

## Corporate Governance Statement



# ALWAYS OPERATING WITH INTEGRITY

Dear Shareholder

The Cairn Board recognises that its primary purpose is to promote the long-term sustainable success of the Company, generating value for shareholders and other stakeholders and contributing to wider society. In this context, the Board has clearly articulated the Company's purpose, values and strategy (as set out in the Strategic Report section on pages 2 to 69) and each of our Directors plays a critical role in ensuring that Cairn's culture is aligned with these elements.

Our Board sets the 'tone from the top' by acting with integrity at all times and leading by example to promote our culture of 'working responsibly' across the business. Our culture promotes honesty and openness in everything we do and we pursue a deep understanding at every level of our organisation of the core set of values which underpin how we do business and the behaviours expected of our people (see page 52). During the year, the Board continued to focus on Corporate Responsibility and ESG-related matters as part of the Company's commitment to 'working responsibly'.

In driving the delivery of the Company's strategy, the Board has also placed much focus on ensuring that the necessary resources are in place for Cairn to meet its strategic objectives and measure performance against them. Further information on our strategy and Key Performance Indicators are included on pages 30 to 33. The Board has also established a framework of prudent and effective controls, which enable opportunities and risks to the future success of the business to be considered and addressed. These are further described in the risk management section (which includes the Company's viability statement) and in the internal control statement on pages 84 and 85.

The Board also understands that, in order for the Company to meet its responsibilities to shareholders and other stakeholders, it should ensure effective engagement with, and encourage participation from, these parties. Our approach to stakeholder engagement is set out on pages 16 to 19, which also includes a statement from our Directors in accordance with section 172 of the Companies Act 2006. This includes a description of how the Board has sought to ensure that it has a clear understanding of the views of shareholders and identifies some of the key issues we have engaged on during 2020.

There has also been a continuing focus on succession planning by both the Board and Nomination Committee, with the aim of assessing the executive, non-executive and senior management succession pipelines at Cairn, and identifying the skills that are needed to support our strategy and business for the long term. We provide further information in relation to our succession planning in the separate Nomination Committee Report on pages 92 and 93. This will continue to be a key area of focus for the Board in future years.

### Compliance with the UK Corporate Governance Code

As a company incorporated in the United Kingdom with a Premium Listing on the London Stock Exchange, Cairn is required to report against the UK Corporate Governance Code (as published by the Financial Reporting Council and available on its website at [www.frc.org.uk](http://www.frc.org.uk)) (the 'Code'). This statement reports compliance with the version of the Code published in July 2018. Cairn is fully committed to achieving compliance with the principles and provisions set out in the Code and the Board is responsible for ensuring that an appropriate framework is in place to do so.

The information in this statement (together with the Strategic Report, Audit Committee Report, Nomination Committee Report, Directors' Remuneration Report and Directors' Report) describes the manner in which the Company has applied the main principles of governance set out in the Code and complied with the individual Code provisions. It is the Board's view that the Company has complied with the 2018 version of the Code throughout 2020.

Following publication of the 2018 version of the Code, the Board carefully considered the new provisions included in the Code and related Guidance on Board Effectiveness, as well as new requirements introduced by The Companies (Miscellaneous Reporting) Regulations 2018 (which also apply to financial years beginning on or after 1 January 2019). The Board considers that a number of the new Code and regulatory requirements are already satisfied by Cairn's existing policies and practices, and where any gaps were identified, the Company developed its governance arrangements as necessary in preparation for reporting against the new requirements for the first time last year. The Board recognises that reporting in some areas will continue to evolve in future years and will continue to monitor, review and develop its governance arrangements to ensure these are effective.

An ongoing area of focus during 2020 has been to expand the Company's existing channels of engagement with employees and, in line with the Code, the Company established a formal workforce advisory panel in early 2019. This panel, which we refer to as the Employee Voice Forum (EVF), comprises seven employees who provide a broad representative mix of regions and functions across the business and is chaired by one of our independent Non-Executive Directors. Nicoletta Giadrossi chaired the EVF during 2020 and, following the Board changes summarised below, Peter Kallos has assumed the role of chair with effect from January 2021.

The COVID-19 pandemic placed even more emphasis on the importance of the EVF (alongside our other employee engagement mechanisms) during 2020 given most of our employees have been working from home since March 2020. The EVF met twice during the year with the first of these meetings taking place in May 2020, and a further meeting in September 2020. The employee members also hold a pre-meeting (without the chair present) in advance of scheduled EVF meetings in order to identify agenda items and topics for discussion. Due to the UK and Scottish Government guidance and restrictions in place for much of 2020, all of these meetings were held

remotely by video conferencing and all forum members were present. Employee members are also provided with summarised outputs from the Company's employee engagement surveys to assist in stimulating discussion and to help identify any other matters for prioritisation and discussion at EVF meetings. Following each meeting, the chair reports to the Board on the matters discussed by the EVF, thereby allowing for broader Board discussion of any topics or issues identified by the workforce and appropriate consideration of these in the context of the Board's decision-making.

**The Board**

Cairn's business is international in scope and carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has wide experience of the industry and regulatory environment in which Cairn operates, and appropriate financial, operational and risk management skills. In each Board appointment, whether executive or non-executive, objectivity and integrity, as well as skills, experience, ability and diversity, are prerequisites for appointment and considered necessary to assist the Board in its key functions. This also applies to senior management appointments below Board level and, accordingly, to our succession planning.

The Company considers ongoing refreshment of the Non-Executive Directors to be positive as it brings new thinking to the Company as well as ensuring there is a healthy level of independent challenge of management. The Board's collective skills and experience equip it to direct the Company's strategy and meet its business needs as they evolve over time. The Board is also mindful, however, that an appropriate balance between directors who can bring a new perspective and those who provide continuity is essential for the business.

**Board Changes**

Erik B. Daugbjerg was appointed as a Non-Executive Director with effect from 14 May 2020 to replace Todd Hunt, who retired as a Non-Executive Director immediately following the AGM on the same date. The Company also announced in May 2020 that Ian Tyler intended to step down as Non-Executive Chair of the Company within the following 12 months, having served on the Board for seven years including six as Chair.

Following a thorough and comprehensive succession process, which was led by one of the independent Non-Executive Directors, the Company announced in November 2020 that I would be appointed Chair with effect from 1 January 2021. I was an existing Non-Executive Director and was appointed to the Board in January 2017. I have extensive experience in oil and gas and other energy markets, both in executive and non-executive roles, including wide engagement on Environmental, Social and Governance issues.

The Chair succession and handover process during 2020 has enabled an effective and seamless transition of the leadership of the Board. Further information on Board succession planning and the appointment process for Erik B. Daugbjerg and for the position of Chair is included in the Nomination Committee Report on pages 92 and 93.

