil price forward curve and the resulting impact on the fair value of open hedge options at the year end. The sensitivity analysis considers only the impact on line items directly relating to hedge accounting (being financial assets and liabilities and fair value gains through Other Comprehensive Income) and not the impact of the change of other balance sheet items where valuation is based on the year end oil price, such as inventory.

	At 31 December 2019	At 31 December 2018
	US\$m	US\$m
Increase/(decrease) in equity		
Change in year end oil price forward curve		
Decrease of 10%	12.4	15.3
Decrease of 20%	26.6	31.5
Increase of 10%	(12.6)	(13.5)
Increase of 20%	(25.5)	(25.4)

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities (continued)

3.6 Trade and Other Payables

	At 31 December 2019 US\$m	At 31 December 2018 US\$m
Trade payables	0.9	9.7
Other taxation and social security	0.9	1.4
Accruals and other payables	25.4	30.9
Joint operation payables	107.4	61.1
	134.6	103.1

Joint operation payables include US\$71.4m (2018: US\$16.4m), US\$5.5m (2018: US\$24.3m) and US\$30.5m (2018: US\$20.4m) relating to exploration/appraisal assets, development/producing assets and production costs respectively.

The increase in payables for exploration/appraisal assets in 2019 includes US\$49.2m to be settled for the Mexican drilling campaign. Joint operation payables on development/producing assets at 31 December 2019 continue to reduce for Kraken and Catcher. Last year's closing balance included US\$9.8m relating to Nova, which was transferred to held-for-sale in 2019. Production costs have increased as oil production has improved during 2019.

Reconciliation of opening and closing payables to operating cash flow movements:	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 US\$m
Opening trade and other payables	(103.1)	(197.8)
Closing trade and other payables	134.6	103.1
Increase/(Decrease) in trade and other payables	31.5	(94.7)
Movement in joint operation payables relating to investing activities	(40.4)	111.7
Movement in trade payables relating to investing activities	1.1	4.3
Movements in accruals and other payables relating to non-operating activities	3.4	(0.9)
Trade and other payables transferred to liabilities held-for-sale (see note 6.2)	10.4	-
Foreign exchange	(1.1)	2.3
Trade and other payables movement recorded in operating cash flows	4.9	22.7

Movements above for investing activities relate to exploration, appraisal and development activities through the Group's joint operations. Movements relating to production activities are included in amounts through operating cash flows.

The movement in trade and other payables recorded in the Cash Flow Statement through operating cash flows primarily arise on production activities in the UK North Sea.

3.7 Deferred Revenue

FlowStream deferred revenue	Note	2019 US\$m	2018 US\$m
At 1 January		52.8	74.0
Released during the year	2.1	(17.2)	(21.2)
At 31 December		35.6	52.8
Amounts expected to be released within one year		16.9	22.0
Amounts expected to be released after one year		18.7	30.8
		35.6	52.8

Deferred revenue relates to the stream agreement with FlowStream entered into in 2017.

Section 4 – Income Statement Analysis

4.1 Segmental Analysis

Geographical information: non-current assets

	At 31 December 2019 US\$m	At 31 December 2018 US\$m
Senegal	521.9	463.0
UK	1,047.7	941.9
Norway	-	160.3
Goodwill	-	125.8
UK & Norway	1,047.7	1,228.0
Mexico	49.0	31.0
Suriname	9.2	1.7
LATAM	58.2	32.7
Côte d'Ivoire	15.2	-
Ireland	-	14.8
Mauritania	9.8	7.4
Israel	0.3	-
East Atlantic	25.3	22.2
Other UK	11.7	5.8
Total non-current assets	1,664.8	1,751.7

Section 4 – Income Statement Analysis (continued)

4.1 Segmental Analysis (continued)

The segment results for the year ended 31 December 2019 are as follows:

