



Operating with Integrity

Cairn Energy PLC
Corporate Responsibility Report 2013
A Summary



In This Report

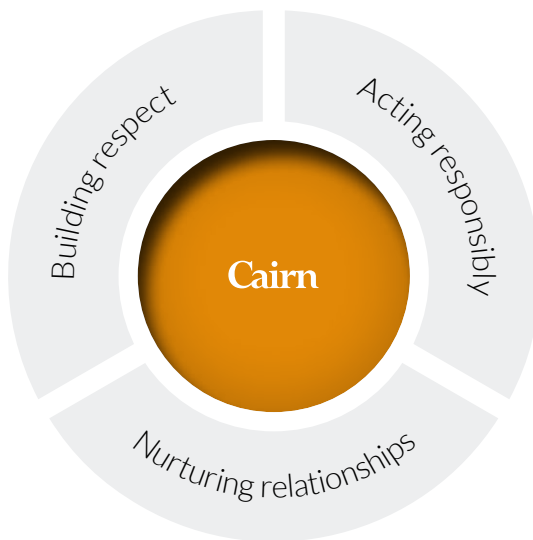
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Introduction

This report shows our commitment to managing and communicating about our Corporate Responsibility activities in an inclusive, responsive and transparent way

In all our activities Cairn lives by the core values of:

- Building respect;
- Nurturing relationships; and
- Acting responsibly.



This report, 'Operating with Integrity', describes the central role Corporate Responsibility (CR) plays in Cairn's business. It covers our values, principles and policies towards our people, the environment, local communities and wider society, and shows how we manage the potential impacts of our activities on them.

Cairn's reporting process is in accordance with The AccountAbility Principles Standard (AA1000APS) which provides a framework for an organisation to identify, prioritise and respond to its sustainability challenges. The report is designed to give readers a clear insight into how we engage with internal and external stakeholders to identify and prioritise our most important CR issues, how we performed against these in 2013 and what objectives are set for them in the next year. Case studies are included to illustrate how our approach affects people and the environment in the areas where we are active. The scope of this printed report focuses on Cairn's operated assets where we have control of CR policies and practices.

We engaged KPMG LLP to undertake a limited assurance engagement over the selected CR performance data that has been marked in this Report with the symbol **Δ** and the description of our adherence to the AA1000APS principles marked with the symbol **+**. For more information, please see page 48.

'Operating with Integrity' together with further CR information found on our website at www.cairnenergy.com/responsibility is written to the requirements of the Global Reporting Initiative (GRI) G3.1 guidelines and forms part of our commitment to act on, and report progress against, the United Nations Global Compact's 10 principles on human rights, labour, the environment and anti-corruption. During 2014, we plan to implement changes to meet GRI's G4 reporting requirements and explore options for fully integrated reporting.

Key audiences for this report include shareholders, governments and business partners, but all readers' views are important to Cairn and we encourage comments and questions through the website at www.cairnenergy.com and by e-mail to CR.Mailbox@cairnenergy.com.

Striking the right balance

An entrepreneurial culture helps us secure opportunities and realise value; a culture of accountability ensures this is done safely and responsibly

Our approach

Cairn's goal is to contribute towards meeting the world's energy needs. Through a balanced portfolio of exploration and development, we want to create value while bringing long-term social and economic benefits to the countries and communities we work with.

Our licence to do this hinges on being a safe and responsible operator and trusted partner. Our approach protects not only people, communities and the environment but also our brand and reputation. It is consistent with our core values of building respect, nurturing relationships and acting responsibly.

In our industry, health, safety, security and wellbeing of people and the environment come first. That is why we ensure we have robust processes and systems in place to protect people's health, safety and security, prevent accidents and spills, and respond quickly and effectively in the event of an incident.

Our Corporate Responsibility approach is set out in our Business Principles, CR Policies, Corporate Responsibility Management System (CRMS), and Health, Safety and Environment (HSE) Culture Framework. As well as conducting rigorous due diligence, Cairn works closely with partners, contractors and suppliers to promote and ensure our high standards are always upheld.

Enhancing CR in 2013

This year our Business Principles and CR policies were refreshed, an updated CRMS was rolled out, and the 'materiality assessment' was conducted at six month intervals to identify and prioritise key CR issues. Our strong business ethics and zero tolerance stance on bribery and corruption were reinforced through new procedures.

As part of our commitment to raise awareness, a new HSE Culture Framework was rolled out to staff. High-level engagement on HSE expectations was undertaken with strategic contractors, reinforced by senior management tours.

We continue to uphold and support the 10 principles of the United Nations Global Compact and in September 2013 became a Participating Company on the Extractive Industry Transparency Initiative (EITI).



United Nations Global Compact

2013 operational highlights

For Cairn, 2013 was a year of completing transactions to strengthen the portfolio and operational activity including seismic and site surveys, exploration and appraisal drilling. We contracted rigs for the 2013/14 exploration programme in Morocco, Senegal and Republic of Ireland and embarked on a busy period of operated high-impact wells, commencing with the Fom Draa exploration well in Morocco. Good progress was also made on the non-operated development of the Kraken and Catcher Fields, on non-operated exploration and appraisal wells in the UK and Norway, and on new joint ventures in North West Africa. The Fom Draa exploration well in Morocco has been plugged and abandoned, although we are encouraged that gas shows were encountered in the well and thereby confirmed an active petroleum system. The Juby Maritime well has been plugged and abandoned without testing.

With net cash at the end of 2013 of \$1.3 billion, our strategy continues to focus on frontier and overlooked exploration opportunities which offer material growth potential on appropriate terms, with suitable equity levels reflective of the company size, within a balanced sustainable portfolio.

Business growth, joint ventures and drilling operations in new geographies — including potentially sensitive frontier environments — mean we have focused considerable attention on stringent risk management, due diligence and on-going social and environmental impact assessment, including on human rights. In the Cap Boujdour permit, for example, where we are partnering with Kosmos, Cairn believes that responsible resource development has the potential to create significant social and economic benefits for the region and its people.