In line with Code recommendations, from 1 January 2021, I stepped down as chair of the remuneration committee and retired as a member of the audit committee. Alison Wood was appointed chair of the remuneration committee and has extensive experience in this area, having served on the remuneration committees of a number of other listed companies. In addition, Erik B. Daugbjerg was appointed a member of the remuneration committee and Catherine Krajicek was appointed a member of the audit committee. Further details of the changes to the composition of the various Board committees are detailed on pages 82 and 83.

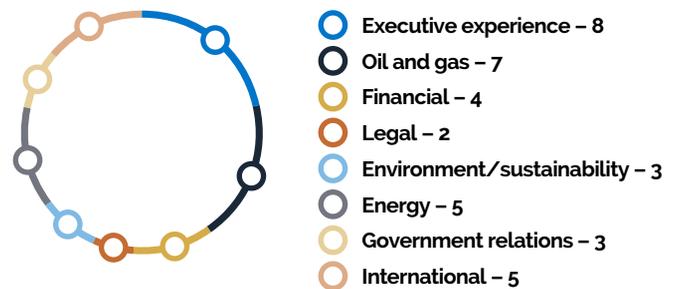
In view of the above changes, the Board currently comprises two Executive Directors and six Non-Executive Directors, including the Chair. The Directors of the Company as at the date of this statement are set out in the table to the right and further biographical information about our Directors is included in the Board of Directors section on pages 72 and 73.

| Name                | Role                    | Date of appointment (in current role) | Date of last re-election |
|---------------------|-------------------------|---------------------------------------|--------------------------|
| Simon Thomson       | Chief Executive         | July 2011                             | 14 May 2020              |
| James Smith         | Chief Financial Officer | May 2014                              | 14 May 2020              |
| Nicoletta Giadrossi | Non-Executive Chair     | January 2021                          | 14 May 2020              |
| Keith Lough         | Non-Executive Director  | May 2015                              | 14 May 2020              |
| Peter Kallos        | Non-Executive Director  | September 2015                        | 14 May 2020              |
| Alison Wood         | Non-Executive Director  | July 2019                             | 14 May 2020              |
| Catherine Krajicek  | Non-Executive Director  | July 2019                             | 14 May 2020              |
| Erik B. Daugbjerg   | Non-Executive Director  | May 2020                              | N/A*                     |

\* Erik B. Daugbjerg will seek re-election by shareholders at the AGM to be held on 11 May 2021.

Diversity is a key element of the Cairn Board, with emphasis placed not only on gender but also on culture, nationality, experience and cognitive diversity. Following the appointment of Alison Wood and Catherine Krajicek as Non-Executive Directors, the number of women on the Board increased from one to three with effect from 1 July 2019 and the position of Chair is also now occupied by a woman. The Board continues to demonstrate diversity in a wider sense, with Directors from Europe and the USA as well as the UK, bringing a range of domestic and international experience to the Board. The Board's diverse range of experience and expertise covers not only a wealth of experience of operating in the oil and gas industry but also extensive technical, operational, financial, governance, legal and commercial expertise. Further information on diversity within Cairn is included in the Nomination Committee Report on page 93 and in the Strategic Report section of this Annual Report.

**Board Competencies**



## Corporate Governance Statement continued

### Division of Responsibilities between Chair and Chief Executive

The Company has a clear division of responsibilities between the positions of Chair and the Chief Executive, which is set out in writing and agreed by the Board.

| Chair key responsibilities:  | Chief Executive key responsibilities:  |
|--|--|
| <ul style="list-style-type: none"> <li>Leading the Board in an ethical manner and promoting effective Board relationships.</li> <li>Ensuring that the Board plays a full and constructive part in the determination and development of the Company's strategy.</li> <li>Building a well-balanced Board, considering Board composition and Board succession.</li> <li>Ensuring the effectiveness of the Board and individual Directors.</li> <li>Overseeing the annual Board evaluation and acting on its results.</li> <li>Ensuring appropriate induction and development programmes for Directors.</li> <li>Setting the Board agenda, chairing Board meetings and overseeing implementation of the Board's decisions.</li> <li>Engagement with shareholders and other stakeholders when appropriate.</li> </ul> | <ul style="list-style-type: none"> <li>Managing the business and proposing and developing the Company's strategy and overall objectives in consultation with the Board.</li> <li>Driving the successful and efficient achievement of the Company's Key Performance Indicators (KPIs) and strategic objectives.</li> <li>Leading the Executive Committee in ensuring the effective implementation of decisions of the Board and its committees.</li> <li>Providing strong and coherent leadership of the Company and effectively communicating the Company's culture, values and behaviours internally and externally.</li> <li>Engagement with shareholders and other stakeholders.</li> </ul> |

### Senior Independent Director

Peter Kallos continues to be the Company's Senior Independent Non-Executive Director. The main responsibilities of this role are as follows:

- To provide a sounding board for the Chair and to serve as an intermediary with other Directors when necessary;
- To be available to shareholders and other stakeholders if they have any concerns which contact through the normal channels of Chair, Chief Executive or Chief Financial Officer has failed to resolve or for which such contact is inappropriate;
- To meet with the other Non-Executive Directors without the Chair present, at least annually, in order to appraise the Chair's performance; and
- To act as Chair of the Employee Voice Forum.

### Performance Evaluation

The Board continually strives to improve its effectiveness and recognises that the performance evaluation process represents an annual opportunity to enhance overall Board effectiveness. In line with the Code recommendation to conduct an externally facilitated Board evaluation at least every three years, the Board appointed Independent Audit to facilitate its performance evaluation for 2018 (previous externally facilitated evaluations took place in 2012 and 2015, with evaluations conducted internally in the intervening years). In view of the external evaluation carried out in 2018, the Board conducted an internal performance evaluation in 2019.

The main action points arising from the 2019 internal performance evaluation and progress against these are set out in the table below.

| Key action points/Implementation (disclosed in last year's Corporate Governance Statement)  | Progress made in 2020   |
|---|---|
| <b>Communications between Board meetings</b>  |   |
| The Board considered how best to continue to optimise communications between scheduled Board meetings, with a focus on the provision of additional 'event driven' updates from the Executive Directors. | During the year, the Executive Directors provided regular updates between scheduled Board meetings by way of e-mail or ad hoc remote calls. During the year, regular updates were provided on the progress of the Sangomar sale and Indian arbitration.   |
| <b>Ongoing focus on culture</b>   |   |
| The Board will continue to pursue a deep understanding of the culture of the organisation from the 'bottom up', through ongoing engagement with employees and other stakeholders.                       | The Board recognises the importance of its role in driving the culture of the business and seeking feedback on culture and strategy within the organisation. Despite most employees working from home during the majority of 2020, engagement between the Board and staff continued through the EVF with employee engagement surveys also being regularly distributed to the workforce. |

For 2020, in view of the external evaluation carried out in 2018, it was agreed at the September 2020 Board meeting that an internal Board performance evaluation would be carried out. The Company Secretary prepared a questionnaire for this purpose, which was then reviewed and approved by the Chair. The questionnaire was subsequently completed by all Directors to evaluate the performance of the Board, its committees, and individual Board members. The performance evaluation of the Chair was also carried out by internal questionnaire. This was prepared by the Company Secretary and reviewed and approved by the Senior Independent Non-Executive Director.