	Senegal US\$m	UK & Norway US\$m	LATAM US\$m	East Atlantic US\$m	Other Cairn Energy Group US\$m	Group adjust- ment for segments US\$m	Total US\$m
Revenue	-	532.3	-	-	1.1	-	533.4
Cost of sales	-	(73.1)	-	-	-	-	(73.1)
Depletion and amortisation charges	-	(217.2)	-	-	-	-	(217.2)
Gross profit	-	242.0	-	-	1.1	-	243.1
Pre-award costs	-	(4.8)	(5.0)	(2.3)	(9.1)	4.0	(17.2)
Unsuccessful exploration costs	-	(44.6)	(84.7)	(16.4)	-	38.7	(107.0)
Depreciation – purchased assets	-	(0.2)	(0.2)	-	(0.2)	0.2	(0.4)
Amortisation – right-of-use assets	-	(0.4)	(0.1)	-	(1.8)	0.4	(1.9)
Amortisation of other intangible assets	-	(0.7)	-	-	(2.4)	0.7	(2.4)
Other administrative expenses/income	-	(0.8)	(0.1)	-	(26.9)	0.2	(27.6)
Reversal of impairment of property, plant & equipment – development/producing assets	-	147.3	-	-	-	-	147.3
Impairment of goodwill	-	(79.0)	-	-	-	-	(79.0)
Profit on disposal of development assets (note 6.2)	-	0.7	-	-	-	(0.7)	-
Impairment of disposal group (note 6.2)	-	(65.7)	-	-	-	65.7	-
Operating profit/(loss)	-	193.8	(90.1)	(18.7)	(39.3)	109.2	154.9
Loss on fair value of financial assets	-	-	-	-	(1.8)	-	(1.8)
Interest income	-	0.8	-	-	2.6	(0.4)	3.0
Finance costs	-	(20.8)	(0.4)	-	(22.2)	6.8	(36.6)
Profit/(Loss) before taxation from continuing operations	-	173.8	(90.5)	(18.7)	(60.7)	115.6	119.5
Tax credit/(charge)	-	90.0	(0.3)	-	-	(90.0)	(0.3)
Profit/(Loss) for the year from continuing operations	-	263.8	(90.8)	(18.7)	(60.7)	25.6	119.2
Loss from discontinued operations	-	-	-	-	-	(25.6)	(25.6)
Profit/(Loss) attributable to equity holders of the Parent	-	263.8	(90.8)	(18.7)	(60.7)	-	93.6
Balances as at 31 December 2019:							
Capital expenditure	58.9	123.1	109.9	19.5	1.6	-	313.0
Total assets	522.1	1,391.7	91.1	30.7	174.3	(120.9)	2,089.0
Total liabilities	9.9	541.9	51.2	6.5	144.9	(120.9)	633.5
Non-current assets	521.9	1,047.7	58.2	25.3	11.7	-	1,664.8

All revenue in the UK & Norway segment is attributable to the sale of oil and gas in the UK. 38% of the Group's sales of oil and gas are to a single customer that markets the crude on Cairn's behalf and delivers it to the ultimate buyers.

Cairn has a cash pooling arrangement which is used to offset overdrafts in some subsidiaries with cash balances in other subsidiaries. For segmental disclosure, the overdraft in each segment is shown as a liability and the offset is shown in the Group adjustment column.

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

Section 4 – Income Statement Analysis (continued)

4.1 Segmental Analysis (continued)

The segment results for the year ended 31 December 2018 were as follows:

