



Operating with Integrity

Cairn Energy PLC
Corporate Responsibility Report 2012

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Introduction

This report shows our commitment to managing and communicating about our activities in an inclusive, clear and transparent way.

In all our activities we live by our core values of:

- Building respect
- Nurturing relationships
- Acting responsibly

This report describes the integral part Corporate Responsibility (CR) plays in our business. It covers our values, principles and policies towards our people, the environment, local communities and wider society and how we manage the potential impacts of our activities on them. We also explain how we prioritise our most significant issues and the important role our stakeholders play in this. Our performance, lessons learned, objectives and challenges are also described. Case studies are included to illustrate how our approach affects people and the environment in the areas where we operate.

We are signatories to the United Nations Global Compact (UNGC) and this report forms part of our commitment to act on and report our progress against the 10 UNGC principles on human rights, labour, the environment and anti-corruption. It is in accordance with AccountAbility's AA 1000 Assurance Standard founding principles of

inclusivity, materiality and responsiveness. This means that we engage with internal and external stakeholders, identify and assess our most important CR issues and address and respond to them in a structured way. We also measure our performance to the Global Reporting Initiative (GRI) Guidelines.

Key audiences for this report include shareholders, governments, business partners and staff, but all readers' views are important to us and we encourage you to contact us with comments or questions via our website at www.cairnenergy.com or by email to CR.Mailbox@cairnenergy.com. This report focuses on our operated assets where we have control of CR policies and practices. With our shareholding in Cairn India Limited (Cairn India) now at ~10%, we have not included 2012 or historical performance data on Cairn India in this document. Historical data can however be found on our website. Further details about our activities, performance and objectives as well as CR reports from previous years are also available on our website at → www.cairnenergy.com/responsibility.



Find out more about our CR activities on our website at
→ www.cairnenergy.com/responsibility

Doing a job the world needs

Our licence to operate in the world's frontier regions demands a strong safety record and excellent corporate responsibility credentials

Our aim, as one of Europe's leading independent oil and gas exploration and development companies, is to do a job the world needs as safely as we can. According to the International Energy Agency, global energy demand is expected to grow by over a third by 2035, with oil and gas making up a large proportion of the energy mix. Cairn helps meet that need by identifying, developing and realising energy reserves for the benefit of all stakeholders. Our overriding priority is to do this safely, responsibly and in keeping with the commitments outlined in our Business Principles and our continued support for the 10 principles of the United Nations Global Compact.

Our track record of safe and efficient operations and business integrity is crucial to our licence to operate and we apply rigorous due diligence and comprehensive risk management processes. To ensure continuous improvement, our corporate responsibility; health, safety and environment (HSE); contractor management; human rights; and anti-bribery and corruption systems and procedures were all updated during 2012.

Activities during 2012

During 2012 we returned US\$3.5 billion to shareholders and built our asset portfolio through the acquisition of two companies, strengthening our focus on three geographical areas: Mediterranean, Atlantic Margin and UK and Norway.

Exploration activities comprised surveys offshore Greenland and Morocco and we are pleased to report no injuries and no environmental incidents relating to these operations during 2012. Acting responsibly with a high level of care and respect towards people and the environment shows our principles and core values in action. Sharing knowledge from successfully completed drilling programmes in Greenland in 2010/11 with other operators and participating in industry initiatives are also evidence of our commitment to continuous improvement.



United Nations Global Compact



Plans for 2013

Wherever we work, we co-operate closely with host governments, local communities and other third parties to learn about their concerns and aspirations, assess our impacts and forge strong, open and lasting relationships based on mutual benefit. During 2012, we undertook public consultations with communities located near the Pitu area offshore North West Greenland where we are targeting to drill an exploration well in 2014. Throughout 2013 we will assess potential impacts and develop plans to manage them in preparation for a projected multi-well, multi-year offshore drilling programme commencing in Morocco in late 2013.

Internally, our focus will be on integrating updated procedures and our HSE Culture Framework across all our new operations. In order to encourage strong CR leadership, we have also set 10 HSE leading performance indicators and targets for 2013.

In conclusion, 2012 was a year of significant evolution for Cairn in building new growth opportunities and reinforcing our management approach. I am confident we can succeed in creating further value for shareholders while acting responsibly and respectfully towards the communities and environments where we work.

Simon Thomson
Chief Executive
18 March 2013

→ [www.cairnenergy.com/
responsibility](http://www.cairnenergy.com/responsibility)

Taking a long term view

We complement our technical skill with social and environmental expertise at every stage of the project lifecycle

Cairn's entrepreneurial culture helps us move quickly to secure opportunities and realise value, while never compromising the safety of our people and the environment. When working with local communities, we take a long term view. The diagram below offers an overview of how we manage our potential social and environmental impacts across all stages of the oil and gas exploration and production lifecycle.

1

Due Diligence

Before making an acquisition or investment, applying for an exploration licence or farming-in to an existing project, we carry out an extensive risk screening process including assessing whether there are potential health and safety, social, human rights, political, corruption, security or environmental impacts and identifying approaches to manage these risks.

3

Exploration Seismic

Following entry into an exploration licence, we carry out seismic surveys to develop a picture of geological structures below the surface to help identify whether they may contain hydrocarbons. Each seismic survey is preceded by an environmental, social or human rights impact assessment (EIA, SIA, HRIA) or all three, depending on the circumstances and whether the seismic survey is onshore or offshore.

2

Pre-qualification

When the decision to apply for a licence has been made, we supply the necessary documents to the relevant authorities. Typically this includes information about our legal status, financial capability, technical competence and how we plan to manage health, safety and environment risks and contribute to local economic development.

4

Site Survey

Site surveys are carried out to gain more detailed information on the area where an exploration well may be drilled and to confirm that the selected drilling location is safe and environmentally viable. The process normally involves taking geological samples and carrying out seismic surveys with low social or environmental impacts and may not require a separate EIA.

Licence Award

5 Exploration Drilling

Exploration wells are drilled to determine whether reservoirs with oil or gas are present. This phase can also be accompanied by a step-change in activity and visibility to the local population. For example, offshore exploration can involve a drilling rig, supply vessels and helicopters for transporting personnel. Exploration drilling is preceded by an EIA and SIA to understand potential impacts and to identify steps to reduce these to acceptable levels. Limited community development programmes may also be put into place at this time, such as support for educational or local community facilities.



6 Appraisal Drilling

If promising amounts of oil and gas are confirmed from the exploration phase, field appraisal is used to establish the size and characteristics of the discovery and to provide technical information to allow the optimum method for recovery of the oil and gas to be determined. The potential social and environmental impacts associated with appraisal drilling are similar to exploration drilling and an EIA and SIA will be carried out in advance, if required.



7 Development

Once a prospect is shown to be technically and commercially viable, a development plan is prepared and submitted to the relevant authorities for approval. This includes a rigorous assessment of all the potential risks and a long term EIA, SIA and HRIA covering a time frame of between 10-30 years. The plan will also detail benefits to local communities in terms of providing employment and supplier opportunities and will propose how to manage potentially challenging impacts such as an influx of workers from outside the local community.