Following completion of the internal questionnaires, the Chair held individual meetings with all Board members to discuss the results of the performance evaluation. The Senior Independent Non-Executive Director also held a meeting with Board members (without the Chair present) to discuss the performance evaluation of the Chair. The outcome and findings from the 2020 internal performance evaluation were then discussed at the November 2020 Board meeting. The main action points arising from the 2020 performance evaluation include the following:

| Key action points                            | Implementation  |
|--|---|
| ESG reporting to the Board                   | The Board considered how best to optimise discussion on ESG matters and it was agreed that the Board should receive updates on a more formal basis in respect of such matters. ESG is now a standing agenda item at each Board meeting.   |
| Board meetings – the management presentation | The Board considered that the format, content and structure of the management presentation had been developed during the year and timely distribution ahead of meetings allowed the Board members sufficient time to understand the detail of the ongoing operations of the organisation. The Board considered that there was an opportunity to streamline the presentation itself to allow greater time for discussion around key areas. |

| Key action points                     | Implementation   |
|---------------------------------------|--|
| Communications between Board meetings | In addition to event-driven updates provided by the Executive Directors between scheduled Board meetings, the Board considered how to further optimise communications amongst its members and there will be a focus on regular monthly updates from Executive Directors. |
| Risk discussion                       | The Board will continue to discuss risk at each meeting and will increase the time given to the risk discussion in a structured, extensive and formalised manner.  |

As explained above, some improvements have been identified and have already been implemented or will be addressed during 2021.

Following the Board performance evaluation process conducted in 2020, the Board and Board committees are satisfied that they are operating effectively and that each Director has performed well in respect of that Director's role on the Board and its committees. The Board believes that all of the Directors' performance continues to be effective and that they each demonstrate commitment to their role. The Nomination Committee has also reviewed the outcomes of the 2020 evaluation to consider how these influence or otherwise impact on Board composition.

The Executive Directors also have their performance reviewed by the Remuneration Committee against the Group KPIs which are set annually (further details of the KPIs can be found on pages 30 to 33). The 2020 bonuses payable to the Executive Directors under the Company's discretionary cash bonus scheme (described further in the Directors' Remuneration Report on pages 94 to 121) are linked directly to the Group's performance against these KPIs. As the KPIs set out our strategic objectives, this ensures that executive performance is directly linked to Group strategy.

### Independence of Non-Executive Directors

The Board considers the independence of each of the Non-Executive Directors on an ongoing basis, taking into account their integrity, their objectivity and their contribution to the Board and its committees. The Board is of the view that the following behaviours are essential for a Director to be considered independent:

- Provides an objective, robust and consistent challenge to the assumptions, beliefs and views of senior management and the other Directors;
- Questions intelligently, debates constructively and challenges rigorously and dispassionately;
- Acts at all times in the best interests of the Company and its shareholders and other stakeholders;
- Has a detailed and extensive knowledge of the Company's business and of the market as a whole which provides a solid background against which they can consider the Company's strategy objectively and help the Executive Directors develop proposals on strategy; and
- Has no close ties or material relationships with the Company, either directly or indirectly.

Having reviewed the independence of each of the Non-Executive Directors against these criteria, the Board concluded that all Non-Executive Directors demonstrated each of the required competencies to a high level and are, therefore, each considered independent by the Board.

### Time Commitment of Non-Executive Directors

The Board recognises its responsibility under the Code to take into account other demands on each Director's time, with a view to ensuring that its Directors (particularly those Non-Executive Directors who sit on other public company boards) have sufficient time to devote to their role on the Cairn Board. Prior to appointment, each individual's other significant commitments are disclosed and there is also a policy in place to ensure that additional external appointments are not undertaken without prior consultation. The other directorships held by each Non-Executive Director (where applicable) are disclosed in the Board of Directors section on pages 72 and 73.

None of our Non-Executive Directors currently sit on more than four public company boards (including Cairn) and those who do sit on other public company boards have taken appropriate steps to ensure that they have sufficient time to devote to their role on the Cairn Board. By way of example, I am actively reducing the number of directorships I hold in order to ensure that I have sufficient time to devote to my new role as Chair of the Company.

### Re-Election of Directors

In accordance with the Code, all of the Company's Directors are subject to annual re-election by shareholders. As such, each of the current Directors will seek re-election at the AGM to be held on 11 May 2021.

### Induction and Development

New directors receive a full and appropriate induction on joining the Board. This involves a tailored programme of meetings with other Board members, senior management and the Company Secretary.

In addition, new directors receive a comprehensive induction pack which contains a wide range of materials including:

|                         |   |
|-------------------------|---|
| <b>Board</b>            | Board papers and minutes of previous meetings; schedule of matters reserved to the Board; list of Board and committee members and dates of appointment; and schedule of dates for Board and committee meetings.   |
| <b>Committees</b>       | Terms of reference for all Board committees.  |
| <b>Risk</b>             | Terms of reference for Risk Management Committee and minutes of last meeting; current Group Risk Matrix and Risk Appetite Statement; FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.  |
| <b>Key policies</b>     | Cairn Operating Standards, Group Corporate Responsibility Guiding Principles; Group Code of Ethics; Anti-Bribery-and-Corruption (ABC) Management System; Dealing Code; Insider Lists Process; Procedures, Systems and Controls for Compliance with the Market Abuse Regulation, the Listing Rules and the Disclosure Guidance and Transparency Rules. |
| <b>Organisation</b>     | Organisational structure, Group structure chart; latest Annual Report and Accounts.   |
| <b>Governance</b>       | UK Corporate Governance Code; all supporting FRC Guidance; FRC Feedback Statement on UK Board Succession Planning; FRC Report Corporate Culture and the Role of Boards; ICOSA and Investment Association Guidance on the Stakeholder Voice in Board Decision Making.  |
| <b>Legal/regulatory</b> | Memorandum on continuing obligations of directors of premium listed companies; ICOSA Guidance on Directors' General Duties; ICOSA Guidance on Liability of Non-Executive Directors; GC 100 Guidance on Directors Duties; Section 172 and Stakeholder Considerations; GC 100 and Investor Group Guidance on Directors' Remuneration Reporting.         |
| <b>Insurance</b>        | Full details of Directors' and Officers' liability cover.   |

The Company ensures that new directors also receive additional induction support and training when assuming any additional responsibilities such as membership of Board committees. By way of example, Alison Wood and Erik B. Daugbjerg, upon their appointment to the remuneration committee, had induction meetings with each of the Company's remuneration advisers, and Catherine Krajicek had an induction meeting with the lead audit partner and Cairn staff responsible for audit work. Where appropriate, the Company arranges for new non-executive directors to receive additional briefings on key matters regularly discussed by the Board.