In Senegal, we are collaborating with a specialist ethical business consultancy to put in place anti-bribery and corruption procedures in local languages and to train staff. That ConocoPhillips has farmed into this venture is evidence that our approach is also valued by our business partners. We are also in discussions with representatives of the local EITI committee in Senegal on future transparency on payments.

Cairn's reputation for responsible exploration is founded on our rigorous approach to well design, control, blow-out prevention and response capability, including membership of Oil Spill Response Limited (OSRL). I am very proud of our global track record in preparedness and I'm delighted to report that there were zero spills in 2013.

Health, safety and environment

As three of our four most important material issues relate to protecting people's health, safety and security and preventing major accidents and hydrocarbon spills, embedding HSE has been a key priority throughout 2013.

We were concerned that a number of contractor safety incidents occurred during early stages of the Morocco drilling programme at the shore base and on the Transocean operated Cajun Express drilling unit. Together with the contractor companies we undertook detailed investigations, provided additional HSE resources, strengthened procedures and undertook specific training. Transocean also conducted a thorough review of the procedures in their planned maintenance system. As a member of the joint Transocean and Cairn senior management team that visited the Cajun Express following these accidents, I was able to see for myself the steps being taken to improve procedures and took the opportunity to personally reinforce my commitment to safe operations. The lessons learned have been included in the preparations for our future shore base operations in Dakar and Republic of Ireland in 2014. We have worked hard to improve training and management systems used by local contractors who are less experienced in the rigour required when operating for our industry.

Plans for 2014

Cairn plans nine wells in the 2014 exploration programme. Our operated exploration drilling will continue offshore Morocco and Senegal and appraisal drilling will take place offshore Republic of Ireland. Further non-operated exploration and appraisal drilling is planned offshore UK and Norway, while seismic activity and an exploration well are planned on the Cap Boujdour permit.

On CR, our main focus this year will be to further strengthen HSE behaviours in line with our HSE Culture Framework among employees and contractors working for Cairn. Two key objectives are to implement our new HSE Contractor Management Procedures and Strategic Contractors Engagement Plan. Senior management will show continuing leadership to embed and boost the visibility of HSE, with particular emphasis on safety and security on operational drilling programmes. Following completion of our drilling programme, we will review the CRMS implementation to determine the lessons learned and how these can be applied in future operations.

During 2014, we will update our Code of Business Ethics, run anti-bribery and corruption refresher training and further integrate our procedures to assess and manage human rights in the project delivery process.

As we embark on this exciting new phase of exploration and appraisal, Cairn will continue to drive continuous improvement and help set the standard for CR in the regions where we operate. By striking the right balance we aim to deliver value for all stakeholders both today and for the future.



Simon Thomson
Chief Executive



Where we operate

A targeted portfolio with multiple growth opportunities

Our areas of focus

Cairn's exploration strategy is focused on operated exploration in frontier basins along the Atlantic Margin and in the Mediterranean. This frontier exploration is complemented by mature basin activity of mainly non-operated interests in the UK and Norway.

Cairn's operated exploration drilling programme over the next year targets various passive margin and rift basin play types at a number of locations along the Atlantic Margin.

Cairn is focused on high value, appropriate equity and acreage positions in areas which have follow-on potential and good commercial terms in the case of success, whether they be emerging plays in frontier basins or new play concepts in mature areas such as the North Sea.

Why we focus on these areas

Cairn's technical expertise combines experience in emerging passive margin and rift basins with operational capability in frontier areas, including arctic and deepwater capability. The Atlantic margin, formed by the break-up of a supercontinent millions of years ago, provides a range of underexplored but promising opportunities which suit the Company's expertise. A number of other companies in the industry including Chevron Corporation, Genel Energy PLC and Kosmos Energy are also pursuing exploration programmes in the region.



Frontier basins			
The Atlantic Margin			
Greenland Activity in 2013 <ul style="list-style-type: none">- Site survey- Preparation for future drilling- Plugging and abandonment of wells	Republic of Ireland Activity in 2013 <ul style="list-style-type: none">- Preparation for appraisal drilling	Morocco Activity in 2013 <ul style="list-style-type: none">- Exploration seismic- Site survey- Exploration drilling	Mauritania Activity in 2013 <ul style="list-style-type: none">- Farmed in as Non-operator, assessing existing 3D seismic



		Mature basins	
Mediterranean		UK and Norwegian North Sea	
Senegal Activity in 2013 – Site survey – Preparation for exploration drilling	Spain Activity in 2013 – Preparation for exploration 3D seismic	Malta Activity in 2013 – Preparation for exploration 2D seismic	UK and Norway Activity in 2013 – Non-operated exploration and appraisal drilling and field development planning

Taking a long term view

Cairn complements technical skill with social and environmental consideration at every stage of the upstream oil and gas lifecycle

Cairn helps to create, add and realise value for stakeholders, but not at the expense of the safety of people and the environment. As well as responsibly managing risks associated with our business, we take a long-term approach. The diagram offers an overview of the stages of oil and gas exploration and production.

1. Due diligence

Before making an acquisition or investment, applying for an exploration licence or farming-in to an existing project, Cairn carries out an extensive risk screening process which includes assessing whether there are potential health and safety, social, human rights, political, corruption, security or environmental impacts. This is used in decision making on whether or not to proceed, and if investment goes ahead it informs approaches to risk management going forward.

We have undertaken a number of due diligence processes for investment opportunities in 2013, including for interests acquired offshore Morocco, Mauritania, Senegal and Republic of Ireland.

2. Prequalification

When we apply for an exploration licence, the necessary documents are submitted to the relevant authorities. Typically this includes information about our legal status, financial capability, technical competence and plans to manage health, safety and environmental risks and contributions to local economic development.