Decommissioning

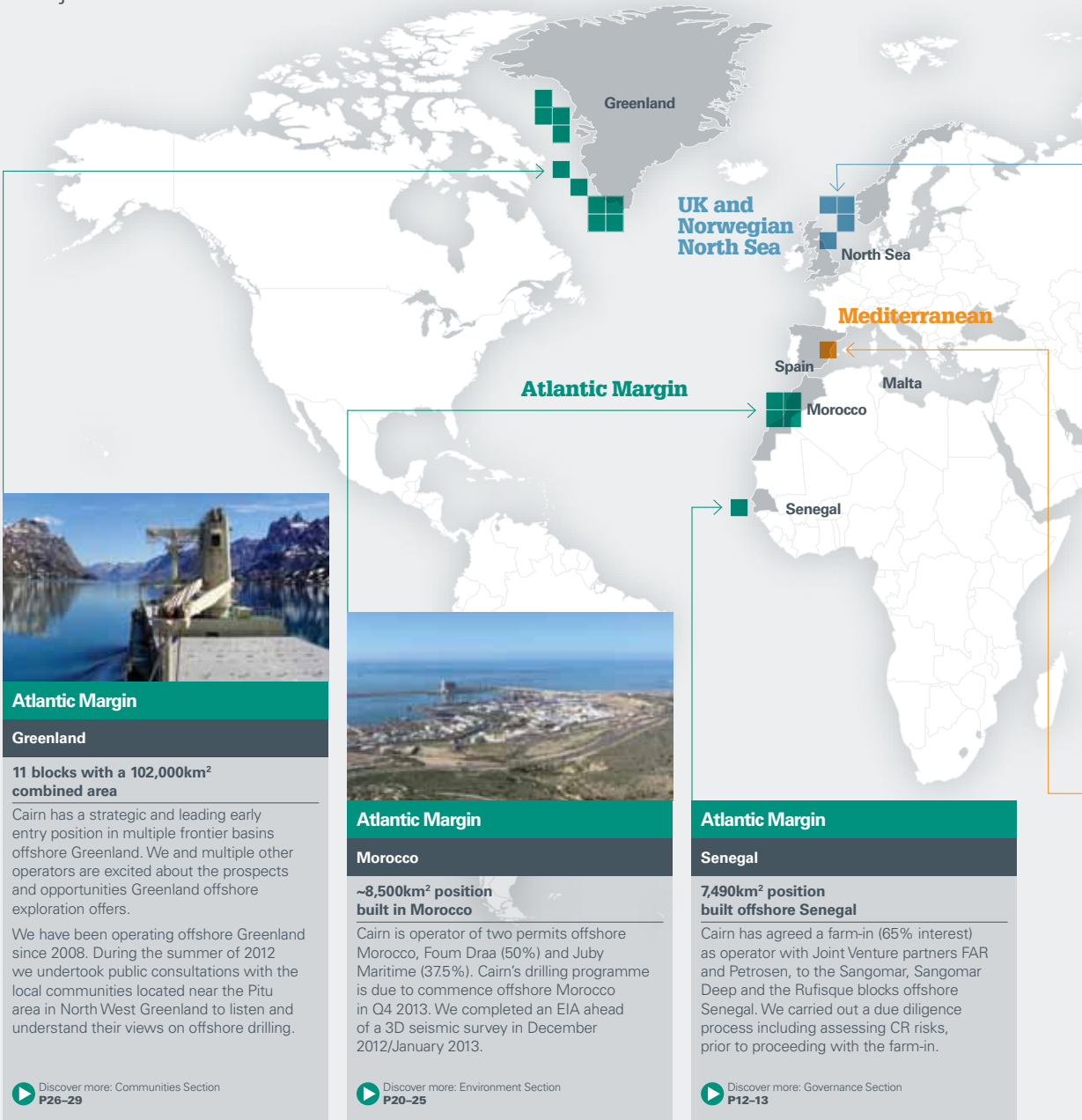
8 Production

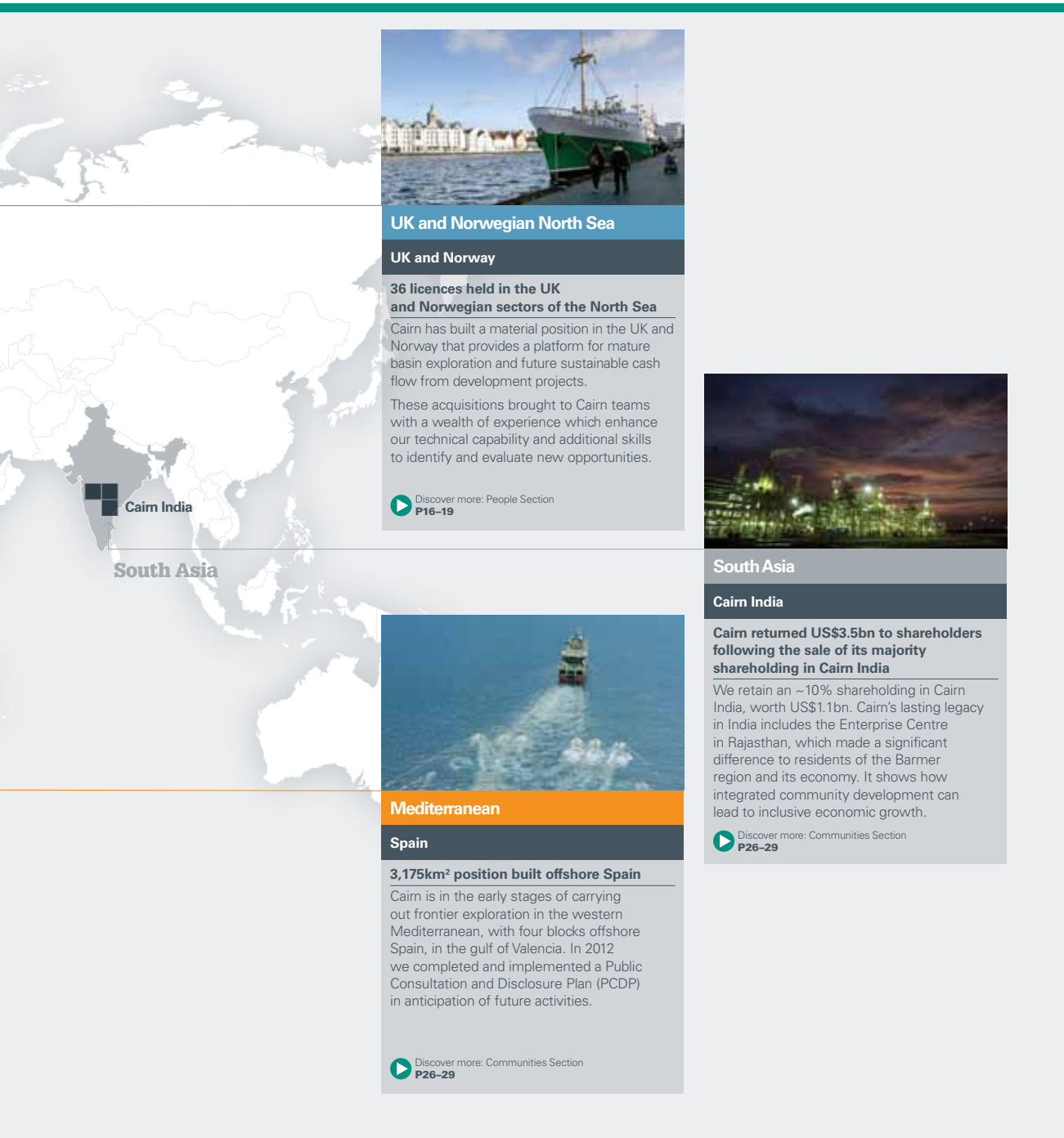
A variety of options are available for the production of oil and gas. During this phase, which can last many decades, regular reviews are made of social and environmental performance to ensure that impacts identified in the EIAs, SIAs and HRIAs are mitigated, to satisfy organisations providing finance such as the International Finance Corporation (IFC) or to fulfil the requirements of community development programmes.



Where we operate

Key Projects





A year for renewal

Living our core values of building respect, nurturing relationships and acting responsibly informs and guides us as we refresh our CR approach across the business

The 3Rs: our Core Values		
Building Respect	Nurturing Relationships	Acting Responsibly
We act with respect for people, their communities, the environment, human rights and the law.	We act honestly, transparently and with integrity to develop strong, lasting relationships with all our stakeholders.	We behave fairly, ethically and are accountable for our actions. We believe in, and act on, our responsibility to care for people, society and the environment.

Annual review

2012 was a busy year for Cairn in terms of significant business transactions and building a balanced portfolio, as detailed in our 2012 Annual Report.

By contrast, our exploration activities have been relatively modest – an EIA and seismic survey in Morocco and marine survey operations in Greenland.

In August 2012, we carried out a tour of the local communities in North West Greenland to understand the potential issues, impacts and opportunities associated with our proposed activity in the region. The information gathered during these consultations will inform the SIA for the proposed drilling programme in the Pitu block, offshore Greenland, in 2014 subject to necessary approvals.

During the year we took the opportunity to review our approach to CR and to consolidate and upgrade our management systems and training, particularly on human rights, health and safety and anti-bribery and corruption. We also refreshed our Business Principles.

The CR issues requiring our closest attention are always top of our mind. They are guided by our core values and our Business Principles and informed by our strategy, materiality process and stakeholders. We feature a snapshot of our key issues on pages 10-11, and expand on them later in this report and our website at www.cairnenergy.com/responsibility. Our website also provides full details about our performance in 2012 and objectives for 2013, with highlights on the page opposite.



Support vessel offshore Greenland used during drilling operations

Focus on performance

Transparency on accomplishments and challenges supports our drive for continuous improvement

Progress against 2012 CR objectives

Last year we set ourselves 15 CR objectives and by December 2012 we had fully completed all but the following, which are in progress:

- Completing two remaining actions arising from the 2011 internal audit of the Group CR Management System (CRMS)
- Finalising and implementing updated induction processes for new staff and contractors
- Incorporating detailed guidance for climate change management into the project delivery process

Objectives for 2013

We have set ourselves objectives in the following areas for 2013.

Approach to managing health, safety and environment

1. Complete development of the updated Group CRMS and supporting procedures and provide training in its use
2. Review and update the CR Policies and Business Principles

Behaving responsibly in all our business relationships

3. Complete anti-bribery and corruption (ABC) refresher training and monitor its implementation
4. Enhance HSE/CR communications to external stakeholders
5. Implement new contractor management procedures

Behave responsibly towards society and communities

6. Provide training in updated human rights procedures

Behave responsibly towards our people

7. Implement management and other staff training programmes
8. Roll-out the HSE Culture Framework and enhance CR communications to staff

Behaving responsibly towards the environment

9. Update our approach to climate change
10. Refresh our approach to biodiversity

2012 CR-related Group Key Performance Indicators (KPIs) and targets

In addition to CR objectives, Cairn has in place both financial and non-financial KPIs which are used to monitor progress in delivering the Company's strategy. The 2012 Group KPIs included a number of KPIs and targets designed to achieve operational excellence, enhance HSE and minimise environmental incidents. Full details are available in the Strategic Review section of the 2012 Annual Report.

A significant number of additional CR KPIs are used to monitor performance and a selection are presented in this report. They are more fully reported on our website at → www.cairnenergy.com/responsibility.