## Corporate Governance Statement continued

The Company provides, on an ongoing basis, the necessary resources for developing and updating its existing Directors' knowledge and capabilities. In particular, the Company is committed to the provision of continuing professional development training for its Directors. In 2020, the Company continued with its practice of providing a Directors' education programme consisting of a number of seminars for Board members, which are presented by the Company's external advisers/guest speakers/members of senior management, on subjects appropriate to the Company's business, including changes to legislation, regulation and market practice. During 2020, the subjects covered by these seminars included:

- Q1** An externally facilitated discussion on succession planning
- Q2** A pre-strategy session (on the same day as the Board's annual strategy session) including a presentation delivered by Wood Mackenzie on 'Exploration in the current environment'; and 'ESG and the evolution of expectations from investors and the public'
- Q3** A workshop provided by PwC on 'Corporate Governance and Reporting'
- Q4**
  - Annual ABC update delivered by Pinsent Masons
  - Board risk workshop on cyber security, delivered by EY

These seminars are incorporated into the schedule for the relevant Board meeting and are attended by all Directors present at such meetings as well as the Chief Operating Officer and Director of Exploration (the Company keeps a record of attendance). Any Director may request that a particular subject be covered in a seminar.

### Information and Support

The Board has full and timely access to all relevant information to enable it to discharge its duties. Under the direction of the Chairman, the Company Secretary is responsible for ensuring good information flows within the Board and its committees and between executive management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. The Company Secretary ensures the presentation of high quality information to the Board and its committees and that all papers and information are delivered in a timely fashion. Board and committee papers are delivered securely through an electronic platform.

The Company Secretary is responsible for advising the Board, through the Chairman, on all corporate governance matters, and each Director has access to the advice and services of the Company Secretary.

There is also a procedure agreed by the Board for directors, in furtherance of their duties, to take independent professional advice if necessary, at the Company's expense.

### Conflicts of Interest

The Board has in place a procedure for the consideration and authorisation of conflicts or possible conflicts with the Company's interests. All Directors are aware of the requirement to submit details to the Company of any current situations (appointments or otherwise) which may give rise to a conflict, or potential conflict, of interest. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

### Whistleblowing

The Group has a robust Whistleblowing Policy in place through which the workforce can raise any matters of concern – further information on the Group's Whistleblowing Policy is included in the Audit Committee Report on page 87.

### Matters Reserved to the Board and Delegation of Authority

The Board has a formal schedule of matters specifically reserved to it for decision, which is divided into categories covering different types of decisions, including: corporate; Board/Directors; financial/operational; and legal/regulatory.

By way of example, some of the matters which the Board considered and/or approved during 2020 and Q1 2021 were:

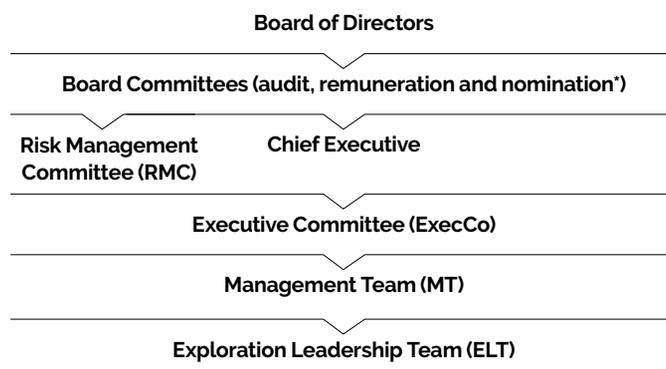
| Corporate  | Board/Directors   |
|--|---|
| The Company's 2019 and 2020 Annual Report and Accounts and 2020 Half Yearly Report   | Appointment of new Chair  |
| The Company's 2020 AGM circular  | Appointment of one new Non-Executive Director   |
| The Company's Risk Appetite Statement  | Changes to Board committees   |
| Review of the Company's Corporate Responsibility Management System   | Detailed review of talent management and of succession contingency planning                     |
| Financial/Operational  | Legal/Regulatory  |
| The sale of the Company's interest in the Sangomar asset in Senegal and the subsequent return of ~US\$250m to shareholders               | Oversight of the arbitration process seeking resolution of the Indian tax issue                 |
| The appropriateness of the Group going concern sign-off for the 2019 and 2020 full year accounts and 2020 half year Financial Statements | Approval of the Company's Modern Slavery Statement and its publication on the Company's website |
| The Company's viability statement  | Approval of the Group Tax Strategy and its publication on the Company's website                 |
| The Company's annual work programme and budget   |   |
| Group Reserves and Resources   |   |

In addition to the above, the Board conducts an annual review of the effectiveness of the Company's internal controls (with ongoing monitoring throughout the year), an intensive annual strategy session (normally in June each year), and an annual 'deep dive' risk management workshop (normally in November each year).

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

The senior management structure beneath Board level has changed from that disclosed in last year's corporate governance statement, with the Senior Leadership Team (SLT) having been replaced by a smaller, more focused Executive Committee (ExecCo) with effect from 1 December 2020. Both the ExecCo and Management Team (MT) continue to play a key role in supporting the Board.

### Board and Management Committee Structure



\* Further information on our Board committees is contained later in this statement on pages 82 and 83 and in the separate Audit Committee Report, Nomination Committee Report and Directors' Remuneration Report.

During the year, the SLT comprised the Executive Directors and, prior to completion of the sale of Capricorn Norge A/S, six other members of senior management. Following completion of that sale, the SLT comprised the Executive Directors and five other members of senior management. With effect from 1 December 2020, the SLT was replaced by the ExecCo, which comprises the Executive Directors (the Chief Executive and the Chief Financial Officer), the Chief Operating Officer and the Director of Exploration. The ExecCo (and previously the SLT) is chaired by the Chief Executive and meets at least six times per year with those meetings scheduled in advance of Board meetings.