3. Exploration seismic

Once Cairn has been awarded the right to explore in a certain area, we may carry out seismic surveys to develop a picture of geological structures below the surface. This helps identify the likelihood of an area containing hydrocarbons. Seismic surveys are usually preceded by an assessment of environmental, social and human rights impacts which are managed through the Project Delivery Process (PDP).

During 2013, we completed a seismic survey offshore Morocco, continued seeking approval for a survey offshore Spain and began planning a seismic survey offshore Malta.

4. Site survey

Before commencing any drilling activity, 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 that any sensitive environments can be avoided. The process normally involves taking geological samples from the seabed and carrying out shallow seismic surveys. These activities have low social and environmental impacts and, therefore, usually do not require a separate environmental or social impact assessment.

In 2013, we completed site surveys in advance of future drilling campaigns offshore Morocco, Senegal and Greenland.

5. Exploration drilling

Exploration wells are drilled to determine whether oil or gas is present. This phase can be accompanied by a step-change in activity and visibility to local people as offshore exploration can involve a drilling rig, supply vessels and helicopters for transporting personnel.

Exploration drilling is preceded by an assessment to understand potential health, safety, environmental, social, security and human rights impacts. This identifies appropriate steps to reduce impacts and operate responsibly. Limited community development programmes may also be put into place at this time depending on the nature of the programme.

In 2013, we undertook exploration drilling offshore Morocco, and expect to drill further exploration wells in Morocco and Senegal in 2014. As non-operator, we also participated in exploration wells in the UK and Norwegian North Sea.

6. Appraisal drilling

If promising amounts of oil and gas are confirmed during the exploration phase, field appraisal is used to establish the size and characteristics of the discovery and to provide technical information to determine the optimum method for recovery of the oil and gas. The potential impacts associated with appraisal drilling are comparable to exploration drilling and similar assessments are carried out in advance.

In 2013, appraisal drilling was undertaken on the Skar fjell discovery, for which Cairn is non-operator. In 2014, Cairn, as operator, and our joint venture (JV) partners intend to drill an appraisal well on the Spanish Point discovery.

7. Development

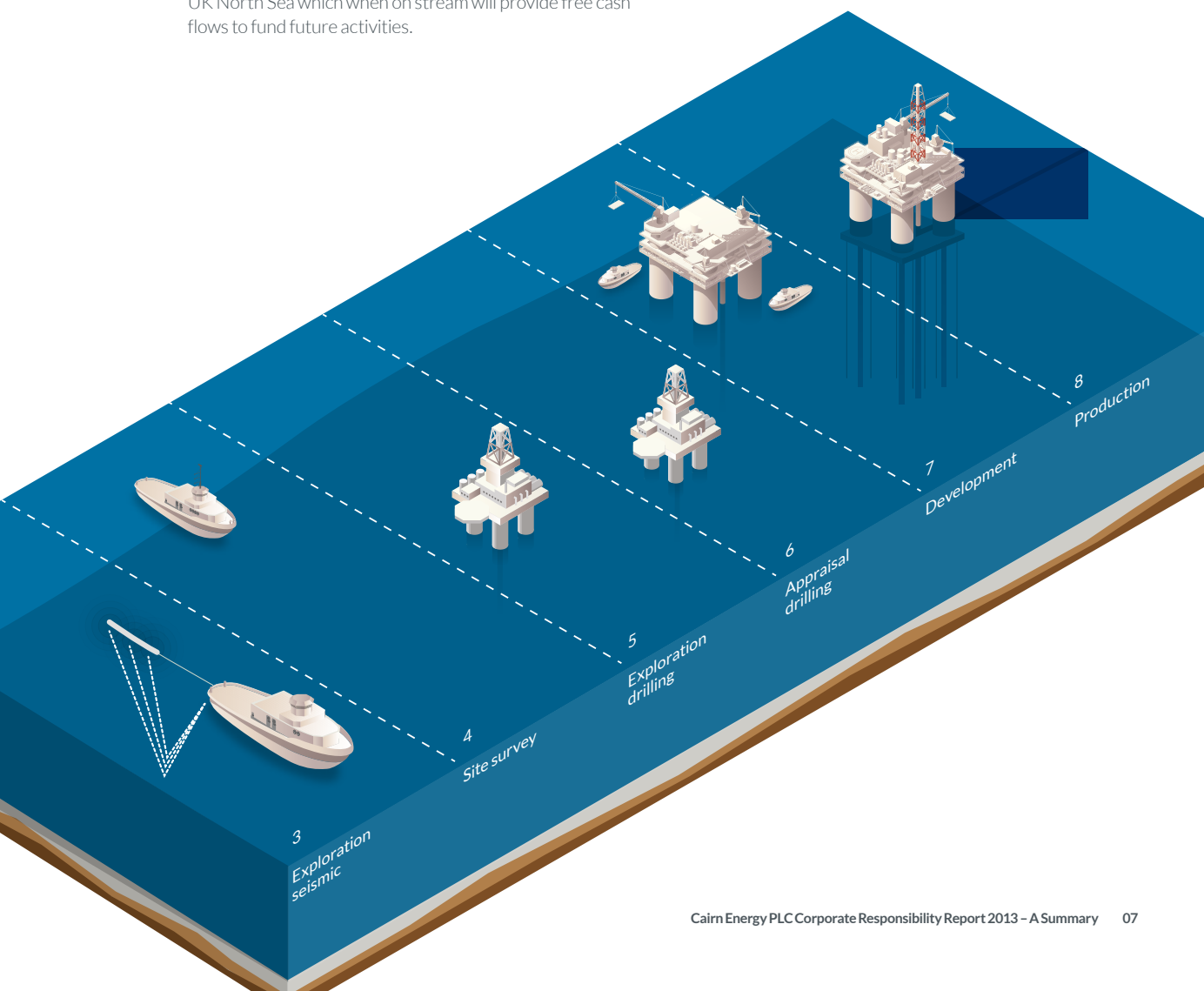
If appraisal wells show technically and commercially viable quantities of oil and gas, a development plan is prepared and submitted to the relevant authorities for approval. This includes a rigorous assessment of all the potential risks and a long-term assessment of environmental and social impacts covering a timeframe of between 10-30 years. The plan will also detail projected benefits to local communities, for example employment and supplier opportunities, as well as proposing how to manage potential impacts such as an influx of workers from outside the local community.