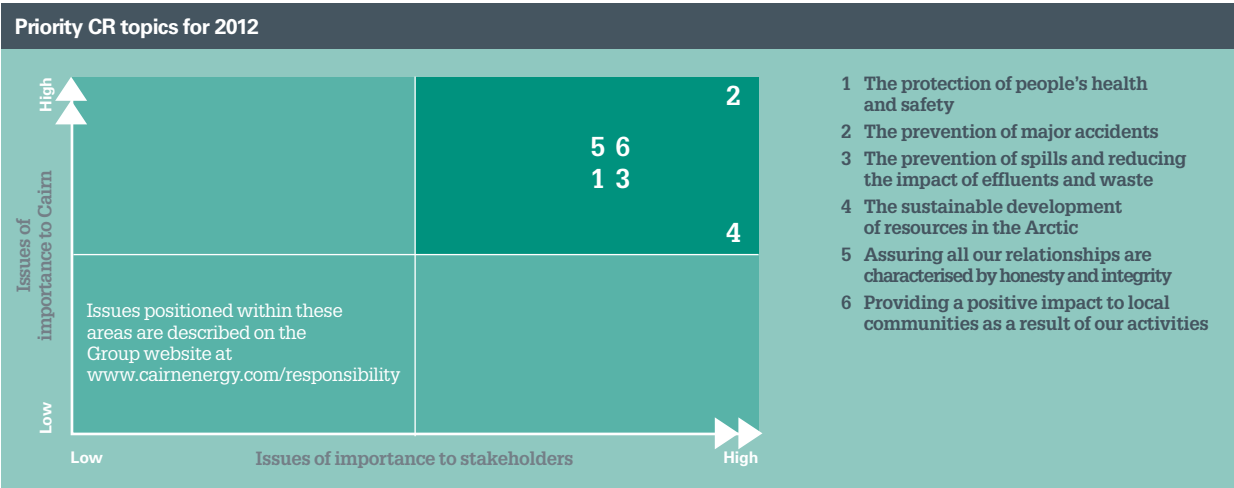
2013 CR-related Group KPIs and targets

The following are the CR related KPIs and targets included in the 2013 Group KPIs:

Successfully complete operated 2013 work programmes	Complete 2013 operational activities on schedule, under budget, to the desired quality and with no injuries or environmental incidents
	Minimise injuries and environmental incidents in 2013 operated activities: <ul style="list-style-type: none"> ➤ Total Recordable Injury Rate (TRIR) target of less than 2.0 TRI/million hours ➤ No oil spills
Continue to enhance the Group's approach to HSE risk identification and management	Achieve targets for 10 HSE leading performance indicators across the areas of: <ul style="list-style-type: none"> ➤ Awareness raising of HSE management systems and procedures ➤ Engagement with contractors ➤ Communication of HSE approach and performance ➤ Risk assessment and management

Mapping our priorities

A robust materiality process helps us identify topics which matter most to our stakeholders and our business



Materiality process

Our business activities and resulting impacts change on a regular basis, so it is important to refresh our approach to our CR priorities in line with our business. We achieve this through our materiality process which consists of identifying the issues most important to our stakeholders and our business. Having established key topics, they are assessed and prioritised by mapping them onto a materiality matrix – a simplified version of which is shown above – according to their significance to the business and to our stakeholders. This helps us prioritise strategies for managing them. Our key materiality issues for 2012 inform updates to our policies, annual objectives, risk management and how we communicate our CR approach and performance.

The outcomes from our materiality process depend on which activities are under way or planned and the stage they have reached in the exploration and production lifecycle. For example, following the disposal of the majority shareholding in Cairn India, the Company has limited producing assets and emits negligible volumes of greenhouse gases (GHGs), whose impact is therefore not considered material in 2012.

At the end of 2012 we held a materiality workshop for Cairn's senior management to scrutinise the existing and emerging CR topics affecting our business. The workshop was facilitated by a third party and included an external CR expert.

Sphere of reference

The extensive range of CR issues we discuss is generated from our understanding of the oil and gas sector and our activities and the locations where we operate and is informed by publications and guidance from organisations such as the IFC. We pay close attention to the concerns of our stakeholders.



Priority CR topics

1. Health and safety

In our business, health, safety, security and wellbeing of people comes first. Our main focus in 2013 will be minimising the risks to people and environment during the planning and execution of our drilling programme. In support of this objective, we will be providing refresher training on the updated CRMS, rolling out the HSE Culture Framework and implementing a communications programme to enhance the visibility of HSE across the organisation. The HSE Leadership Team has also introduced 10 HSE leading performance indicators and targets aligned with the delivery of these objectives. Our People section on pages 16-19 gives more details.

2. Preventing major accidents

Avoiding accidents is our top priority and we implement rigorous risk management processes during the planning and subsequent execution of our activities. Should an incident arise during operations, contingency procedures are ready for deployment to protect lives and safeguard the environment. Find out more about our approach on pages 16-23.

Staying in touch

Stakeholders' views are important to our business, so we interact with them regularly to learn directly about their priorities.

Our activities include:

- Meetings with regulators such as the Bureau of Minerals and Petroleum (BMP – the Greenland regulatory authority), Health and Safety inspectorate, DECC (Department of Energy and Climate Change) in the UK and ONHYM (Office National des Hydrocarbures et des Mines) in Morocco
- Regular contact with investors
- Close collaboration with our business partners, contractors and industry bodies such as the International Association of Oil and Gas Producers (OGP) and Oil and Gas UK
- Engagement with communities in 2013 in Morocco

3. Spills, effluents and waste

Preventing spills is critically important and a key feature of Cairn's risk mitigation programme. Preventative measures are included within the design of wells and equipment, the implementation of operational controls and through alignment with our contractors.

The chemicals used in drilling fluids on exploration wells are selected according to a stringent system to ensure safe use and to limit their impact on the environment. Our waste levels vary from year to year depending on our level of exploration activity. We identify and record all waste generated by our activities, manage it according to detailed and approved plans and recycle where possible. Any hazardous waste is treated and disposed of separately through approved sites.

4. Resource development in the Arctic

Exploring for, and developing hydrocarbon resources in the Arctic is not new. Exploration and development wells have been drilled in this region since the 1920s. We recognise the responsibility associated with oil and gas exploration and development in frontier areas and are highly informed about the risks of exploration and drilling in any location where we operate. Managing risks and applying every practicable means to minimise danger to human life and the environment are central to our way of working.



Community engagement in Greenland

We respect the right of sovereign governments to award licences to explore, drill and develop in their territory. Our track record demonstrates that we are equipped to deliver these activities both safely and without environmental incidents. Find out more on pages 22-23.

5. Honesty and integrity

Cairn's ability to secure licences and to deliver operations effectively depends on transparent relationships with governments, communities, partners and suppliers globally and our commitment to robust governance standards and living by them is critical. Behaving honestly, fairly and with integrity supports our overarching principle of seeking to continually improve our business performance. Cairn always aims to pay the right amount of tax, at the right time, within the right jurisdiction. The Company has adopted a tax policy that ensures it does not enter into artificial tax avoidance schemes. Remuneration is dealt with in detail in the Directors' Remuneration Report section of the 2012 Annual Report. Pages 14-15 of this report describe how we manage governance and business ethics.

6. Positive impact for local communities

Strong relationships based on mutual trust and respect are crucial to Cairn's ongoing business success and we aim to deliver lasting value to all our stakeholders, a key group being communities. We actively engage and consult with local populations with the aim of effectively managing the different interests and expectations associated with our activities as effectively as we can. During exploration drilling or development activities, we implement steps to support skills development in local communities including using contractors who employ local labour wherever possible. Our Communities section on pages 26-29 provides details.

Accountable to the core

Strong governance forms the bedrock for trusting relationships, consistent standards globally and helps deliver lasting value for our shareholders

Good governance means good business

Cairn's licence to operate depends on transparent relationships with governments, communities, partners, shareholders and suppliers globally. Our commitment to robust governance standards, and living by them, is critical.

Risk management is a guiding theme for every decision we make and is comprehensively applied across the business. The Board sets the Group Risk Appetite and monitors the effectiveness of our risk management process.

Our Board takes ultimate responsibility for Cairn's Group Business Principles and CR policies, while our Management Team ensures that all work programmes are executed responsibly and risk management is fully integrated.

The HSE Leadership Team, chaired by Jann Brown, the Managing Director and Chief Financial Officer (CFO) and comprising a number of senior managers, provides oversight on our approach and performance on all health, safety and security matters.

1. Business principles and policies

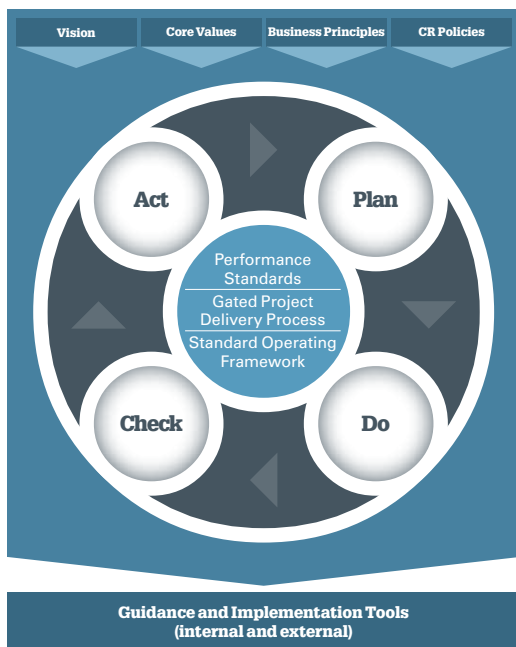
Our Business Principles, which are based on our core values of building respect, nurturing relationships and acting responsibly (the 3Rs) define our approach to everything we do, right across the Company. They consist of 10 principles and are regularly updated, most recently in August 2012.

Behaving honestly, fairly and with integrity supports our overarching principle of seeking continually to improve our business performance. Together with the 3Rs, this anchors our activities. We first implemented our Board-endorsed policies for Health, Safety, Security (HSS), the Environment and Corporate Social Responsibility (CSR) in 2002 and we signed up to the UN Global Compact's 10 principles on human rights, labour, the environment and anti-corruption in June 2012.

Jann Brown

Managing Director and CFO and
Chair of HSE Leadership Team





Industry collaboration

The oil and gas sector is continuously reviewing and developing processes and technology for safer exploration and production – we keep abreast with latest developments by participating in, amongst others: OGP, Oil and Gas UK and the Greenland Oil Industry Association (GOIA).

2. Corporate Responsibility Management System (CRMS)

The CRMS helps to ensure that our exploration and development work is undertaken in line with our Business Principles and policies. Aligned with international standards such as ISO 26000 Guidelines for Social Responsibility and OGP industry guidance, the CRMS provides the processes and tools to characterise and manage CR requirements and risks wherever we operate.