Key elements of the ExecCo's role include the following:

- Devising and generating the Company's strategy to be proposed to the Board for approval and implementing and communicating this strategy across the business;
- Implementing the business plan, the Key Performance Indicators and annual work programme and budget following their approval by the Board;
- Considering business development and new venture projects prior to recommending these to the Board; and
- Providing leadership and guidance to the Company on vision, strategy, culture, corporate governance, corporate responsibility and HSE matters.

The MT is chaired by the Chief Operating Officer and meets formally six times per year, with four of those meetings focusing on a quarterly performance review of the business.

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

- Developing and executing the annual work programme and budget, which will deliver the Company's strategic objectives;
- Assessing and determining the mitigation plans for key business risks and ensuring that risks are captured and reviewed regularly;
- Coordinating operations and licence management along with resource allocation and organisational alignment to ensure timely and cost-effective delivery against approved budgets;
- Oversight of the Company's commitment to working responsibly; and
- Reviewing and approving the Company's Operating Standards.

A number of members of the MT are also members of the RMC, which identifies and reviews key business risks – further information on the role of the RMC is contained in the internal control section of this statement on pages 84 and 85.

The Exploration Leadership Team (ELT), which is chaired by the Director of Exploration, meets on a monthly basis to assist the Director of Exploration in delivering a robust exploration portfolio, with a particular focus on the following:

- Providing assurance that opportunities being pursued by new ventures are sufficiently value-added and meet Cairn's strategic objectives;
- Considering whether opportunities being pursued have acceptable subsurface, above ground and fiscal attributes to continue evaluation;
- Developing a timeline for each existing or proposed opportunity which drives to a decision, including drill or drop, as expeditiously as practical;
- Ensuring that the subsurface geoscience aspects of all exploration and appraisal and new venture opportunities align with Cairn's strategic objectives;
- Ensuring consistent, efficient screening and ranking of exploration opportunities, following initial data room assessment but prior to detailed evaluation, utilising the significant knowledge and experience of the team;
- Ensuring that the significant knowledge and experience of the team is utilised appropriately and consistently in the delivery of best practice across all areas of geological and geophysical (G&G) analysis in accordance with Cairn's business plan and core business principles; and
- Considering and/or seeking appropriate data subscriptions, purchases and academic collaborations to ensure rapid opportunity evaluation and capture.

## Board Meetings

During 2020, a total of nine scheduled meetings of the Board were held. Due to the COVID-19 pandemic and related UK and Scottish Government guidance and restrictions in place during 2020, only one Board meeting was held in person and all other Board meetings were held virtually. Five of these meetings were conducted over two consecutive days following the usual format for Board meetings described below, with another four shorter meetings held to update the Board and/or to approve specific matters during 2020.

The first day of Board meetings normally includes a CEO meeting with the Non-Executive Directors and (when applicable) a Board education session, followed by a report from the CEO and CFO and a management presentation, both of which form part of the formal business of the Board meeting. The CEO and CFO report and management presentation provide a detailed update from senior management and other employees on key projects, assets or matters to be considered at the Board meeting, allowing opportunity for a technically rigorous discussion. This information allows the Board to understand more fully any risks or challenges to the business plan and strategy and also provides broad exposure to the employee base within the Company.

Board committee meetings are also scheduled for the same dates as Board meetings and are either split over two days or scheduled for one day, depending on the number of committee meetings required. All Board committee meetings take place prior to the main part of the Board meeting so that the chair of each committee can provide a report to the Board. These are followed by the remainder of the formal business of the Board meeting. The Chair also holds a short meeting with the other Non-Executive Directors (without the Executive Directors) at the end of the second day.

Details of attendance at each of the Board meetings during 2020, and at meetings of each of the Board committees, are set out on page 82. As disclosed above, the COVID-19 pandemic and related restrictions have meant that only one Board meeting during 2020 was able to be held in person. The Company has, however, very successfully used its technological communication platforms to ensure that Directors could continue to attend all scheduled Board and committee meetings and were also able to do so 'on camera'.

When it is deemed appropriate by the Board, and in line with the applicable UK and Scottish Government guidance and/or restrictions, the Directors hope to transition back to safely meeting in person during 2021.

The annual timetable for Board and committee meetings is discussed at least 18 months prior to its commencement allowing the Directors to plan their time accordingly. The Board and committees have agreed dates for all scheduled meetings in 2021 and 2022. This process ensures that the Chair can be comfortable that each Director is able to devote sufficient time and resources to their role on the Board and, where relevant, its committees.

The formal agenda for each scheduled Board meeting is set by the Chair in consultation with the Chief Executive and the Company Secretary. The system for establishing agenda items means that the Chairman, the Board and each of the Board committees have the confidence that all required items are included on their agenda at the most appropriate time of the year and that there is sufficient time allocated for discussion, allowing the Directors to discharge their duties effectively.

Formal minutes of all Board and committee meetings are circulated to all Directors prior to the subsequent Board meeting and are considered for approval at that Board meeting. In addition, the members of the Board are in frequent contact between meetings regarding progress of the Group's business plan, one example being an annual Board update call in January ahead of the other scheduled Board meetings for the year. There is also a procedure in place to allow Board meetings to be convened at short notice where required to deal with specific matters which need to be considered between scheduled Board meetings.

## Corporate Governance Statement continued

As noted above, the Non-Executive Directors have a practice of meeting informally at the end of each Board meeting without Executive Directors being present. At these Non-Executive forums, the Non-Executive Directors are invited by the Chair to bring forward any matter pertaining to the business of the Board that they believe would benefit

from discussion in such forum. This practice also applies after Board committee meetings to ensure that Non-Executive Directors can discuss any relevant issues arising from those meetings without management being present.

### Directors' Attendance at 2020 Board and Committee Meetings

The table below sets out the attendance record of each Director at scheduled Board and Board committee meetings during 2020.

|  | Board             | Audit Committee   | Remuneration Committee | Nomination Committee |
|--|-------------------|-------------------|------------------------|----------------------|
| <b>Meetings held during 2020<sup>1</sup></b> | 9                 | 4                 | 4                      | 2                    |
|  | Meetings attended | Meetings attended | Meetings attended      | Meetings attended    |
| <b>Executive Directors</b>                   |                   |                   |                        |                      |
| Simon Thomson (Chief Executive)              | 9                 | n/a <sup>2</sup>  | n/a <sup>2</sup>       | 2                    |
| James Smith (Chief Financial Officer)        | 9                 | n/a <sup>3</sup>  | n/a                    | n/a                  |
| <b>Non-Executive Directors</b>               |                   |                   |                        |                      |
| Nicoletta Giadrossi (Chair <sup>4</sup> )    | 9                 | 4 <sup>5</sup>    | 4                      | 2                    |
| Peter Kallos (Senior Independent Director)   | 9                 | n/a               | 4                      | 2                    |
| Keith Lough                                  | 9                 | 4                 | n/a                    | 2                    |
| Alison Wood                                  | 9                 | 4                 | n/a                    | n/a                  |
| Catherine Krajicek                           | 9                 | n/a               | n/a                    | n/a                  |
| Erik B. Daugbjerg <sup>6</sup>               | 5                 | n/a               | n/a                    | n/a                  |
| <b>Former Non-Executive Directors</b>        |                   |                   |                        |                      |
| Todd Hunt <sup>7</sup>                       | 4                 | n/a               | n/a                    | n/a                  |
| Ian Tyler <sup>8</sup> (former Chair)        | 9                 | n/a               | 4                      | 2                    |