	Senegal US\$m	UK & Norway US\$m	LATAM* (restated) US\$m	East Atlantic* (restated) US\$m	Other Cairn Energy Group US\$m	Group adjust- ment for segments (restated) US\$m	Total (restated) US\$m
Revenue	-	409.1	-	-	1.2	-	410.3
Cost of sales	-	(131.4)	-	-	-	-	(131.4)
Depletion and amortisation charges	-	(171.2)	-	-	-	-	(171.2)
Gross profit	-	106.5	-	-	1.2	-	107.7
Pre-award costs	-	(6.8)	(5.2)	(6.2)	(7.2)	3.9	(21.5)
Unsuccessful exploration costs	-	(62.6)	-	14.4	-	42.7	(5.5)
Other operating income	-	-	-	5.0	-	-	5.0
Loss on disposal of intangible exploration/appraisal assets	-	(4.5)	-	-	-	4.5	-
Depreciation	-	(0.4)	-	-	(0.6)	0.4	(0.6)
Amortisation of other intangible assets	-	(0.4)	-	-	(2.3)	0.4	(2.3)
Other administrative expenses	-	(1.7)	(0.3)	(0.3)	(44.4)	1.2	(45.5)
Impairment of property, plant & equipment – development/producing assets	-	(166.3)	-	-	-	-	(166.3)
Operating (loss)/profit	-	(136.2)	(5.5)	12.9	(53.3)	53.1	(129.0)
Loss on derecognition of financial assets	-	-	-	-	(713.1)	-	(713.1)
Loss on fair value of financial assets	-	-	-	-	(352.2)	-	(352.2)
Interest income	0.1	0.1	-	-	1.5	-	1.7
Other finance income and costs	-	(21.9)	-	-	1.6	1.3	(19.0)
Profit/(Loss) before taxation from continuing operations	0.1	(158.0)	(5.5)	12.9	(1,115.5)	54.4	(1,211.6)
Tax credit	-	41.1	-	-	89.4	(41.1)	89.4
Profit/(Loss) for the year from continuing operations	0.1	(116.9)	(5.5)	12.9	(1,026.1)	13.3	(1,122.2)
Loss for the year from discontinued operations	-	-	-	-	-	(13.3)	(13.3)
Profit/(Loss) attributable to equity holders of the Parent	0.1	(116.9)	(5.5)	12.9	(1,026.1)	-	(1,135.5)
Balances as at 31 December 2018:							
Capital expenditure	28.5	147.7	19.7	(1.9)	0.8	-	194.8
Total assets	470.5	1,532.7	42.0	40.4	82.2	(166.3)	2,001.5
Total liabilities	16.9	585.6	2.4	2.2	170.6	(166.3)	611.4
Non-current assets	463.0	1,228.0	32.7	22.2	5.8	-	1,751.7

*Previously combined as International

All revenue in the UK & Norway segment was attributable to the sale of oil and gas in the UK. 48.7% of the Group's sales of oil and gas were to a single customer that marketed the crude on Cairn's behalf and delivered it to the ultimate buyers.

Section 5 – Taxation

5.1 Tax Strategy and Governance

The Group's tax strategy is fully aligned with its overarching business objectives and principles. Cairn aims to be a good corporate citizen, managing its tax affairs in a transparent and responsible manner in all the jurisdictions in which it operates. Cairn is committed to having open and constructive relationships with all tax authorities.

Since 2017 the Group's UK activities have included production income on the Catcher and Kraken assets. Due to the level of costs incurred in developing the fields there are no taxable profits in 2018 or 2019 and it is unlikely that any taxable profits will be realised for several years. Taxable profits in other jurisdictions, where Cairn's assets are at various stages of the value creation cycle, are also minimal with cash payments of corporation taxes made only in Mexico totalling US\$0.5m (of which US\$0.2m was an overpayment) during the year (2018:US\$nil).

Cairn undertakes tax planning that supports the business and reflects commercial and economic activity. The Group's policy is to not enter into any artificial tax avoidance schemes but to build and maintain strong collaborative working relationships with all relevant tax authorities based on transparency and integrity. The Group aims for certainty in relation to the tax treatment of all items; however, it is acknowledged that this will not always be possible, for example where transactions are complex or there is a lack of maturity in the tax regime in the relevant jurisdiction in which the Group is operating. In such circumstances Cairn will seek external advice where appropriate and ensure that the approach adopted in any relevant tax return includes full disclosure of the position taken.

5.2 Tax Charge/(Credit) on Profit/(Loss) for the Year

Analysis of tax charge/(credit) on profit/(loss) for the year

	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 (restated) US\$m
Current tax charge:		
Overseas corporation taxes	0.3	-
	0.3	-
Deferred tax credit:		
Deferred tax on valuation of financial assets at fair value through profit or loss	-	(89.4)
	-	(89.4)
Total tax charge/(credit) on profit/(loss) from continuing operations	0.3	(89.4)

Factors affecting tax charge/(credit) for the year

A reconciliation of the income tax charge/(credit) applicable to the profit/(loss) before income tax to the UK statutory rate of income tax is as follows:

	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 (restated) US\$m
Profit/(Loss) before taxation from continuing operations	119.5	(1,211.6)
Profit/(Loss) before tax multiplied by the UK statutory rate of corporation tax of 19% (2018: 19%)	22.7	(230.2)
Effect of:		
Special tax rates and reliefs applying to oil and gas activities	64.4	(33.7)
Impact on deferred tax of adjustments in respect of prior years	(3.3)	-
Temporary differences not recognised	(100.2)	46.8
Disposal of financial assets held at fair value through profit or loss	-	135.5
Permanent items (non-taxable)/non-deductible	16.6	3.6
Other	0.1	(11.4)
Total tax charge/(credit) on profit/(loss) from continuing operations	0.3	(89.4)

Section 5 – Taxation (continued)

5.2 Tax Charge/(Credit) on Profit/(Loss) for the Year (continued)

Factors affecting tax charge/(credit) for the year (continued)

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2019 of 19% (2018: 19%).