In 2012 we updated the CRMS taking into account:

- Changes to the organisation and responsibilities in 2012
- Lessons learned from its implementation over the last few years
- Adoption of the HSE Culture Framework
- New IFC and industry guidance

We work to a gated Project Delivery Process (PDP) that requires projects to be progressed through a number of stages. At the end of each stage we assess whether it is appropriate to proceed to the next. In 2012, the PDP and supporting material were installed on the Group e-platform and rolled out to practitioners. Training throughout 2013 will continue to embed the CRMS and we plan to check effectiveness by carrying out a follow-up internal audit in Q2 2013.

3. Robust risk management

Host governments invite us to participate and set the standards for our operations and as well as applying our own standards, we commit to meeting or exceeding their expectations. Our Risk Management System, CRMS, performance standards and gated PDP are designed to reduce risks in line with the 'As Low As Reasonably Practicable' (ALARP) principle. In Greenland for example, we work to global best practice level with stringent Norwegian NORSOK regulations for well design and UK Safety Case requirements for rigs. Operating in many areas, including the Arctic, can set demanding challenges. Our experienced teams prepare us for dealing with these by using only the latest processes and drawing on experiences gained in Greenland and historically across South Asia.

4. Ensuring operational integrity

Vigilant attention to risk management ensures productive work throughout the project lifecycle, thereby preventing accidents and associated lost time. In order to ensure continuity and to protect the health, safety and security of our staff as well as safeguarding the environment, we audit suppliers' vessels, rigs and equipment as part of the tender process and before operations begin and review their monitoring, inspection and maintenance procedures. Any shortfalls are reported and remedial actions followed up.

5. New ventures and partners

Our reputation for sound governance rests on making wise choices, and our due diligence process starts with a thorough compliance review and a country risk assessment. We employ a decision tree system and anti-bribery and corruption screening for reviewing investment opportunities. Due diligence on all aspects of CR is carried out on potential partners, with third party and peer reviews where appropriate.

6. Remuneration

Our Remuneration Committee is responsible for setting salaries and bonuses for key senior staff. Remuneration is dealt with in depth in the Directors' Remuneration Report section of the 2012 Annual Report.

Ethical business practices

We require everyone in our Company, our partners and suppliers to respect human rights and behave honestly, fairly and with integrity at all times

Open and clear

Our shareholders expect clear insights into our business and we provide them with an informative website, annual and half-yearly reports and hold regular meetings with institutional investors. A database of all Directors' meetings with third-party stakeholders ensures transparency around our external relations.

We are open about our tax payments too. We recognise and support the principles of the Extractive Industries Transparency Initiative and have disclosed our contributions to governments for eight years. Cairn always aims to pay the right amount of tax, at the right time within the right jurisdiction. The Company has a policy to ensure that it does not enter into artificial tax avoidance schemes.

Taking human rights to heart means living our core values of respect, relationships and responsibility. Acting on them in our work requires following our Human Rights Guidelines and five-step approach to identify and assess issues in our sphere of influence. We follow up our findings by flagging essential, expected and desirable actions. We know it's the right thing to do and it helps safeguard business continuity by reducing security risks to our people and operations.

Our Human Rights Guidelines were updated in 2012 and training will be delivered during 2013.



People come first

We support the principles in the Universal Declaration of Human Rights and the United Nations Global Compact. Our 'rights aware approach' is aligned with the Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework.



United Nations Global Compact



Anti-bribery and corruption (ABC)

Our anti-bribery and corruption procedures guide our own behaviour and clarify our expectations of partners and suppliers. They have been audited by our third party internal auditor and upgraded to take account of their recommendations and lessons learned from the first year of implementation in 2012. Gifts in business can be a grey area, and our gifts and hospitality register addresses uncertainty and reduces the risk of conflicts of interest during tendering processes.

Country and Company-level anti-bribery and corruption risk screening forms an important part of our decision making process when entering new investment opportunities or negotiating with potential partners. We work through a process of risk identification and assess whether the potential issues are manageable and whether resulting risks lie within our risk appetite statement. During 2013, we will deliver refresher training on our approach to ABC and the effectiveness of our ABC management system will be regularly monitored.

Whistle-blowing

Employees are encouraged to report any infringements they come across using our Whistle-blowing Procedure, which was updated in 2012. Anyone with concerns contacts their regional director or department head as the first port of call, followed by the legal department. A confidential whistle-blower line is also available and all cases are followed up. Last year one case was reported, which following investigation was determined not to be an infringement of the Code of Business Ethics.

Compliance

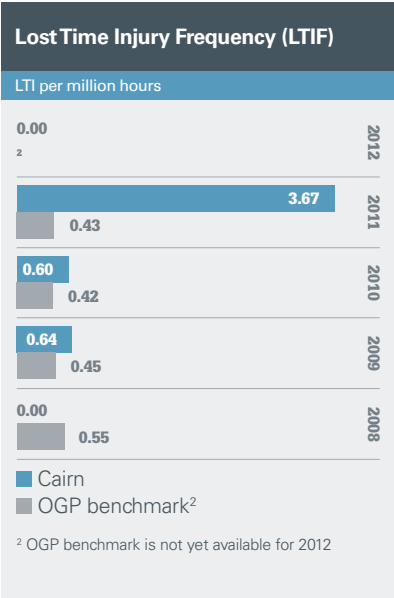
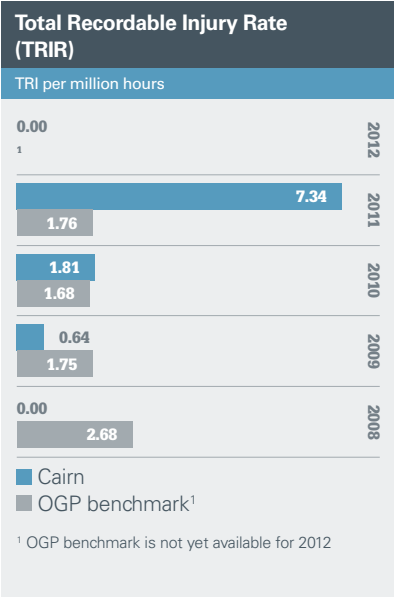
Regulatory approval for our activities is often granted subject to specified conditions and, in accordance with our CRMS, we maintain compliance registers to monitor our activities.

At an operational level, regional directors are accountable while HSE personnel are responsible for regulations, permits and developing and implementing asset CR plans. Employees are encouraged to be vigilant about reporting any actual or potential infringements. Safety comes first at all times.

At a corporate level, assurance is provided by the Group HSE, Risk and Compliance Department. Peer review, benchmarking against standards, Government audits and appraisals from potential lenders provide valuable external corroboration.

People come first

In our business, health, safety, security and wellbeing of people are a priority



Cairn is committed to operating safely and acting properly at all times to ensure the wellbeing of employees, contractors and local communities is a priority. We have in place a comprehensive CRMS through which we assess risks, apply health and safety controls, set targets and monitor performance. Our HSE Leadership Team is responsible for embedding our CR approach and procedures across the Group and applying these in our everyday work is down to every employee.

Living by the 3Rs

Three core values are at the heart of our business: building respect, nurturing relationships and acting responsibly. These 3Rs set out how we behave towards society, the environment and people – inside and outside the Company. Supporting our 3Rs are the Business Principles, CR Policies and new HSE Culture Framework (see ‘Our new HSE Culture Framework’ case study on page 17). During 2012 the CRMS was also updated as we describe on pages 12-13.

As part of our commitment to raise HSS awareness, a number of new policies have been developed during 2012. In addition, a new e-learning health and safety office induction is being rolled out which new recruits will be required to complete in 2013. Growth of the business into new countries during 2012 has meant a rise in employee travel. Our updated Travel Security Policy requires health, safety and security risk assessments before travelling to new countries or potentially risky locations.

Operational integrity and asset management

As well as keeping day-to-day activities safe, our CRMS and risk management processes play a vital role in assessing

and managing potential major accident hazards. We work closely with our joint venture partners and major contractors to ensure roles and responsibilities are clearly defined. We have rigorous procedures in place to ensure potential risks and impacts are identified, assessed and dealt with in line with the ALARP principle. Before embarking on new projects, Cairn frequently uses hazard identification (e.g. HAZIDs) assessments to highlight potential risks. In the unlikely event of a major accident, safety always comes first, and we have established contingency plans ready to protect human life and the environment.

Our safety performance

Our performance over the last five years, for selected safety indicators is shown on the left. More detailed CR performance information is also presented on our website. Over the five year period, our main operated activity has been the drilling programme in Greenland in 2010 and 2011. Our safety performance over the period has been good and in line with the industry, except for in 2011 when there were seven lost time injuries on marine vessels and at the shore base. Our procedures were updated for the ‘lessons learned’ from these accidents.

In 2012 the total hours worked by staff and contractors, was just over 306,000 – an 84% reduction from the 1.9 million hours in 2011, when there were a significant number of contractors involved in the 2011 Greenland drilling programme. We experienced no health and safety incidents in 2012 so the Lost Time Injury Frequency (LTIF) and Total Recordable Injury Rate (TRIR) were zero.

In 2012 a single security incident was registered – a break-in to our London office. The Office Security Plan has been updated and revised Office Security Guidelines issued to staff and contractors.

Future plans

Our main focus in 2013 will be on raising awareness of our new HSE Culture Framework among employees and contractors working for Cairn (see ‘Key HSE action points in 2013’) and ensuring the safety of all people involved in planning and delivering exploration drilling programmes. Communications will also be enhanced to raise visibility of HSE across the organisation.

Key HSE action points in 2013

Refresher training of CRMS for senior managers	Senior management tours and engagement with contractors to convey Cairn’s commitment to HSE	Rollout of the new Cairn HSE Culture Framework	Translation of our behavioural competencies into new People Principles
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Case Study

Cairn believes that an excellent HSE and CR culture comes from successfully building on learning and experience across the Group to drive continuous improvement.