Notes:

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

- During 2020, certain Directors who were not committee members attended meetings of the Audit Committee, Remuneration Committee and Nomination Committee by invitation. These details have not been included in the table.
- Simon Thomson is not a member of the Remuneration Committee but attends its meetings by invitation (other than parts of meetings where he would be conflicted). Mr Thomson also attends Audit Committee meetings by invitation.
- James Smith is not a member of the Audit Committee but attends its meetings by invitation.
- Nicoletta Giadrossi was appointed Chair of the Company with effect from 1 January 2021 and attended all Board meetings during 2020.
- Nicoletta Giadrossi was a member of the Audit Committee until 31 December 2020. The number of meetings she attended is stated up to that date.
- Erik B. Daugbjerg was appointed as a Non-Executive Director with effect from 14 May 2020. The number of meetings he attended is stated from that date.
- Todd Hunt retired as a Non-Executive Director on 14 May 2020. The number of meetings he attended is stated up to that date.
- Ian Tyler retired as Non-Executive Chair of the Company on 31 December 2020. The number of meetings he attended is stated up to that date.

### Board Committees

#### Board Committee Structure During 2020



Each of the Board committees is provided with all necessary resources to enable them to undertake their duties in an effective manner and has formal terms of reference approved by the Board. Copies of the terms of reference, which were reviewed and updated in line with the 2018 version of the Code and approved by the Board in March 2019, are available on the Company's website. The Company Secretary acts as secretary to the Remuneration and Nomination Committees and during the year, the Deputy Company Secretary acted as secretary to the Audit Committee. The minutes of all committee meetings are circulated to all Directors.

In line with best practice, more detailed reports from the Audit and Nomination Committees are presented as separate reports (on pages 86 to 93) rather than including these in the Corporate Governance Statement. In addition, full details of the Company's remuneration policy are given in the separate Directors' Remuneration Report on pages 94 to 121. Summary details of the composition of each committee and meetings held during 2020 are set out below.

### Audit Committee

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

- Keith Lough (Chair);
- Nicoletta Giadrossi (member of the Committee until 31 December 2020); and
- Alison Wood.

The Audit Committee met four times during 2020 and currently comprises three independent Non-Executive Directors. In line with Code requirements and following her appointment as Chair of the Company, Nicoletta Giadrossi retired as a member of the Committee with effect from 31 December 2020 and Catherine Krajicek was appointed a member of the Committee with effect from 1 January 2021. The Chair of the Board is not a member of the Committee but attends its meetings by invitation. Further information on the role, responsibilities and work of the Audit Committee is included in the Audit Committee Report on pages 86 to 91.

### Remuneration Committee

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

- Nicoletta Giadrossi (Chair until 31 December 2020);
- Ian Tyler (retired as Chair of the Company and as a member of the Committee on 31 December 2020); and
- Peter Kallos.

The Remuneration Committee met four times during 2020 and with effect from 1 January 2021 comprises four independent Non-Executive Directors. In line with Code requirements and following her appointment as Chair of the Company, Nicoletta Giadrossi retired as Chair of the Committee but remains a member of the Committee. With effect from 1 January 2021, Alison Wood was appointed Chair of the Committee and Erik B. Daugbjerg was appointed a member of the Committee. The Chief Executive is not a member of the Committee but attends its meetings by invitation. The Committee's remuneration advisers (Alvarez & Marsal) and management's remuneration advisers (Deloitte) are also invited to attend the Committee's meetings as required.

None of the members of the Remuneration Committee, nor the Chief Executive, nor the Chair, participated in any meetings or discussions relating to their own remuneration. The Committee has established a practice of meeting informally without any Executive Directors or advisers present after each Committee meeting to allow the Non-Executive Directors to discuss any matter which has arisen in the meeting (or relating to the duties of the Committee) which they believe would benefit from discussion in such forum.

Further information on the role, responsibilities and work of the Remuneration Committee is included in the Directors' Remuneration Report on pages 94 to 121.

**Nomination Committee**

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

- Ian Tyler (Chair and member of the Committee until 31 December 2020);
- Simon Thomson;
- Keith Lough;
- Peter Kallos; and
- Nicoletta Giadrossi.

The Nomination Committee met two times in 2020. Following her appointment as Chair of the Company, Nicoletta Giadrossi was appointed Chair of the Committee with effect from 1 January 2021. As such, the current members of the Committee include the new Chair and two of the Company's independent Non-Executive Directors. In addition, to ensure continuing executive input on nomination matters, the Chief Executive is also a member of the Committee.

Further information on the role, responsibilities and work of the nomination committee is included in the separate Nomination Committee Report on pages 92 and 93.

**Shareholders and Annual General Meeting (AGM)**

Communications with shareholders are given high priority by the Board. The Company has implemented the provisions of the Companies Act 2006 regarding electronic communication with its shareholders, in order to give shareholders more choice and flexibility in how they receive information from the Company. Cairn responds promptly to correspondence from shareholders and the Company's website contains a wide range of information on the Company, including a dedicated investor relations section.

In order to ensure that the members of the Board develop an understanding of the views of major shareholders, there is regular dialogue with institutional shareholders, including meetings with executive management after the announcement of the year-end and half-year results. The Board is kept informed of any issues raised by shareholders both as a standing agenda item in Board papers and through feedback at Board meetings and following results or other significant announcements. In addition, the Company maintains an investor relations database which details all meetings with investors or other related stakeholders. All analyst reports relating to the Company are also distributed to the Board.

A list of the Company's major shareholders can be found in the Directors' Report on page 124. The Company recognises that the success of the comply-or-explain approach under the Code depends on an ongoing and open dialogue with shareholders, and remains

committed to engaging with shareholders, as well as governance and proxy voting agencies, on any matter which they wish to discuss in relation to the Company's governance.