The UK main rate of corporation tax is currently 19% (2018: 19%).

The applicable UK statutory tax rate applying to North Sea oil and gas activities is 40% (2018: 40%).

The effect of special tax rates and reliefs applying to oil and gas activities of US\$64.4m (2018: US\$(33.7)m) comprises US\$68.2m (2018: US\$(24.2)m) in respect of differences between the average UK statutory rate and the special rates applying to oil and gas activities in the UK and US\$(3.8)m (2018: US\$(9.5)m) in respect of the UK ring fence expenditure supplement ("RFES") claimed in the year.

The effect of temporary differences not recognised of US\$(100.2)m (2018: US\$46.8m) includes:

- a US\$(125.9)m (2018: US\$58.7m) movement in the year in respect of the unrecognised deferred tax asset on UK supplementary charge losses and the deferred tax liability on UK ring fence temporary differences in respect of non-current assets;
- US\$8.9m (2018: US\$(2.7)m) unsuccessful exploration costs on which future tax relief is available but the expenditure has been expensed through the Income Statement;
- US\$6.7m (2018: US\$2.4m) in respect of the carry forward of UK tax losses on which no deferred tax asset was recognised;
- US\$10.1m (2018: US\$nil) on overseas tax losses and other temporary differences arising in the period on which no deferred tax was recognised; and
- in 2018 a US\$(11.6)m (2019: US\$nil) movement in the unrecognised deferred tax asset brought forward at the start of the year in respect of the shares that the Group held in Vedanta Limited (previously Cairn India Limited).

5.3 Income Tax Asset

The income tax asset of US\$27.4m (2018: US\$32.8m) relates to cash tax refunds due from the Norwegian authorities on the tax value of exploration and other qualifying expenses incurred in Norway during the year. Refunds due at 31 December 2019 of US\$27.4m have been transferred to assets held-for-sale, see note 6.2.

During 2019, a cash tax refund of US\$30.9m (2018: US\$36.8m) was received on prior year qualifying expenditure on exploration activities, new venture costs and administrative expenses. US\$2.3m (2018: US\$20.4m) of the refund is allocated against operating activities in the Cash Flow Statement where it relates to pre-award and administrative costs and the remaining US\$28.6m (2018: US\$16.4m) included as a refund in investing activities where it relates to costs initially capitalised within intangible exploration/appraisal assets.

Section 5 – Taxation (continued)

5.4 Deferred Tax Assets and Liabilities

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

	Temporary difference in respect of non- current assets US\$m	Losses US\$m	Other temporary differences US\$m	Total US\$m
Deferred tax assets				
At 1 January 2018	(349.0)	349.0	-	-
Deferred tax credit/(charge) through the Income Statement	105.9	(105.9)	-	-
At 31 December 2018	(243.1)	243.1	-	-
Deferred tax (charge) /credit through the Income Statement	(60.5)	(11.1)	71.6	-
At 31 December 2019	(303.6)	232.0	71.6	-
Deferred tax liabilities				
At 1 January 2018	(179.9)	15.3	0.2	(164.4)
Exchange difference arising	5.1	(1.9)	(0.3)	2.9
Deferred tax credit through the Income Statement	89.4	-	-	89.4
Deferred tax (charge)/credit from discontinued operations	(4.4)	8.5	1.5	5.6
At 31 December 2018	(89.8)	21.9	1.4	(66.5)
Exchange differences arising	5.7	(1.4)	(0.1)	4.2
Deferred tax credit/(charge) from discontinued operations	84.1	(20.5)	(1.3)	62.3
At 31 December 2019	-	-	-	-

	At 31 December 2019 US\$m	At 31 December 2018 US\$m
Deferred tax liabilities analysed by country		
Norway	-	(66.5)
Total deferred tax liability	-	(66.5)

At 31 December 2019, there is an unrecognised deferred tax asset of US\$6.6m (2018: US\$4.7m) in respect of the shares the Group holds in Vedanta Limited.