In 2012, we wanted to ensure HSE awareness was translating into expected behaviours. Together with the Keil Centre, an independent organisation specialising in safety culture assessment and human factors analysis, we conducted workshops to gauge prevailing attitudes across the business on their ‘Safety Culture Maturity ®’ Model. These workshops identified a number of areas where awareness could be strengthened, for example in recognising risks and communicating our CR approach and performance. As a result, a new HSE Culture Framework has been developed to keep HSE at the forefront. The new Framework, together with our updated CRMS, will be rolled out during 2013.

To embed HSE further into the business, everyone in a leadership position will have at least one HSE-related objective among their personal 2013 performance objectives. Ten HSE Leading Performance Indicators (LPIs) and targets aligned with the new HSE Culture Framework have also been introduced to support the delivery of desired leadership behaviours.

In recognition of the importance given to HSE performance, the Remuneration Committee has assigned a 10% weighting in the Group 2013 KPIs to delivery of the 10 HSE LPIs and a further 5% weighting to delivery of safety and environmental targets.

Performance against Group 2013 KPIs will be used in assessing the annual discretionary bonus.



Attracting and nurturing top talent

In a fiercely competitive recruitment market, Corporate Responsibility is a factor in making Cairn an employer of choice and maintaining low levels of staff turnover

Fielding a strong team is crucial to delivering sustained shareholder value in a safe and responsible way. Cairn's vision is to offer shareholders exposure to a sustainable business with material growth potential within a balanced portfolio. To do this, we have to attract and retain people with the right skills, expertise and industry experience and ensure effective succession planning across the Group.

Competition for talent

The oil and gas exploration and production sector labour market is extremely competitive and characterised by major skill shortages. Well-qualified employees create tangible business benefit: our business partners want competent and appropriately skilled people to deliver our objectives. To grow and resource the

organisation with the skills we need, Cairn must stand out as an employer of choice – and we see our CR approach as one way to do this. Being a responsible business with a strong track record in stakeholder engagement and effective CR management helps attract prospective employees who increasingly wish to work for organisations with strong ethical credentials.

Nurturing our most important asset

Cairn values its people highly. Since 2004, we have been accredited as an Investor in People – a best practice standard for people-focused businesses – and our staff turnover rate of 3.4% is low. Employee well-being and ensuring a safe and healthy environment are among our priorities.

We apply a range of methods to motivate and reward our staff. We offer a share incentive plan, an annual discretionary cash bonus scheme and a company pension plan contribution.

In order to help our people reach their potential, we offer training and development opportunities including 'lunch and learn' sessions. In 2012, the average number of training days per person at Cairn was 5.5 days, with an average of £3,000 invested per head – well above the national figures of 3 days and £276 respectively, according to the Chartered Institute of Personnel and Development.



Case Study

During 2012 Cairn made two corporate acquisitions of UK and Norway focused oil and gas exploration and production companies.

In April 2012, Cairn acquired Agora Oil and Gas AS, a private Norwegian company based in Stavanger with exploration, appraisal and development assets in the UK and Norwegian North Sea. In August 2012 Cairn acquired Nautical Petroleum plc, an AIM-listed oil and gas exploration and production company based in London with development assets in the UK North Sea and exploration assets in the UK, France and Morocco.

These acquisitions brought to Cairn some of the most skilled explorationists in the North Sea. The teams bring a wealth of experience in exploration that has enhanced our technical capability and additional skills to help evaluate new opportunities. The former Chief Executive of Agora now heads the UK and Norway region and the Group will draw on the new teams' expertise and approaches, cascading any learnings in 2013. Our UK and Norway team now works out of Edinburgh, Stavanger and London.

Professional development

Ongoing knowledge management is ensured via our Group e-platform. In 2013 we plan to further develop our flexible working policy and expand IT-facilitated remote working.

Equality and diversity

At Cairn we value a diverse workforce and encourage women and ethnic minorities to pursue careers in our industry. We actively seek to hire local people wherever we operate – a practice host governments value highly. In 2012, from a total of 180 full time Group employees, 49% were female and 2% from ethnic minorities. Women counted for 33% of managerial grade employees and 22% of our Board members.

We aspire to diversify the Board further and appoint women if they are the best candidate for the role. At senior management level, we also seek to develop and increase the number of women in senior positions across the Group through measures including succession planning, training and development and flexible working policies, all of which support diversity.

In 2012, we ran Equality and Diversity and Harassment training for staff and contractors in the Edinburgh office.

Succession planning

Cairn has the right leadership and organisation in place to deliver our corporate strategy. We spend considerable resources on developing the next generation of leaders and ensuring they are appropriately diverse, skilled and equipped to continue to meet the Company's strategic objectives.

In 2013, we aim to enhance the current succession planning process and roll out a Management Development Programme for middle managers to build leadership and management capability. This will give us greater flexibility to move people around the business and ensure business continuity.

Minimising risks to the environment

Working with governments and communities, we minimise potential environmental impacts by applying international standards, living up to local requirements and managing risk rigorously

Precautionary principle

We take a precautionary approach and avoid, wherever possible, negative impacts to the environment and biodiversity. We will not operate in UNESCO World Heritage sites and areas of similar significance not enjoying the same level of legal protection.

Management systems in practice

Governments award exploration and development opportunities knowing that our licence to operate and track record depend on balancing value creation for all stakeholders with rigorous care for the environment of the countries and communities where we operate. Wherever possible we avoid negative impacts on the environment and will prevent or minimise emissions to air, land and water. Our CRMS stipulates that environmental impacts must be managed at every stage of the exploration, drilling or development programme. Environmental aspects are evaluated at every decision point in our five stage PDP described on page 21.

Minimising risk

Designed to identify and assess the environmental aspects of our operations, EIAs allow us to determine the significance of impacts and define actions to manage and monitor these risks. With this information to hand, we can review project alternatives and make informed decisions when planning our activities. We feature a case study of the EIA we carried out in Morocco in 2012 on page 25.

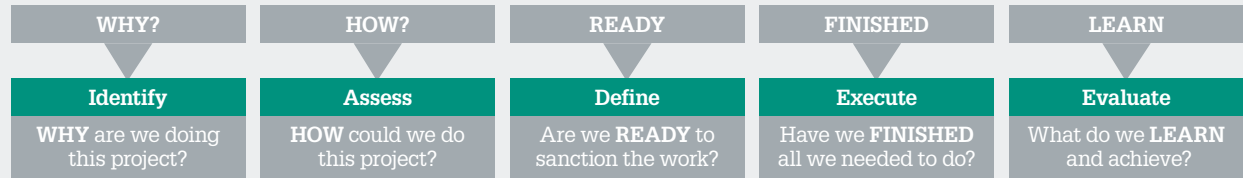
EIA findings are subject to a thorough technical review by expert stakeholders and on occasions, to wider consultations at public hearings. Measures to mitigate any risks and commitments defined in the EIA documentation form part of the asset or project specific Environmental Management Plans. Results are monitored to confirm the levels of impact predicted in the EIAs and the effectiveness of mitigation measures.

Working in non-operated environments

Cairn counts both operated and non-operated acreage in its portfolio of assets.

In Greenland and Morocco, we have operational control of our exploration and drilling programmes and apply our management systems and standards as described above. Our recent acquisition of interests in the North Sea has allowed us to partner in drilling opportunities operated by other companies such as Statoil ASA, Premier Oil plc and EnQuest plc. As we explain in the Governance section, our due diligence process gives us confidence in the integrity and HSE track record of the operators we work with. Additionally, our non-operated ventures are in the North Sea, where they are regulated stringently. We assess the HSE standards of contractors selected by our operating partners regularly. We influence our partners by reviewing operator criteria for the HSE ranking of contractors, making HSE evaluations of development concepts and commenting on project risk matrices.

Our gated project delivery process



Sample lessons learned from Greenland

Case Study

Following the Greenland drilling campaign in 2011 we assessed lessons learned to review and improve our approach. Findings include:

- Start EIA/SIA planning early to address concerns and understand information. Our consultation in North West Greenland in the Pitu area started in August 2012 two years before planned operations in 2014, subject to necessary approvals
- Explore collaboration with other operators in Greenland. To reduce the potential for stakeholder fatigue, we have started a process to carry out a joint social baseline study among the Baffin Bay operators in Greenland
- Develop oil spill plans early and employ the best, most up-to-date response technologies and techniques. Collaborate with industry initiatives such as Joint Industry Projects (JIPs) and GOIA and ensure all plans are transparent
- Work with a drilling mud contractor to develop and test potentially lower impact alternatives while assuring performance and safety
- Review waste management, capacity and alternatives ahead of future campaigns
- Focus on proactive engagement on approach and behaviours, drawing on the Group’s HSE Culture Framework

Rising to the challenge

Protecting the environment is a high priority and we are vigilant about prevention and preparedness



The Stena Forth used in Cairn's 2010 offshore Greenland drilling programme

Resource development in the Arctic

Exploration in the wider Arctic region is not new and began onshore in the 1920s and offshore in the 1970s, with a total of 10,000 wells drilled to date. Choosing to realise the value of its potential resources, the Government of Greenland has awarded Cairn and other companies such as Shell, ConocoPhillips and Maersk licences to explore, drill and potentially develop in its territory.

We are conscious of our responsibility when operating in frontier areas such as the Arctic and are highly informed about the risks of drilling in all conditions. We recognise that our sector's activities impact public perception about Arctic exploration. Our commitment to avoiding risks and applying every practicable means to minimise impacts on human life and the environment is unshakable and our record strong.

Our track record and experience demonstrate that we are well equipped for the task of exploring for oil and gas. Between 2010 and 2011, we drilled eight wells offshore Greenland without any serious injuries or significant environmental incidents during operations and made a major contribution to the Greenland economy – see pages 16 and 29.