The Company has a rolling programme of investor roadshows to ensure that senior management are regularly engaging with current and potential investors. During the last 18 months, certain Directors have also engaged directly (either through meetings or by telephone/written correspondence) with specific investors, investor groups, and proxy advisory agencies on a range of matters including progress against strategic objectives, diversity and remuneration. During 2020, the majority of investor meetings were held through virtual communications platforms due the restrictions in place in response to the COVID-19 pandemic. Following the announcement of her appointment as Chair, Nicoletta Giadrossi met with a number of shareholders by way of introduction.

| AGM details (2020 and 2021)  | Overview   |
|--|--|
| 2020 AGM: held as a closed meeting due to COVID-19 on Thursday, 14 May 2020 at the Company's Head Office   | <ul style="list-style-type: none"> <li>- At least 73% of all issued shares voted by shareholders in each resolution</li> <li>- Highest votes in favour &gt;99% for nine resolutions</li> <li>- No resolutions with &lt;91% in favour</li> </ul>                |
| 2021 AGM: to be held on Tuesday, 11 May 2021 at 50 Lothian Road, Edinburgh, EH3 9BY (full details, including restrictions in place due to COVID-19 are set out in the Notice of AGM) | <ul style="list-style-type: none"> <li>- Director attendance will be dependent upon UK and Scottish Government restrictions in place due to COVID-19</li> <li>- 13 ordinary resolutions and four special resolutions being proposed to shareholders</li> </ul> |

The Board uses the AGM to communicate with private and institutional investors and has always welcomed their participation in annual general meetings. However, as a result of the COVID-19 pandemic and the measures that the UK and Scottish Governments had put in place restricting public gatherings of more than two people and all but essential travel, for the safety of our shareholders, our employees, our advisers and the general public, attendance at the 2020 AGM in person was unfortunately not possible and as such, just the Executive Directors were present, in order to constitute the quorum of two shareholders required for the meeting to be held, and to deal with the formal business of the meeting.

The Notice of AGM sent to shareholders on 14 April 2020, which was also published on the Company's website, fully explained these arrangements to shareholders and recommended that shareholders submit their votes on each of the resolutions being proposed by proxy in advance of the meeting, or to authorise the Chair of the meeting to vote on their behalf. The Company also enabled shareholders to submit any questions in advance of the meeting. These arrangements were implemented in line with regulatory guidance published in relation to holding AGMs during the COVID-19 pandemic, as well as the approach adopted by other FTSE companies in order to safely conduct their AGMs.

Under normal circumstances, it is policy for all Directors to be present at the AGM, with the Chair of each of the Board committees also expected to attend and be prepared to answer shareholder questions on areas within their remit. Our employees based in Edinburgh are also normally invited to attend the AGM as the Directors recognise that this provides a valuable opportunity for workforce engagement with the Board. In 2020, given employees were not able to attend the AGM, the Company held a virtual staff meeting immediately after the AGM.

As part of our commitment to transparency we look to involve shareholders fully in the affairs of the Company and to give them the opportunity at the AGM to ask questions about the Company's performance and activities. Details of resolutions to be proposed at the AGM on 11 May 2021 and an explanation of each resolution can be found in the separate Notice of AGM Circular accompanying this Annual Report and Accounts.

## Corporate Governance Statement continued

The proxy votes for and against each resolution, as well as abstentions, will be counted before the AGM and the results will be made available following the meeting after the shareholders have voted in a poll on each resolution. Both the Form of Proxy and the poll card for the AGM include a 'vote withheld' option in respect of each resolution, to enable shareholders to abstain on any particular resolution. It is explained on the Form of Proxy that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'for' or 'against' a resolution. To date, the Company has never received 20% or more of votes cast against the Board recommendation for any resolution proposed at an AGM.

### Information Pursuant to the Takeover Directive

The Company has provided the additional information required by the Disclosure and Transparency Rules of the UK Listing rules (and specifically the requirements of DTR 72.6 in respect of directors' interests in shares; appointment and replacement of directors; powers of the directors; restrictions on voting rights and rights regarding control of the Company) in the Directors' Report.

### Internal Control

The Board has overall responsibility for the Group's system of internal control, which includes all material controls, including financial, operational and compliance controls and related risk management, and for regularly reviewing its effectiveness. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's strategic objectives. Because of the limitations inherent in any system of internal control, Cairn's system is designed to meet its particular needs and the risks to which it is exposed, with a focus on managing risk rather than eliminating risk altogether. Consequently, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has in place an Integrated Internal Control and Assurance Framework (the 'Framework'), which plays a critical role in setting out how the Company manages and assures itself that the risks relating to the achievement of corporate vision, strategy and objectives are effectively controlled. The Framework is based on the Committee of Sponsoring Organisations (COSO) framework and its five key components, which is a commonly used and recognised international framework for considering internal control systems. The COSO framework seeks to help organisations develop systems of internal control which help facilitate the achievement of business objectives and improvements in Company performance. The COSO framework also supports organisations in adapting to increasingly complex business environments and managing risks to acceptable levels with the aim of safeguarding shareholders' interests and Company assets.

The Framework has been in place for the 2020 financial year and up to the date of approval of the Annual Report and Accounts. The Board, supported by the Audit Committee, has carried out a review of the effectiveness of the systems of internal control during 2020 and will ensure that a similar review is performed in 2021. In so doing, the Board and Audit Committee took into account the assurance provided by the Chief Executive in respect of the effectiveness of the Group's system of internal control. The Board is accordingly satisfied that effective controls are in place and that risks have been mitigated to a tolerable level across the Group in 2020.

Particular attention has been placed by the Company's management on ensuring that an effective system of internal control has been maintained during the year in relation to the key risks in the Company's business activities. Enhancements have been made during 2020 to the following key controls, business processes and procedures:

- The Board completed a risk workshop which focused on further understanding potential cyber threats to the business. The objective of the workshop was to provide the Board further insight into the growing threats from cyber risk, with a focus on the changing risk environment resulting from the increase in home working. The workshop was facilitated by EY who provided an external view on some of the projects identified as priorities from our peers;

- The MT conducted a review of the risks, mitigations and actions identified on the Group risk register each quarter to ensure ownership for the risks, mitigations and actions were clearly assigned and implementation dates for actions were tracked;
- A compliance dashboard, developed in 2019 to assess compliance with a number of key regulations impacting the Group including UK Bribery Act, GDPR, CCO, CMAPP and modern slavery was presented at each RMC meeting and is presented annually to the Audit Committee as part of the year end control assessment;
- Assurance maps for the Group were updated in Q1 2020 to capture the key sources of assurance for business critical activities across the Group. The assurance map will be updated annually;
- EY, the Group's internal auditor, delivered the annual internal audit plan which consisted of a number of risk areas identified from the risk register. Topics covered in 2020 included New Ventures, Tax Governance, Mexico Operations and IT general controls. The Group has been working through the year to implement any identified improvements; and
- To ensure awareness, understanding and compliance on important governance, regulatory and security topics, mandatory e-learning was also implemented across the Group, which included comprehensive modules on modern slavery, anti-bribery and corruption and cyber security.