We are participating, in a non-operator capacity, in two development projects, the Kraken and Catcher Fields in the UK North Sea which when on stream will provide free cash flows to fund future activities.

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 assessments are mitigated. Changes in the risks associated with activities are assessed throughout the production period.

We currently have no operated production, but historically had significant production through our involvement in Cairn India Limited (in which we held an ~10% interest at the end of 2013). Oil production from Cairn India brought social and economic development to a number of regions in India, and is described on Cairn India's website at www.cairnindia.com.



Operating with integrity

Cairn Energy’s approach to managing Corporate Responsibility links our core values to everyday practice

Global context

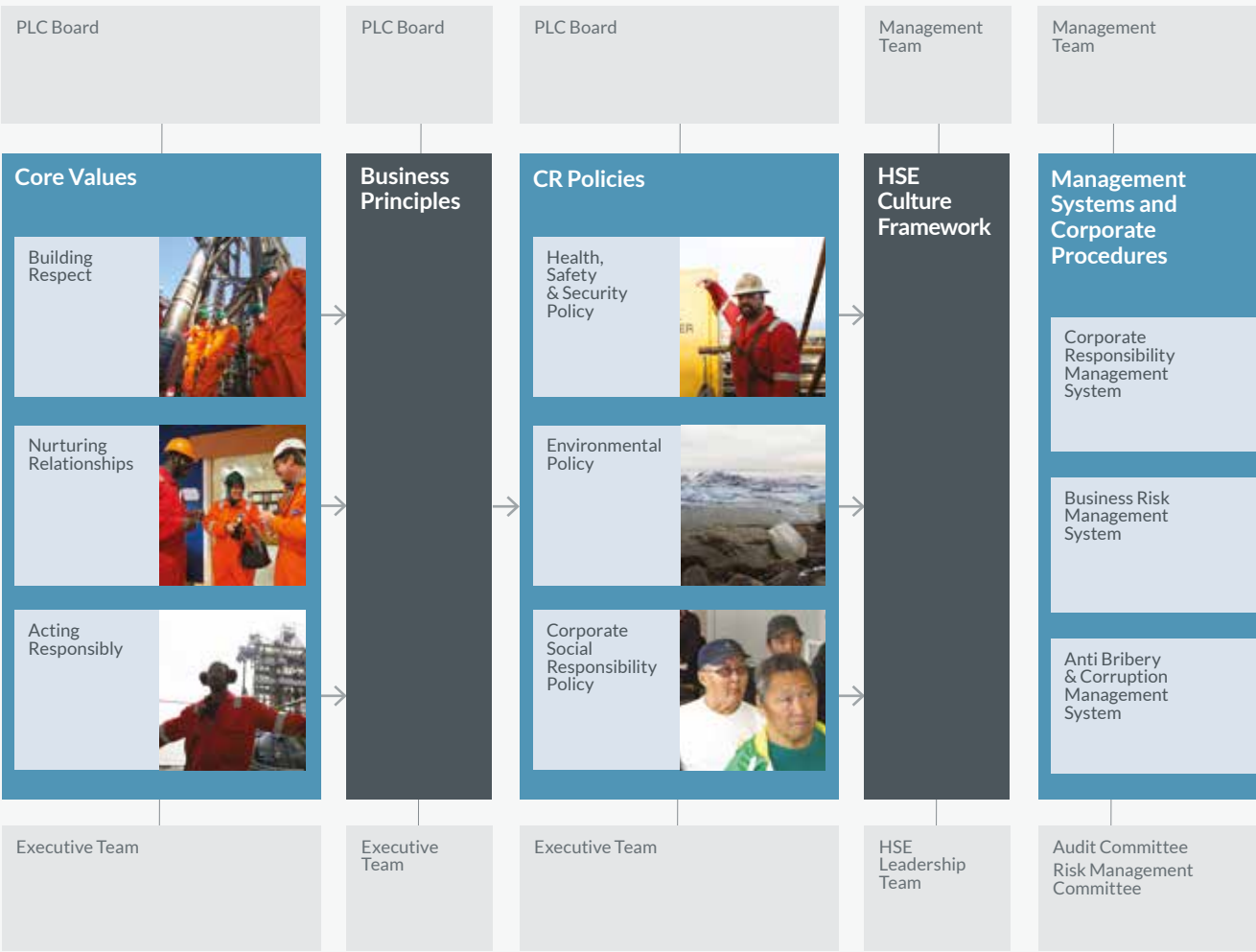
Our goal is to contribute towards meeting the world’s energy needs as safely as we can, and to achieve this, we have comprehensive systems in place to manage activities responsibly.

As with all global corporations, the sustainable development opportunities and risks affecting our business include population growth, emerging economies, climate change

and the requirement to manage potential social and environmental impacts.

At an estimated 9 billion by 2050, the world’s population requires energy to improve quality of life and drive growth. By taking a safe and environmentally sensitive approach to oil and gas exploration, Cairn is helping to supply the energy needed for development until technological innovation can deliver a low-carbon economy.

Responsibility



Assurance provision

As pressure on natural resources increases globally, earning and maintaining our licence to operate is a priority for Cairn. Throughout our work, we consider the views of key stakeholders and aim to deliver lasting socio-economic benefits to the areas where we operate, while minimising disturbance to the environment. Our management systems, processes and deliverables help to ensure that Cairn operates with integrity, everywhere.