Setting standards in new areas

Drilling in deep water and extreme environments is not new and it now benefits from advanced state-of-the-art technology and approaches. During drilling operations in Greenland in 2010 and 2011, Cairn:

- Contracted latest generation ‘dynamic’ deep water drilling vessels that did not require anchoring to the seabed
- Carried out extensive ice management, as used off the east coast of Canada for the past 40 years, to protect drilling vessels from damage

Learning from Macondo

Following the Macondo incident in the Gulf of Mexico in 2010, we reviewed, revised and confirmed that our procedures and equipment fully complied with, and in many instances exceeded, the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) in the US and industry wide recommendations. We also track developments in industry and regulation very closely. During 2012, we increased our involvement through joining the OGP Oil Spill Response (OSR) Joint Industry Project (JIP), which are undertaking a comprehensive review and subsequent evolution of oil spill management addressing issues following Macondo and other incidents. Our aim is to verify Cairn’s existing arrangements and we have focused especially on the ‘Upstream Risk Assessment and Response Planning’ work stream that is developing guidance on various aspects of oil spills including:

- Probability of spills and credibility of risk scenarios
- Assessment of resources at risk
- Resource inventory and capability
- Plan development
- Demonstration of plan application and exercises

Emergency response

Our critical goal is to prevent any accidents, but should an incident arise during operations, contingency procedures are ready for deployment to preserve lives and protect the environment. Our Emergency Response Plans were an integral part of our successful ‘Application to Drill’ submission to the Government of Greenland for our 2011 campaign. We tested our emergency plans in detail, including four set-piece exercises, the most complex of which simulated a major well control scenario.

Our Crisis Response Room is on constant standby and when we are operating at a low level – as in 2012 – provides both crisis and emergency cover. We update our crisis response plan and hold refresher training on a regular basis. An additional, country-focused Emergency Response Group (ERG) is formed for each country where drilling is active.

We recognise that public interest in our preparedness is high, and make our Oil Spill Prevention and Contingency Plans (OSPCP) available when sovereign governments permit it.

Exploration and drilling activity in Greenland is likely to increase in the near future, and a Government of Greenland oil spill preparedness company named Greenland Oil Spill Response A/S (GOSR) has been established. We have transferred our Oil Spill Contingency equipment, worth more than US\$5 million, to GOSR which will now take care of storage, maintenance, tests and deployment.

Greenland Oil Industry Association (GOIA)

Cairn was involved in the formation of GOIA. We are working with other companies with interests in the country including, Shell, Chevron, ExxonMobil, Statoil, ConocoPhillips, Maersk and the Government of Greenland on a range of topics including the enhancement of oil spill prevention and contingency planning ahead of any future drilling activities.

Oil Spills		
Group Operated	Number of oil spills that reached the environment	Total volume of oil spilled in reporting period
	Number	Barrels
2012	0	0
2011	0	0
2010	0	0
2009	0	0
2008	0	0

This covers spills of crude oil only. We also record spills of fuel, chemicals, waste and other. Please refer to data on our website at → www.cairnenergy.com/responsibility

Managing our footprint

Controlling our impacts before, during and after every stage in the oil and gas lifecycle is essential to the way we operate

During 2012 our operations were limited to an EIA and seismic survey in Morocco and marine operations and stakeholder engagement in Greenland. There was therefore less potential for impacts on the environment than in previous years.

Biodiversity

Oil and gas exploration can have an impact on nature and on the quality of life of the communities where we operate. We therefore carefully observe, assess and monitor biodiversity through our EIAs and SIAs in every territory where we operate. During 2012 we carried out an EIA in Morocco that included noting marine mammals in the vicinity. Mitigation measures we adopted to minimise noise, waste and nuisance to users are described in the case study opposite. During 2013 we will update our approach to biodiversity management and raise awareness across the Group.

Climate change

Oil and gas production provides the energy needed to catalyse economic development around the world and provides a bridge until a low carbon economy is achieved. Climate change may affect our own business and the lives of people around

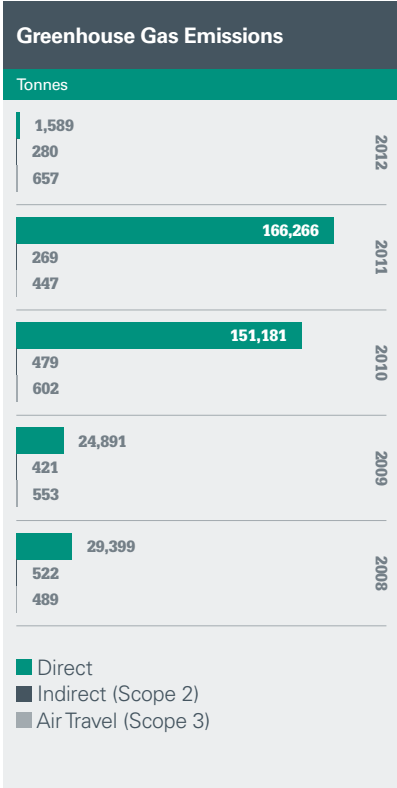
the world and we therefore manage our operations to minimise the greenhouse gases (GHGs) emitted during our activities. We have reported our GHG emissions in our annual CR Reports since 2001 and to the Carbon Disclosure Project since 2006 and our climate change strategy will be reviewed again during 2013. Our GHG emissions peaked during 2010 and 2011 as a result of fuel burnt during the Greenland drilling programmes in those years.

Noise

Every stage of oil and gas exploration and drilling activities generates an element of noise, notably from seismic surveys, drilling activities, support vessels and aircraft used in crew changes. Mitigating noise includes using a ‘soft start’ in seismic surveys (see case study on page 25) and ensuring wherever practical, aircraft avoid sensitive seabird colonies and marine mammals.

Waste

The majority of our waste is produced by our contractors, and since our activity has been limited in 2012, we have produced little. We require our contractors to segregate waste and monitor, record and report all waste produced and its disposal destination.



Chemicals

Cairn manages chemicals in accordance with the Oslo and Paris Convention for the Protection of the Marine Environment (OSPAR) of the North-East Atlantic, the internationally recognised mechanism developed by 15 governments of the western coasts and catchments of Europe, together with the European Community. Offshore chemicals are subject to pre-screening, substitution and ranking using a colour code system.

Wherever possible we select green, so-called PLONOR chemicals (Pose Little or No Risk) as a first choice, then yellow and finally red, when no other option exists.

During 2011 operations offshore Greenland we used chemicals approved by the Government of Greenland for drilling, cementing and rig operations. Working with our drilling contractor, lower impact water-based rather than oil-based drilling

fluids or 'muds' were employed to ensure operational integrity while minimising environmental impact. One chemical within the mud formulation was categorised as 'red' as no 'green' or 'yellow' category alternative was available that could ensure the well was drilled safely. The use of the red chemical was approved by the regulator.

During 2012 we have worked with our drilling mud contractor to explore new mud formulations without the use of any 'red' chemicals. As a result a water-based option free of red chemicals is being tested to try and find a Best Practicable Environmental Option (BPEO) which can also ensure safe and continuous operations.

During demobilisation of supplies from the Greenland 2011 drilling campaign, a small volume of non-toxic drilling mud chemical was released from a container at Peterhead in the UK in January 2012. It was fully recovered with no loss into the sea.

Classification	Colour Category	Approach to Use
Chemicals classified for Priority Action or Possible Concern	Black	Do not use
Chemicals not meeting acceptability criteria for toxicity, biodegradation or bioaccumulation	Red	Use only where no acceptable substitute is available in the yellow or green categories
Other chemicals	Yellow	Use only where no acceptable substitute is available in the green category
Chemicals classified as PLONOR	Green	Use wherever possible



Case Study

In 2012 we completed an EIA in Morocco ahead of 3D seismic activity in December 2012 and January 2013. As part of the regulatory process, the EIA was subject to a statutory public hearing.

The EIA suggested ways to mitigate impacts on marine fauna and users of the sea to negligible levels by:

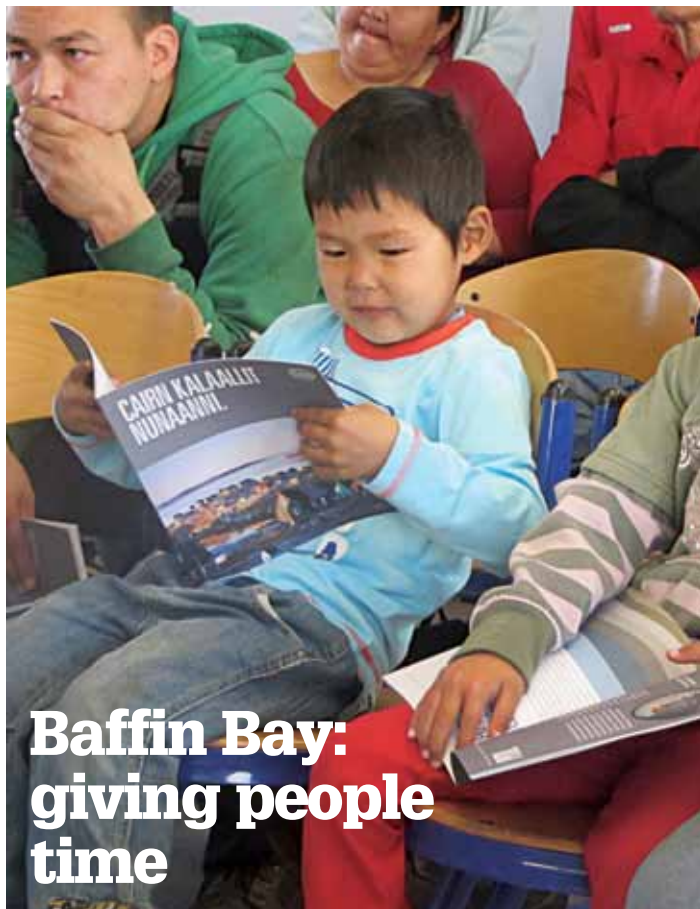
- Reducing noise – seismic acoustic sources that can potentially impact on fish and marine mammals are reduced using a technique called 'soft start'. This means the power of the acoustic source is increased over 20 minutes to the maximum required. Starting up at low power allows fauna to leave the area
- Shutting down when necessary to protect marine mammals against physical damage, the seismic survey is interrupted if a marine mammal is observed within a radius of 500 metres from the sound source
- Providing marine mammal observers to provide a lookout to detect the possible presence of marine mammals near the vessel and record their behaviour
- Incinerating waste – to avoid any form of pollution or contamination of the marine environment, waste is incinerated on board. In addition, the seismic ship has a system for sorting solid waste and another for wastewater treatment
- Avoiding nuisance to other marine users to avoid possible interference with fishing and navigation, recommended measures include issuing information notices about the seismic programme, making ongoing contact with boats in the area and using support vessels to liaise with fishing boats and other users

Engaging for the long term

Regular stakeholder engagement to understand potential environmental and social impacts is vital to the success of any project

Strong relationships based on mutual trust and respect is crucial to Cairn's ongoing business success. A wide range of stakeholders has the potential to affect – or be affected by – our operations. Engaging with them is an integral part of maintaining our licence to operate and ensuring positive project outcomes.