Recognised deferred tax assets

As at the balance sheet date, no net deferred tax asset or liability has been recognised in the UK (2018: no net UK deferred tax asset or liability recognised) as other temporary differences and tax losses are only recognised to the extent that they offset the UK deferred tax liability arising on business combinations and carried interests attributable to UK ring fence trading activity, as it is not considered probable that future profits will be available to recover the value of the asset.

Section 5 – Taxation (continued)

5.4 Deferred Tax Assets and Liabilities (continued)

Unrecognised deferred tax assets

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

	At 31 December 2019 US\$m	At 31 December 2018 US\$m
UK fixed asset temporary differences	408.4	383.2
UK Ring Fence Corporation Tax trading losses	-	118.0
UK Supplementary Charge Tax trading losses	-	855.9
UK other ring fence temporary differences	105.2	117.8
UK non-ring fence trading losses	3.7	3.7
UK non-ring fence pre-trade losses	3.0	2.9
UK excess management expenses	329.2	318.7
UK non-trade deficits	61.6	52.7
UK temporary differences on share-based payments	11.8	10.6
UK capital losses	151.9	-
UK other temporary differences	-	0.1
Mexico tax losses and temporary differences	55.6	-
Brazil tax losses	0.3	-
Nicaragua fixed asset temporary differences	30.4	-
Senegal fixed asset temporary differences	5.9	5.3
Temporary differences on financial assets held at fair value through profit or loss	6.6	4.7
Greenland tax losses	-	1,088.3

The applicable UK statutory tax rate applying to North Sea oil and gas activities of 40% is made up of Ring Fence Corporation Tax ("RFCT") of 30% and Supplementary Charge Tax ("SCT") of 10%. At the balance sheet date the Group has US\$601.0m RFCT losses which can be offset against RFCT of 30% on future ring fence trading profits and US\$516.7m SCT losses which can be offset against SCT of 10% on future ring fence trading profits.

In 2018 the Group had US\$928.3m of RFCT and US\$855.9m of SCT losses carried forward to offset against future ring fence trading profits.

A deferred tax asset has been recognised in respect of all of the RFCT and SCT losses and activated UK investment allowance and decommissioning liabilities of US\$577.5m and US\$34.6m respectively, offsetting in full a deferred tax liability on ring fence temporary differences in respect of non-current assets. No deferred tax asset has been recognised on other ring fence temporary differences of US\$105.2m (2018: US\$117.8m) relating to decommissioning liabilities as it is not considered probable that these amounts will be utilised in future periods.

In 2018 a deferred tax asset was recognised in respect of US\$810.3m of RFCT losses, offsetting in full the deferred tax liability on ring fence temporary differences in respect of non-current assets. No deferred tax asset was recognised in 2018 on the remaining US\$118.0m RFCT losses and SCT losses of US\$855.9m.

The deferred tax liability recognised on UK ring fence fixed asset temporary differences in respect of non-current assets of US\$303.6m (2018: US\$243.1m) includes temporary differences in respect of investment allowances (previously field allowances) of US\$20.2m (2018: US\$759.5m) on the Laverda and Kraken developments which will reduce future ring fence profits subject to SCT.

Section 5 – Taxation (continued)

5.5 Contingent Liability – Indian Tax Assessment

In January 2014 Cairn UK Holdings Limited ('CUHL'), a direct subsidiary of Cairn Energy PLC, received notification from the Indian Income Tax Department ("IITD") that it was restricted from selling its shareholding in Cairn India Limited ("CIL"); at that time the shareholding was approximately 10% and had a market valuation of INR 60bn (US\$1.0bn). In that notification, the IITD claimed to have identified unassessed taxable income resulting from certain intra-group share transfers undertaken in 2006 (the "2006 Transactions"), such transactions having been undertaken in order to facilitate the IPO of CIL in 2007. The notification made reference to retrospective Indian tax legislation enacted in 2012, which the IITD was seeking to apply to the 2006 Transactions. Following the merger in April 2017 of CIL and Vedanta Limited, CUHL's shareholding in CIL was replaced by a shareholding of approximately 5% in Vedanta Limited issued together with preference shares.