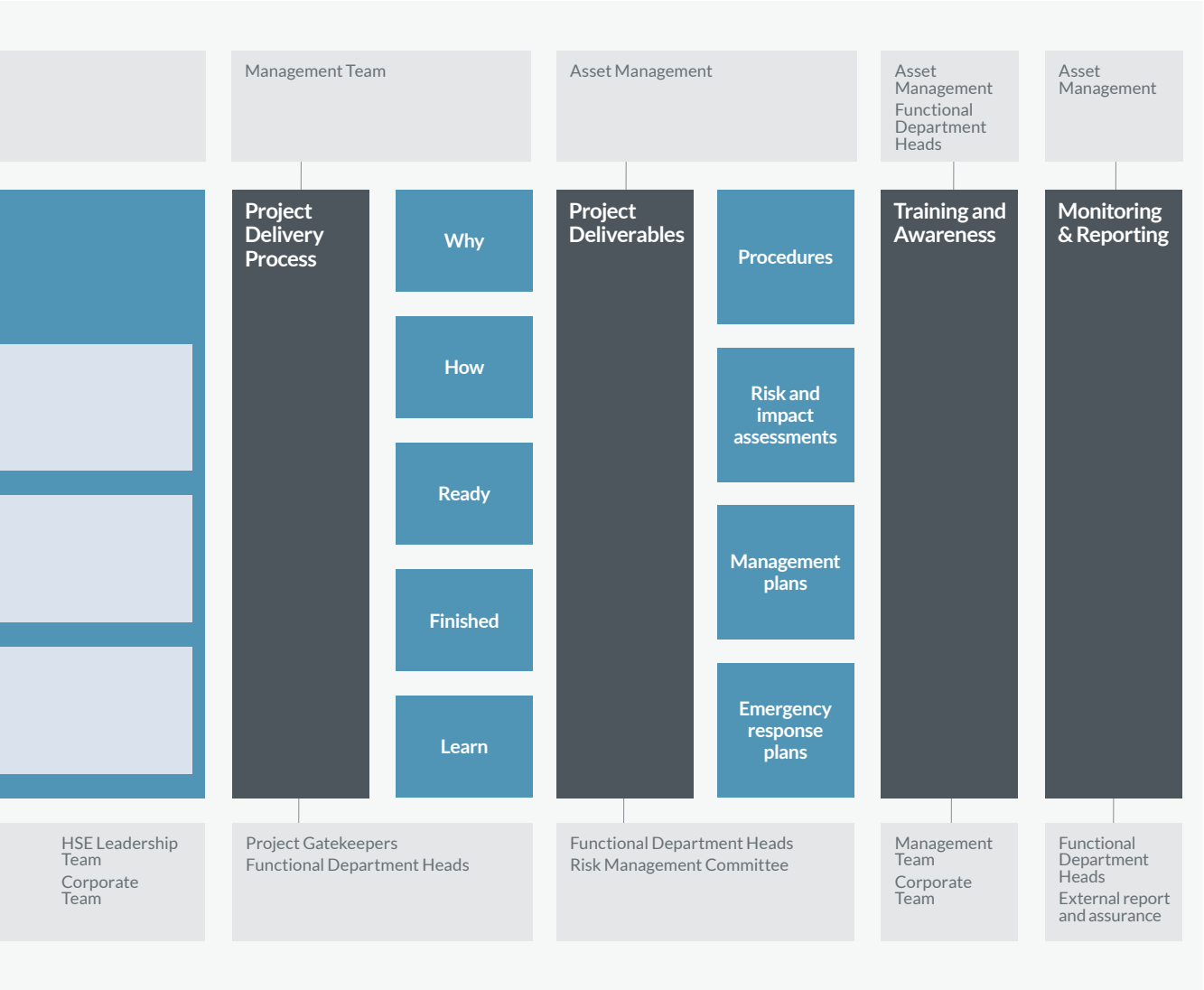
Managing Corporate Responsibility (CR) at Cairn

In Cairn's business, protecting health, safety, security and the wellbeing of people and the environment takes priority. The graphic below shows how our values, principles and management systems embed good business practices to deliver safe operations. It also identifies responsibilities for each element and for providing assurance that the processes have been applied effectively. This approach helps equip

us to respond to global business and sustainable development drivers.

Cairn has an HSE Culture Framework, which stipulates the types of behaviours to be adopted by everyone to ensure a healthy and safe working environment. It is a reference point for all our activities. During 2013, it was strengthened and rolled out to staff in the Edinburgh, Stavanger and London offices.

Cairn's Project Delivery Process (PDP) ensures that the business model and Business Principles work on the ground. It comprises a five stage gated approach, in which each stage of a project is assessed and criteria met before moving on to the next. In common with Cairn's entire CR Management System, the PDP is designed to reduce risks in line with the 'As Low As Reasonably Practicable' (ALARP) principle, an industry-wide approach to evaluating and minimising risk.



Mapping our priorities

A robust process helps Cairn to identify the topics that matter most to the business and stakeholders

Identifying Cairn's most important topics +

Cairn's strategy is to provide investors with exposure to material growth potential alongside mature basin development and pre-development assets, all against a backdrop of balance sheet strength. Our business activities and associated impacts change, so it is essential that CR issues are reassessed regularly to reflect this. We use a method called a materiality assessment to identify the issues most important to our stakeholders and business. The process is based on the AccountAbility AA1000APS model, an internationally recognised framework developed by AccountAbility.

The process involves establishing a range of relevant existing and emerging topics, which are then assessed and prioritised according to their significance to the business and to stakeholders. The wide range of CR issues is generated from our understanding of the oil and gas sector and our experience at the locations where we operate, as well as interactions with stakeholders and participation in industry bodies. Stakeholders include governments, local communities, joint venture partners, investors, contractors, suppliers, employees, non-governmental organisations (NGOs) and the media.