The following describes the key elements of the Framework and the processes used by the Board during 2020 to review the effectiveness of the system and the approach to be taken in 2021.

### 1. Strategic Direction

The Company's strategy and business plan are proposed by the ExecCo and approved by the Board. The Chief Executive is responsible for managing the Company's business and implementing the Company's strategic objectives in consultation with the Board and ExecCo. The Chief Executive is also responsible for implementing the decisions of the Board and its committees and driving performance measured against the Company's KPIs.

### 2. Operating Management

The Company operates two regional units covering different countries and assets and with multiple partners on both an operated and non-operated basis, with a further operating unit responsible for UK production assets. The assets within each region are the principal focus for our regional managers, who are tasked with delivering the strategic objectives for their particular region, with a combination of operational and technical teams as well as functional departments providing support to each of the assets. The implementation of the Cairn Operating Standards supports this process, providing assurance, standards and consistency in the delivery of our strategic objectives.

The Executive Directors continue to be supported by the ExecCo as well as by the MT and ELT. Further information on these teams and their remit can be found on pages 80 and 81. There are also a number of functional department heads whose roles include providing expert input and challenge to the Company's work programmes, budgets and business plan; and supplying the Directors with full and accurate information with which to make statements on the adequacy of internal control.

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

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

**3. Risk Management**

The Board is responsible for maintaining sound risk management and internal control systems across the Cairn Group. The Board must satisfy itself that the significant risks faced by the Group are being managed appropriately and that the system of risk management and internal control is sufficiently robust to respond to internal or external changes in the Group's business environment.

The RMC continues to be responsible for the development of risk management strategy and processes within the Company and for overseeing the implementation of the requirements of this strategy. It does this by ensuring that the framework for the identification, assessment, mitigation and reporting on all areas of risk is fit for purpose and that appropriate assurance arrangements are in place in relation to these risks to bring them within the Risk Appetite Statement approved by the Board. To supplement the role of the RMC, the Group Risk Management Procedure defines the processes through which Cairn seeks to systematically identify, analyse, assess, treat and monitor the business risks faced by the Group. The Group Risk Management Procedure also identifies the risk management organisational structure through which business risks are managed and regularly reviewed at operating, asset, country and Company levels. Asset-level, project-level, country-level and functional-level risk registers are used to capture, assess, monitor and review risks before the principal risks are consolidated into the Group risk register.

In 2020, the Board carried out a robust assessment of the emerging and principal risks facing the Company, details of which can be found on pages 42 to 51. Risk management updates were presented at each Board meeting and as part of an annual process, the Board undertook a strategic risk workshop in November 2020.

The RMC, which meets on a quarterly basis, is currently chaired by the Chief Executive and comprises the Executive Directors and senior functional management. The internal auditor also attends RMC meetings, in order to ensure integration of the Group's internal audit plan with the risk management process. Regular MT risk sessions were also held during 2020 to manage and facilitate the assessment and treatment of business risks that may affect the Company's ability to deliver its strategy.

Enhancements to our approach to risk management during 2020 included the following:

- The MT formally conducted a review of the risks, mitigations and actions identified on the Group risk register each quarter to ensure ownership for the risks. Mitigations and actions were clearly assigned and implementation dates for actions were tracked; and
- The Group implemented a new risk management and incident management software solution. The solution will facilitate improved reporting on all operational and corporate risks to the Group and will provide a more systematic process for the management of risks, controls and actions across the business.

The RMC reports on the Company's risk profile to both the Audit Committee and the Board. Additionally, the Audit Committee and the Board receive internal reviews of the effectiveness of internal controls relative to the key risks. The conclusion of the Board following these reviews during 2020 is that the internal controls in respect of key risks are effective.

**4. Assurance**

The 'three lines of defence' framework adopted by the Board provides three levels of assurance against the risks facing the Company: firstly at the operational level; secondly through overview by functional management and the RMC; and thirdly through internal or joint venture audits.

The integrated internal control and assurance framework document includes a description of the Company's business and assurance models and of its organisation and committee structure and defines the relevant roles and responsibilities. The framework defines the key policies and procedures which govern the way in which Cairn conducts its business and is therefore a core part of its system of internal control.

During 2020, the Directors reviewed the effectiveness of the Company's system of financial and non-financial controls, including operational and compliance controls, risk management and high-level internal control arrangements through the completion of internal control self-assessment questionnaires. These questionnaires, which are tailored to each region or function, are designed to provide an internal assessment of the effectiveness of key controls for the Group's principal risks.

Additionally, assurance maps for principal risks are developed, which outline the key sources of assurance across the 'three lines of defence'. The 'three lines of defence model' is a method of assessing different sources of assurance the Group can rely on when analysing key risks and controls. Assurance is gained through the application of the business management system which directs the day-to-day running of the business (first line), the oversight functions within Cairn which provide challenge to the risk and control environment (second line) and any third-party reviews the Group instructs to assess the status of a risk/control (third line). The assurance maps help identify potential areas of control weakness and/or ineffective use of assurance resources across the Group, which influenced the topics included in the 2020 Group internal audit plan.

The Directors derived assurance from the following internal and external controls during 2020:

- A schedule of matters specifically reserved for decision by the Board;
- Implementation of the Cairn Operating Standards for key business activities;
- An appropriate organisational culture and structure;
- Control over non-operated joint venture activities through delegated representatives;
- Specific delegations of authority for all financial transactions and other key technical and commercial decisions;
- Segregation of duties where appropriate;
- Business and financial reporting, including KPIs;
- Functional management reviews;
- An annual 'letters of assurance' process, through which asset and functional managers review and confirm the adequacy of internal financial and non-financial controls and their compliance with Company policies, and report any control weaknesses identified in the past year and actions taken in respect of any weaknesses identified in the prior year;
- A 'letter of assurance' from the Chief Executive confirming the adequacy of internal controls within the Company in line with its policy, and reporting of any control weaknesses identified in the past year and actions taken in respect of any weaknesses identified in the prior year;
- An annual internal audit plan, which is approved by the Audit Committee and Board and is driven by risks and key controls;
- Reports from the Audit Committee and RMC;
- Reports from the external auditor on matters identified during its statutory audit;
- Reports from audits by host governments and co-venturers;
- Independent third-party reviews; and
- The skills and experience of the workforce.



**Nicoletta Giadrossi**  
Chair

8 March 2021