In addition to attaching CUHL's shares in Vedanta Limited, the IITD seized dividends due to CUHL from those shareholdings totalling INR 11.4bn (US\$159.8m). The IITD has also notified Cairn that a tax refund of INR 15.9bn (US\$222.8m) due to CUHL as a result of overpayment of capital gains tax on a separate matter in 2011, has been applied as partial payment of the tax assessment of the 2006 Transactions. This tax refund was previously classified as a contingent asset as the inflow of economic benefits was considered less than probable.

The IITD holds CUHL as an assessee in default in respect of tax demanded on the 2006 Transactions, and as such has pursued enforcement against CUHL's assets in India. To date these enforcement actions have included attachment of CUHL's shareholding in Vedanta Limited and sale of 181,764,297 shares and seizure of the proceeds, seizure of the proceeds from the redemption of the preference shares, seizure of the US\$159.8m dividends due to CUHL as described above, and offset of a US\$222.8m tax refund due to CUHL in respect of another matter. To date 99% of CUHL's shareholding has been liquidated by the IITD.

The assessment by the IITD of principal tax due on the 2006 Transactions is INR 102bn (US\$1.4bn), plus applicable interest and penalties. Interest is currently being charged on the principal at a rate of 12% per annum from February 2017, although this is potentially subject to the IITD's Indian court appeal that interest should be back-dated to 2007. Penalties are currently assessed as 100% of the principal tax due, although this is subject to appeal by CUHL that penalties should not be charged given the retrospective nature of the tax levied.

The Group has legal advice confirming that the maximum amount that could ultimately be recovered from Cairn by the IITD, in excess of the assets already seized, is limited to the value of CUHL's assets, principally the remaining ordinary shares in Vedanta Limited.

In March 2015 Cairn filed a Notice of Dispute under the UK-India Bilateral Investment Treaty (the "Treaty") in order to protect its legal position and seek restitution of the value effectively seized by the IITD in and since January 2014. Cairn's principal claims are that the assurance of fair and equitable treatment and protections against expropriation afforded by the Treaty have been breached by the actions of the IITD, which is seeking to apply retrospective taxes to historical transactions already closely scrutinised and approved by the Government of India. The IITD has attached and seized assets to try to enforce such taxation. Cairn's plea is therefore that the effects of the tax assessment should be nullified and that Cairn should receive recompense from India for the loss of value resulting from the 2014 attachment of CUHL's shares in CIL and the withholding of the tax refund, which together total approximately US\$1.4bn.

The Treaty proceedings formally commenced in January 2016 following agreement between Cairn and the Republic of India on the appointment of a panel of three international arbitrators under the terms of the Treaty. Cairn's statement of claim was submitted to the arbitral tribunal in June 2016 and the Republic of India submitted its statement of defence in February 2017. Further submissions and document production took place in 2017 and 2018. The main evidentiary hearing of Cairn's claim under the Treaty took place in August 2018 in The Hague with a final hearing in December 2018. All formal hearings and submissions have now been made and the tribunal is in the process of drafting its award. The tribunal has indicated that it expects to be in a position to issue the award in the summer of 2020.

Based on detailed legal advice, Cairn remains confident that it will be successful in this arbitration and accordingly no provision has been made for any of the tax or penalties assessed by the IITD.

Section 6 – Discontinued Operations and Assets and Liabilities Held-for-Sale

6.1 Financial Performance

	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 US\$m
Gross Profit	-	-
Pre-award costs	(4.0)	(3.9)
Unsuccessful exploration costs	(38.7)	(42.7)
Administrative expenses	(1.5)	(2.0)
Loss on disposal of intangible exploration/appraisal assets	-	(4.5)
Gain on disposal of property, plant & equipment - development assets	0.7	-
Impairment of disposal group (note 6.2)	(65.7)	-
Operating loss	(109.2)	(53.1)
Finance income	0.4	0.4
Finance costs	(6.8)	(1.7)
Loss before taxation	(115.6)	(54.4)
Taxation		
Current tax credit	27.7	35.5
Deferred tax credit	26.9	5.6
Deferred tax credit on disposal of property, plant & equipment - development assets	35.4	-
Loss from discontinued operations	(25.6)	(13.3)

The deferred tax credit of US\$26.9m in 2019 represents the release of the remaining deferred tax provisions reflecting recovery of the asset through sale rather than continued use.