The aim of our stakeholder engagement strategy is to manage effectively the different interests and expectations associated with our activities. Our CSR Policy, CRMS and Stakeholder Management Guidelines set out how we identify and engage with diverse groups. Our Group stakeholder matrix provides information to our regular reviews of our Business Principles and any updates to the materiality matrix.



**Baffin Bay:
giving people
time**

Case Study

In preparation for potential drilling during 2014 in the Pitu block in the Baffin Bay area, subject to the necessary approvals, during 2012 Cairn carried out a tour of three towns and five settlements between Ilulissat and Qaanaaq on the northwest coast of Greenland. The tour's purpose was to explain the drilling cycle and gather information to inform the formal Terms of Reference for the SIA study, while at the same time listen to the views and any concerns of the local communities.

In response to concerns raised by some stakeholders about the statutory consultation and public hearing process in 2010, we began this process early to give people time to understand the issues and promote participation in the consultation process. Building of docks, use of local labour and development of English skills were identified as local priorities. Among the concerns raised were the effects of oil spills, seismic disturbance to whales and fish and education for young people.

Using these insights, we aim to complete the SIA by the end of 2013 and expect public hearings to be held in early 2014.

1 First step: Consultation

Before each new programme of activities, we prepare a Public Consultation and Disclosure Plan (PCDP) that identifies the stakeholders involved and sets out appropriate engagement strategies. Our Group Consultation and Disclosure Plan Framework follows the guidelines of the IFC which are widely regarded as best practice.

The PCDP process promotes mechanisms for stakeholders to voice their opinions and any concerns and share their aspirations for what exploration will bring to their community. For Cairn, it is an opportunity to explain our operations and manage expectations while exploring for oil and gas, and ensure that our investments in social and community development align with local needs. The PCDP also includes a clear grievance procedure so that unresolved issues can be addressed. Through this open

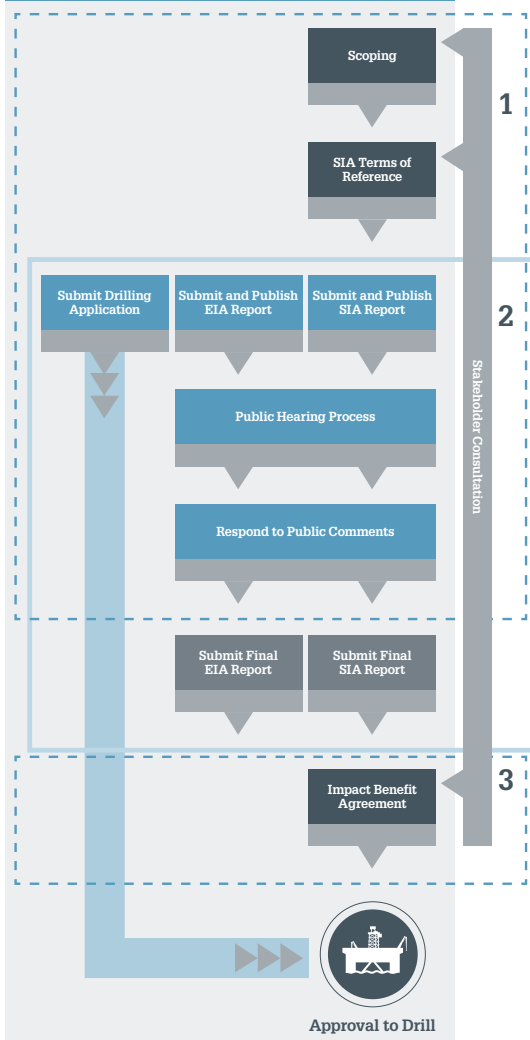
process, strong relationships are forged with communities, governments and business partners, laying the foundation for mutual benefits.

Where challenging matters including land acquisition, resettlement, water use, security and compensation are involved, Cairn consults extensively with stakeholders.

To see how this process was central to developing what is now the world's longest continuously heated pipeline in Rajasthan, India, visit our website at www.cairnenergy.com/responsibility or see our 2010 Corporate Responsibility Report.

In 2012, a PCDP was completed in anticipation of future activities offshore Valencia, Spain. In Morocco, Cairn began stakeholder mapping prior to scoping out a PCDP in 2013. The Greenland PCDP will be updated in 2013 to reflect potential future operations.

Engagement in Greenland



2 Second step: Impact assessment

Cairn complies fully with host government requirements, using a range of environmental and social impact assessments and baseline surveys to assess the potential effects of operations and develop Social Management Plans (SMPs). The primary focus of SIAs and social baseline studies is on demographics, employment and livelihoods, economy, education and training, community health and infrastructure.

Gauging socio-economic impacts helps us mitigate adverse effects and ensure that human rights are respected and protected. During 2012, Cairn updated its Human Rights Guidelines and training will occur in 2013.

The SIA also helps to enhance the potential benefits through a social management plan. This typically includes a programme for local communities.

3 Third step: Community development programmes

As well as developing SIAs, we work with host countries to produce a community development programme. For example in Greenland all drilling activities require an Impact Benefit Agreement (IBA) for each exploration phase. This outlines the social, economic and cultural contributions Cairn and its

contractors undertake to make to local communities as part of their drilling exploration campaigns.

To date, Cairn has been involved in two IBAs (in 2010 and 2011) with local municipalities and the Government of Greenland. (See 'Impact Benefit Agreements in Greenland' case study on page 29.)

Leaving a positive legacy

Our aim is to develop long term partnerships with local communities to ensure our activities have positive and enduring socio-economic benefits.

As well as ensuring that Cairn’s operations avoid or minimise negative impacts, our CR policy and core business values commit us to maximise benefits to local communities. We can also have a considerable positive financial impact in the countries in which we operate. For instance, cash flow from Cairn India’s producing fields resulted in US\$1.27 billion in taxes and other duties paid to Indian federal and state authorities in 2011.

Building capacity through co-operation

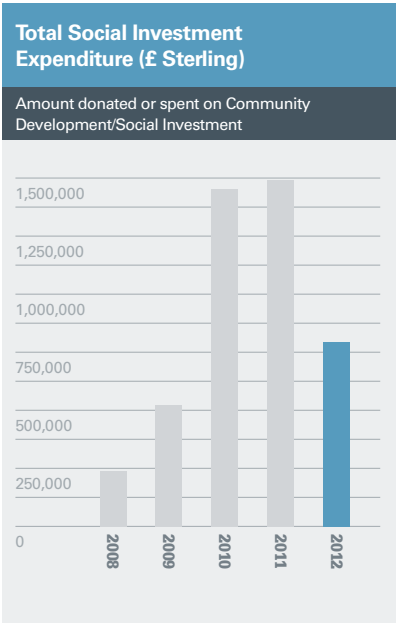
During exploration, drilling or development activities, we support skills development in local communities by employing sub-contractors who use local labour wherever possible. We also drive continuous skills improvement by sharing information with local enterprises.

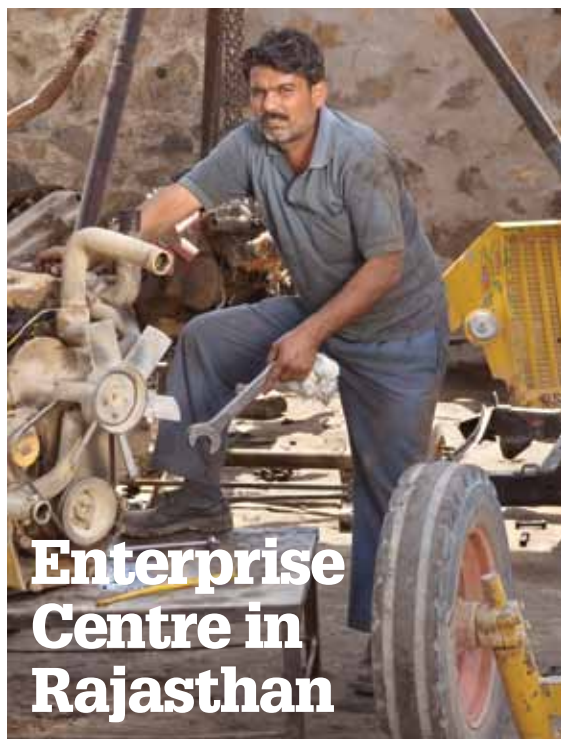
Our aim is to develop long term partnerships with local communities to ensure our activities have positive and enduring socio-economic impact, for example by creating new jobs, engaging local suppliers, providing infrastructure and improving access to education and healthcare. We have a strong track record in India, where we partnered with the IFC to establish the Cairn Enterprise Centre in Rajasthan. (See ‘Enterprise Centre, Rajasthan’ case study on page 29.)

The lessons we learned in South Asia are now being applied in Greenland and elsewhere, through IBAs designed to benefit local Greenlandic communities (See ‘Impact Benefit Agreements in Greenland’ case study on page 29.) We know that increasing local participation in oil and gas activities is important to local people, but that development of skills and enterprise associated with the industry must be sustainable – whether or not exploration is successful. This is important to our host governments and a core part of Cairn’s way of doing business.