Cajun Express

In April 2013 Cairn contracted the 'Cajun Express' drilling unit from Transocean for Cairn's planned multi-well frontier exploration programme in Morocco and Senegal.

KPMG LLP has provided limited assurance over two selected sets of information in this Report:

1) + The description of Cairn Energy's adherence to the AA1000 AccountAbility Principles Standard ('AA1000APS') (2008) principles of inclusivity, materiality and responsiveness marked with the symbol + in the Report.

2) Δ Key performance indicators marked with the symbol Δ in the Report. See www.cairnenergy.com/responsibility for KPMG's Assurance Opinion.

In 2013, the prioritisation of our most important issues was carried out during a materiality workshop attended by senior management, facilitated by a third party and monitored by an external CR expert. The outcomes and their importance to Cairn and our stakeholders were mapped onto a materiality matrix shown opposite.

Twelve key CR topics

Cairn's key issues inform CR strategy, objectives, risk management and how we communicate performance

The materiality workshop is used as part of an on-going reassessment of our key issues. The 12 priority CR areas of high importance to our stakeholders and high importance to Cairn identified at the end of 2013 are similar to those identified in 2012. Non-operated joint ventures, human rights and exposure through the supply chain and contractors moved up in priority during 2013. Equality and diversity, local communities and political changes at home were considered slightly less significant.

The twelve issues below form the basis of this 2013 report and will be the focus of our CR management in 2014. How we measure and manage them, as well as the majority of topics identified as 'significant', is described in subsequent sections of this report. For more detail refer to the website at www.cairnenergy.com/responsibility.

1. Preventing a major accident event

The prevention of any accident is Cairn's key focus and the Company implements rigorous risk management during the planning and execution of activities. See pages 22-29, 'People come first.'

2. Protecting health, safety, environment and security

In Cairn's business, protecting health, safety, security and the wellbeing of people and the environment is emphasised in all day to day activities. See pages 22-29 'People come first'.

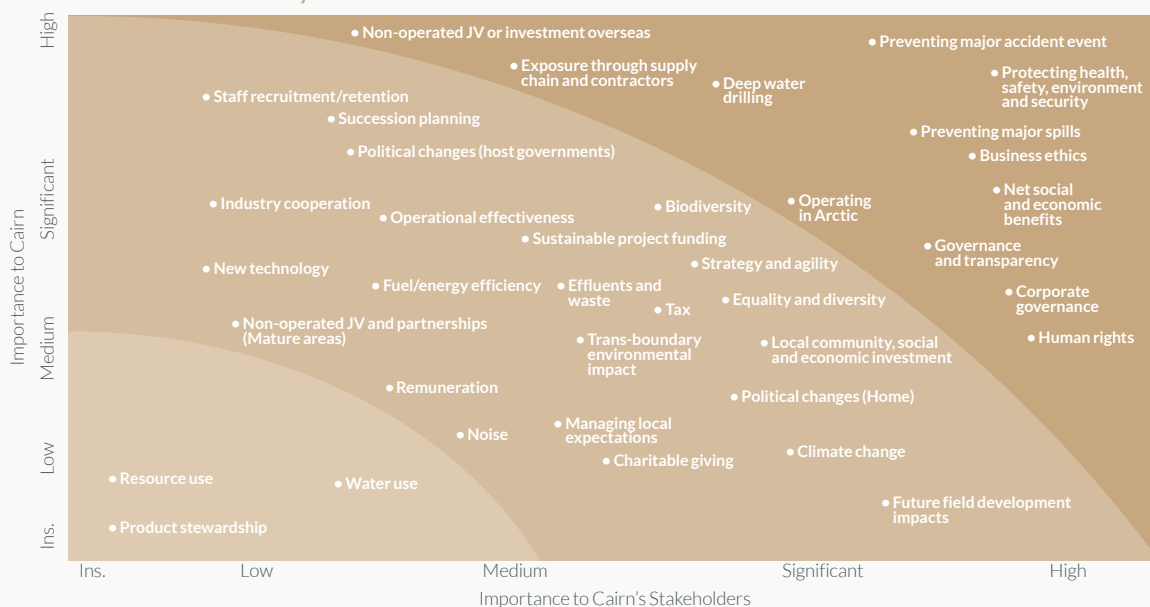
3. Preventing major spills

Preventing spills is critically important and is a key feature of Cairn's risk mitigation programme. See pages 32-35 'Responsible exploration'.

4. Business ethics

Cairn's ability to secure licences and deliver operations effectively depends on robust business ethics and transparent relationships with governments, communities, partners and suppliers globally. See pages 18-21 'Ethical business practices'.

2013 Year End Materiality Matrix



5. Net social and economic benefit

Strong relationships based on mutual trust are central to Cairn's on-going business success, and the Company aims to deliver lasting value to all Cairn's stakeholders. See pages 40-43 'Engaging for the long term' and 44-47 'Partners in excellence'.

6. Governance and transparency

Cairn is committed to good governance and openness in all aspects of business. This includes decision-making processes, reporting on performance and tax payments as well as how the Company manages human rights and anti-bribery and corruption. See pages 18-21, 'Ethical business practices'.

7. Corporate governance

Cairn's commitment to rigorous corporate governance standards, and living by them, is critical. See pages 16-17, 'Accountable to the core'.

8. Human rights

Meeting the responsibility to respect human rights is essential to the development and maintenance of effective relationships with workers and the communities in which Cairn operates. See pages 18-21, 'Ethical business practices'.

9. Deep water drilling

Cairn's reputation for responsible exploration in shallow or deep water rests upon a rigorous approach to well design,

well control and blow-out prevention in drilling operations. Cairn applies the same uncompromising well design approach, with an emphasis on prevention, to all categories of water, whether shallow or deep. See pages 32-35, 'Responsible exploration'.