Disposal of 10% working interest in Nova to OneDyas BV

In November 2019, Cairn completed the disposal of a 10% working interest share in the Nova development asset to ONE-Dyas Norge AS. Consideration for the sale was US\$59.5m plus working capital adjustments and notional interest from the economic effective date of 1 January 2019 to the date of completion, totalling US\$80.2m. The post-tax gain on sale was US\$36.1m, calculated as follows:

	Year ended 31 December 2019 US\$m
Proceeds on disposal	80.2
Development assets – disposals	(82.1)
Working capital balances at date of completion	3.9
Decommissioning provision released	1.8
Cost of disposal	(3.1)
Gain on disposal of property, plant & equipment - development assets	0.7
Tax credit on disposal	35.4
Post-tax gain on disposal	36.1

Section 6 – Discontinued Operations and Assets and Liabilities Held-for-Sale

6.2 Assets and Liabilities Held-for-Sale

	Transferred to held-for-sale US\$m	Impairment of disposal group US\$m	At 31 December 2019 US\$m	At 31 December 2018 US\$m
Assets held-for-sale:				
Goodwill	46.0	(46.0)	-	-
Intangible exploration/appraisal assets	30.1	(4.9)	25.2	-
Property, plant & equipment - development assets	89.0	(14.4)	74.6	-
Other property, plant & equipment and intangible assets	2.2	(0.4)	1.8	-
Cash and cash equivalents	7.2	-	7.2	-
Trade and other receivables	7.3	-	7.3	-
Income tax asset	27.4	-	27.4	-
	209.2	(65.7)	143.5	-
Liabilities held-for-sale:				
Loans and borrowings	23.9	-	23.9	-
Lease liability	0.6	-	0.6	-
Trade and other payables	10.4	-	10.4	-
Provisions – decommissioning	2.7	-	2.7	-
	37.6	-	37.6	-

The assets and liabilities of Capricorn Norge AS have been reclassified as held-for-sale, forming a single disposal group.

As the net assets of the subsidiary will now be realised through sale rather than recovered through use, and the gain will not be taxable in either the UK or Norway, the remaining deferred tax provision in Capricorn Norge AS was released before reclassifying liabilities as held-for-sale.

On the date of transfer of the assets and liabilities into the disposal group, an impairment test was performed comparing the carrying value of the disposal group against its realisable value, based on fair value less cost of disposal. As the carrying value exceeded the fair value less costs of disposal, forecast to be US\$105.9m, an impairment was recorded. In accordance with applicable IFRS, this impairment is allocated firstly against goodwill until fully eliminated, then on a pro-rata basis across remaining non-current assets to bring the carrying value of the disposal group equal to its fair value less costs of disposal.

The cumulative foreign exchange loss recognised in other comprehensive income in relation to Capricorn Norge AS at 31 December 2019 is US\$37.7m. The cumulative foreign exchange loss at the date of completion of the sale in 2020 was recycled to the Income Statement.

Similarly the merger reserve of US\$255.9m relating to the acquisition of Capricorn Norge AS was transferred to retained earnings in 2020 on completion of the disposal.

6.3 Cash Flow Information for Discontinued Operations

	Year ended 31 December 2019 US\$m	Year ended 31 December 2018 US\$m
Net cash flows (used in)/from operating activities	(3.6)	15.1
Net cash flows from/(used in) investing activities	19.2	(61.8)
Net cash flows used in financing activities	(4.3)	(1.1)
Net increase/(decrease) in cash and cash equivalents of Capricorn Norge AS	11.3	(47.8)
Opening (bank overdraft)/cash and cash equivalents of Capricorn Norge AS	(5.1)	41.5
Foreign exchange differences	1.0	1.2
Closing cash and cash equivalents of Capricorn Norge AS	7.2	(5.1)

Glossary

bbl	barrel of oil
bn	billion
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
FEED	front-end engineering design
FPSO	floating production storage and offloading facility
JV	joint venture
m	million
mmbbls	million barrels of oil
mmboe	million barrels of oil equivalent
RBL	Reserves Based Lending facility
WI	working interest

About Cairn Energy PLC

Cairn is one of Europe's leading independent oil and gas exploration and development companies and has been listed on the London Stock Exchange for 30 years. Cairn has explored, discovered, developed and produced oil and gas in a variety of locations throughout the world as an operator and partner in all stages of the oil and gas lifecycle.

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

For further information on Cairn please see: www.cairnenergy.com