Giving back to the community

Cairn also has a charitable giving programme largely focused on supporting not-for-profit organisations in and around Edinburgh, where we are headquartered. Our charitable giving is co-ordinated by a 10-member Group Charities Committee which reports to the Executive Team. In 2012, our donations amounted to nearly £453,000. For more information on how this was allocated, please see our website. → www.cairnenergy.com/responsibility





Case Study

In January 2004, Cairn discovered the Mangala oil field in Rajasthan, India.

In partnership with the IFC and the Government of Rajasthan, an Enterprise Centre (EC) was set up in Barmer in July 2007, to bring benefits from energy development to the local community. Its remit was to develop skills, build local vendor networks and establish welfare initiatives such as mobile health vans and dairy development.

In its first phase, the EC focused on imparting transferable skills like computer literacy, technology, car maintenance, mobile phone support and welding services. A total of 6,617 people were trained, 80% of whom found employment.

This success saw the EC extended for a further five years and incorporated as a not-for-profit organisation – the Cairn Enterprise Centre (CEC). In 2011-2012, courses in advanced welding, pumps and valves, basic computer training and spoken English were offered.

By making vocational skills and qualifications more accessible, the CEC has made a significant difference to residents of the Barmer region and its economy. For Cairn, it serves as a good model of how integrated community development can lead to inclusive economic growth.

Enterprise Centre in Rajasthan



Case Study

As part of each phase of Cairn's exploration drilling programmes offshore Greenland, we have negotiated IBAs with local municipalities and the government of Greenland to ensure that – whether oil is found or not – local communities benefit from our presence.

As part of these IBAs, Education and Community Development Funds have been set up to promote Greenlandic social and cultural wellbeing and human resources and business development. As well as contributing funds, Cairn has provided training positions, employment and income opportunities for Greenlandic enterprises such as Air Greenland and Royal Arctic Line A/S. Total annual social investment expenditure amounted to £0.965 million in 2010, £1.024 million in 2011 and £0.344 million in 2012.

In 2011-2012, a Greenlandic workforce ratio of 10% was achieved and 12 trainee positions were created in areas such as helicopter piloting, logistics and exploration drilling. Among the projects supported through the Education Fund were advanced offshore training and contracts,

executive negotiation and technical English language training – a pre-requisite for a strong HSE culture. Community projects funded included cultural and sport-related activities aimed at young people, such as handball, football and cross-country skiing, traditional umiaaraq boat championships and the 2012 NIPIAA Rock Festival.

The IBAs have improved technical skills, raised local participation in the oil and gas industry and ensured that our presence in the region boosts Greenland's wider socio-economic development.

For full details of socio-economic benefits resulting from our operations in Greenland please see our website at → www.cairnenergy.com/responsibility.

Impact Benefit Agreements in Greenland

Partners in excellence

High skill levels and high standards come first when choosing who to work with, along with building strong local business relationships

Cairn relies on contractors, the numbers of which varies in line with operational requirements. Ensuring that our suppliers and business partners uphold our CR standards is essential to protect our reputation and licence to operate. With up to 87% of our business activity contracted out at times of significant operational activity, our focus is on selecting the right partners, communicating expectations, ensuring effective policies and management processes, monitoring performance and sharing lessons learned.

Choosing our partners carefully

Experience, competence and responsibility are some of the key considerations when it comes to choosing the right people to supply the provisions, equipment and services needed to help run our business. Cairn applies a rigorous selection process in choosing contractors, embedded in our Contract & Procurement procedures and utilising First Point Assessment Ltd (FPAL),

a supplier selection tool widely used by oil and gas purchasers when awarding contracts or purchase orders.

Our Invitations to Tender set out our expectations and include copies of our Business Principles, Corporate Social Responsibility, Health, Safety, Security and Environmental policies, along with our Code of Business Ethics to which potential contractors must confirm their capability to comply. Specific due diligence audits to check contractors' capabilities and equipment may also be undertaken, notably for high-risk operations such as drilling.

Contractors are required to submit data around key CR performance indicators.

Where Cairn is the minority joint venture partner and does not have operational control, we conduct due diligence and engage constructively with partners to ensure we are comfortable with the operator's standards before proceeding.

Minding our ABCs

Cairn has a zero tolerance approach to bribery and corruption and conducts risk-based due diligence on contractors, as detailed in our 2011 Anti-Bribery and Corruption (ABC) – Selection of Service Providers Procedure. This is of growing importance as we consider moving into new potentially higher-risk regions. Where necessary, we also engage a specialist external consultant to carry out background verification checks on contractors.

Local content

An important aspect of Cairn's strategy is developing new frontiers. To ensure we create value for host communities, our procurement policy encourages use of local suppliers wherever the right expertise is available, or can be developed without compromising the high standards and principles required in our industry. We include local companies with the required competence in bid lists and request international contractors to consider use of local sub-contractors.



Case Study

In 2011 a local company, Odin Diving, was invited to bid to provide stand-by diving support for Cairn's Greenland drilling campaign.

To meet Cairn's safety and certification requirements, Odin Diving became a sub-contractor to an experienced UK-based diving company, KD Marine. Key benefits to Odin Diving were training and seeing at close-range how an international diving company operates safely.

Local company support in Greenland

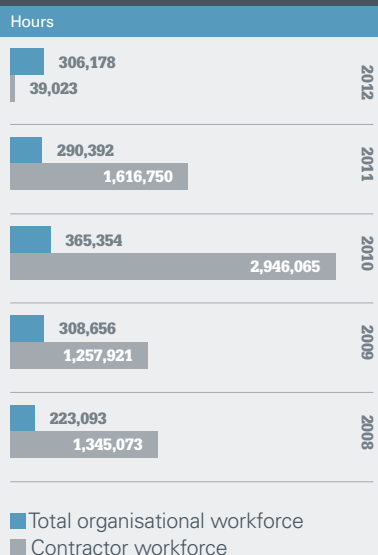
Cairn is committed to supporting skills development in local communities and using local labour. By organising seminars, sharing information with local enterprises and encouraging alliances between our local contractors and international companies, we seek to drive continuous improvement of local workforce skills, including skills that are transferable to other industries other than the oil and gas sector.

Although operational activities in 2012 were minimal, we retain a local supply presence in Greenland and in Morocco we are setting up relationships and contracts with several local entities.

Progress and outlook

A key 2012 objective was to update our CR Contractor Management Procedure and Guidance and incorporate this into the gated PDP. This is currently in progress. The tender process has been mapped and key areas where HSE plays a major role have been identified. During 2013 new procedures will be issued to enhance consideration of HSE in the tender process and promote senior management engagement on HSE matters with key contractors. We see this as an important part of building strong relationships with our business partners, and crucial to our ongoing success.

Cairn Group vs Contracted Hours



Report Parameters

This report contains key highlights of Cairn's Corporate Responsibility activities during 2012

Scope and boundaries

This report provides a succinct overview of Cairn's approach to CR. We report on those operated assets in which we have control in terms of CR policies and practices. It covers significant performance highlights from across Cairn's global operations during 2012 and outlines key objectives for 2013. For those seeking more comprehensive information and performance data, an extensive GRI report for 2012 is available on the web, at → www.cairnenergy.com/responsibility

Target audiences for this report include interested stakeholders, particularly governments, business partners, shareholders and contractors.

Data

CR performance is measured across the Cairn Group using a number of Key Performance Indicators. Health, safety and environmental data follow the definitions set by the GRI and International Association of Oil and Gas Producers (OGP). Data used in this report refers to our operated activities, including operated joint ventures with other companies. Figures relating to our workforce refer to Group employees and do not include contractors except where indicated.

Content

This report covers a selection of the most significant topics of concern to our stakeholders and most material to our business, as assessed by our internal specialists and approved by our Management, Corporate and Executive Teams. More detailed information can be found at → www.cairnenergy.com/responsibility

Our reporting

Cairn has reported its CR performance annually since 2001. Our last CR Report was issued in April 2012 to the requirements of GRI Application Level B+. We are signatories to the United Nations Global Compact and prepare an annual Communication on Progress on our performance against the 10 principles as part of that commitment. We report in accordance with ISO 26000 and the AA1000 Assurance Standard (AA1000 AS – 2008).

Copies of all CR-related reports can be found at → www.cairnenergy.com/responsibility

External assurance

Independent sustainability consultant and assurance firm Environmental Resources Management (ERM) has provided moderate assurance of selected information in Cairn's web based Corporate Responsibility Report – see statement opposite.

Summary

Cairn's Corporate Responsibility approach and 2012 performance is summarised in the 'Strategic Review' section of the 2012 Annual Report and covered in detail in the Responsibility section of the Cairn website at → www.cairnenergy.com/responsibility



Find more on our CR activities on our website at → www.cairnenergy.com/responsibility

Independent External Assurance – Summary Statement

Provided by sustainability consultancy and assurance firm ERM:

We provided independent assurance on selected information presented in Cairn's web-based 2012 Corporate Responsibility (CR) report. We performed our work in accordance with the AccountAbility Assurance Standard (AA1000AS 2008) Type 2 requirements. The level of assurance provided by ERM as defined by AA1000AS (2008) is moderate. We used the following assessment criteria when undertaking our work: AccountAbility Principles Standard (AA1000 APS) 2008 and Cairn's KPI definitions.

Based on the work undertaken as described above, we conclude that in all material respects:

- A. Cairn's status of alignment against the AccountAbility Principles of Inclusivity, Materiality and Responsiveness is appropriately reported; and
- B. The selected 2012 KPIs assured by ERM as presented throughout the Report are appropriately reported.

For further details on the work undertaken and our findings please refer to the full assurance statement in the Responsibility section of the Cairn website at
→ www.cairnenergy.com/responsibility



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