10. Operating in the Arctic

Cairn is operating in Greenland at the invitation of its Government, which aims to develop its natural resources for the benefit of its people. See pages 32-35, 'Responsible exploration'.

11. Exposure through supply chain and contractors

Many of Cairn's operational activities are carried out by contractors and suppliers. Their CR approach and performance must meet the Company's own standards. See pages 44-47, 'Partners in excellence'.

12. Non-operated joint venture and investment management overseas

Due diligence is a key component of Cairn's approach to assessing investment opportunities. Cairn is a partner in a number of joint ventures and aims to work closely with joint venture partners to assure ourselves that they apply CR approaches which are consistent with our own. Cairn also acts as a responsible minority shareholder in dealings with Cairn India. See pages 18-21, 'Ethical business practices'.

Stakeholder engagement +

When identifying Cairn's most important issues, we pay close attention to the concerns of stakeholders, engaging with them regularly to learn directly about their priorities.

Our stakeholder engagement model follows the AccountAbility principles of materiality, inclusivity and responsiveness as defined in the AA1000APS. Stakeholders' interests vary and Cairn uses a range of communications channels to satisfy them, as shown in the table below. Taking into account the material issues and concerns raised by stakeholders through the year we develop a road map, objectives and a strategy to address concerns. 'Focus on performance' on the opposite page provides more detail.

For a new project or country entry we identify stakeholders by drawing on local, corporate and external knowledge, and prioritise them by assessing their potential to influence, and be impacted by, our activities. For an in-country example of how we engage with stakeholders, see the case study 'An invitation to participate in Senegal' on page 31.

Further illustrations of Cairn responsiveness to stakeholder interests can be found in the article 'Engaging for the long term' on pages 40-41, and detailed information is available on our website at www.cairnenergy.com/responsibility.

Stakeholder	Key interests	Sample types of engagement
Investors	<ul style="list-style-type: none"> Strategy and performance Good corporate governance and risk/opportunity management 	<ul style="list-style-type: none"> Annual, half-year and CR reports Investor road shows Responding to investor and investment research enquiries Operational updates
Governments and regulators	<ul style="list-style-type: none"> Legal compliance Well integrity, risk management and contingency planning Employment and revenue generation 	<ul style="list-style-type: none"> Annual and CR reports Exploration permit applications Compliance monitoring Impact Benefit Agreement Applications to carry out operations Safety cases
Business partners and peers	<ul style="list-style-type: none"> CR policies and approach to CR performance Industry reputation Industry best-practice procedures and guidance 	<ul style="list-style-type: none"> Annual and CR reports New business opportunity due diligence Partner meetings Membership of and participation in OGP, OSRL and national industry bodies Joint Industry Projects Multi Operator Studies
Contractors and suppliers	<ul style="list-style-type: none"> Long-term relationships Opportunities for growth Meeting CR standards and other business requirements 	<ul style="list-style-type: none"> Commercial relationships Contractor close-out reviews Annual and CR reports Prequalification assessments and contractor audits Senior executive meetings Training and briefings Placement of HSE Advisers
Communities	<ul style="list-style-type: none"> Protection of environment and livelihoods Access to employment opportunities Community development 	<ul style="list-style-type: none"> Consultation meetings, as part of Environmental and Social Impact Assessments (ESIAs) Skills development investment programmes Community investment programmes
NGOs¹	<ul style="list-style-type: none"> Approach to CR issues Working in frontier locations Operational risk management and contingency planning 	<ul style="list-style-type: none"> Website content Meetings with local NGOs as part of ESIA consultations Responses to written enquiries

Note 1:

In 2011, certain Greenpeace organisations breached security and occupied Cairn's offices. While Cairn fully respects the rights of individuals and organisations to express their views in a safe and peaceful manner we are concerned with any action that represents a breach of security and that may pose a risk to the safety of our people and/or equipment. In response to the Greenpeace occupation, Cairn obtained court enforceable undertakings that had the effect of preventing Greenpeace UK and Greenpeace Limited from carrying out similar actions in the future. In 2013 the court upheld the undertakings towards certain Greenpeace UK organisations; however, it decided not to uphold the interim order against Stitching Greenpeace Council (Greenpeace International).

+ Within KPMG's limited assurance scope.

Focus on performance

Being transparent about achievements and challenges helps drive continuous improvement

Cairn's continuous improvement ethos helps drive our Business Principles into action. We develop annual business performance objectives and targets, including those related to CR, and measure and report performance against these. They are set by considering the issues most important to the business, progress we aspire to make through CR road maps, feedback from stakeholders and improvements identified through the Annual Management Review process. Corporate CR objectives and KPIs support delivery of

the CR related Group KPIs reported on pages 24-29 of the Annual Report.

Progress against 2013 CR objectives

The table below summarises the CR objectives that we set in 2013 and the progress we have made against these objectives. A more detailed breakdown is provided on the Cairn website at www.cairnenergy.com/responsibility.

Key:



KPI achieved by 2013 year end



KPI partially achieved by 2013 year end



KPI not met by 2013 year end

2013 CR objective

Progress at 2013 year end

Approach to managing health, safety and environment	1. Complete development of the updated Group CRMS and supporting procedures, and provide training in its use	<ul style="list-style-type: none"> 7 CRMS roll-out workshops attended by 100% of members of Executive Team, Management Team and Corporate Team ~50% of Standard Operating Procedures (SOPs) prepared and guidance on biodiversity and climate change drafted All actions from 2012 annual Management Review completed during 2013 	—
	2. Review and update the Group CR Policies and Business Principles	<ul style="list-style-type: none"> Cairn became a Participating Company of EITI on 6th September 2013 Updated CR Policies and Business Principles issued in mid September 	✓
Behaving responsibly in all our business relationships	3. Complete anti-bribery and corruption (ABC) refresher training and monitor its implementation	<ul style="list-style-type: none"> Independent review of ABC due diligence approach completed on two projects; findings presented to members of senior management ABC Business Partners and Supply Chain Due Diligence procedures updated 	✓
	4. Enhance HSE/CR communications to external stakeholders	<ul style="list-style-type: none"> 2013 Annual and CR Reports issued on 16th April 2013 Gap analysis completed against G4 requirements and road map developed for its implementation in 2014 	✓
	5. Implement new contractor management procedures	<ul style="list-style-type: none"> Implemented new procedures to enhance consideration of HSE in tender process Identified and engaged with contractors with significant influence on the management of HSE risk to Cairn's operated activities 	✓
Behaving responsibly towards society and communities	6. Provide training in updated human rights procedures	<ul style="list-style-type: none"> Training session held with 50% of CR and HR practitioners △ 	—
Behaving responsibly towards our people	7. Implement management and other staff training programmes	<ul style="list-style-type: none"> Middle management training completed in January 2013 Enhanced succession planning process being implemented New induction process which incorporates an e-learning module for HSES drafted – to be rolled out in Q1 2014 	—
	8. Roll out the HSE Culture Framework and enhance CR communications to staff	<ul style="list-style-type: none"> Conducted series of workshops to roll out HSE Culture Framework to 79% of staff △ Developed communication plan to raise HSE visibility, which will be implemented in Q1 2014 	—
Behaving responsibly towards the environment	9. Update our approach to climate change	<ul style="list-style-type: none"> Review undertaken of developments on climate change and amendments included in updated Business Principles Climate change questions/deliverables prepared for each stage of PDP for new country entry and construction projects 	✓
	10. Refresh our approach to biodiversity	<ul style="list-style-type: none"> Biodiversity Framework and Guidelines prepared – to be rolled out in Q2 2014 	—

2014 CR objectives and KPIs

The CR objectives we are setting for 2014, to address the priority topics as assessed by our latest materiality process, are summarised below. The 2014 CR KPIs will be used to measure our progress in 2014 against our objectives.

Proposed 2014 CR objectives

Key priority topics addressed

2014 CR KPIs

HSE integration into business activities:

The Group CRMS aims to provide clear and effective processes and tools to manage CR risks. Each year we aim to raise its accessibility to all staff, and to adjust it to reflect industry developments, stakeholder feedback and the assessment of its effectiveness through the annual management review process.

1. Group CR Management System:

<ul style="list-style-type: none"> - Benchmark CRMS against OGP Operating Management System guidance once issued - Finalise and roll out SOPs and updated guidance - Externally verify Environmental Management System - Complete actions from 2013 Management Review - Develop checklist for scoping CR deliverables in the PDP 	<ul style="list-style-type: none"> - Protecting health, safety, environment and security - Preventing major accident event - Preventing major spills - Human rights - Non-operated JV or investments overseas - Exposure through supply chain and contractors 	<ul style="list-style-type: none"> - Raise awareness of CR procedures to all Heads of Departments and relevant staff - Risk assessments and briefings for travellers to 'high risk' countries - Risk registers to be maintained through all stages of the PDP on 2014 projects
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2. CR Policies and Business Principles:

<ul style="list-style-type: none"> - Review and update the Group CR Policies and Business Principles 	<ul style="list-style-type: none"> - Protecting health, safety, environment and security - Corporate governance 	No 2014 KPI set
---	---	-----------------

Behaving responsibly in all our business relationships:

Behaving honestly, fairly and with integrity is at the core of our Business Principles and is central to our interactions with stakeholders. This is vital to protect and maintain our reputation for ethical business practices. These objectives aim to build on our respectful culture, promote transparency, advocate good standards and embed our zero tolerance approach to bribery and corruption.

3. Anti-bribery and corruption:

<ul style="list-style-type: none"> - Update the ABC MS and Code of Business Ethics and run ABC refresher training - Develop and implement local ABC procedures in Senegal and Morocco and monitor compliance 	<ul style="list-style-type: none"> - Business ethics - Corporate governance - Governance and transparency 	No 2014 KPI set
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4. HSE/CR Communications:

<ul style="list-style-type: none"> - Deliver CR content for 2013 Annual and CR Reports - Implement data and information collection for 2014 CR Report to meet new reporting requirements, including G4 and integrated reporting - Roll out new web-based HSE induction to reinforce key HSE messages 	<ul style="list-style-type: none"> - Protecting health, safety, environment and security - Corporate governance 	<ul style="list-style-type: none"> - Reporting CR performance and approach to Board - HSE messages at staff meetings - New web-based HSE induction provided to new staff and consultants/contractors
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5. Contractor management:

<ul style="list-style-type: none"> - Develop and implement Strategic Contractors Engagement and Performance Management process 	<ul style="list-style-type: none"> - Protecting health, safety, environment and security - Exposure through supply chain and contractors 	<ul style="list-style-type: none"> - Implementation of Performance Management programme for strategic contractors
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Proposed 2014 CR Objectives

Key priority topics addressed

2014 CR KPIs

Behaving responsibly towards society and communities:

Our operations can affect the social and economic environment of the communities where we operate. We aim to improve the consistency of our approach to stakeholder engagement and to the management of potential social impacts, to uphold respect for human rights and to maintain effective relationships with workers, contractors and the communities in which we operate.

6. Human rights:

- | | | |
|---|--|--|
| <ul style="list-style-type: none"> - Apply procedure for assessing and managing human rights in our business through the PDP | <ul style="list-style-type: none"> - Human rights - Corporate governance | <ul style="list-style-type: none"> - Address human rights risks and actions through the stages of PDP process on projects |
|---|--|--|

7. Communities and social investments:

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> - Develop and implement SOPs and guidance for local community investment | <ul style="list-style-type: none"> - Net social and economic benefit - Governance and transparency | <ul style="list-style-type: none"> - No 2014 KPI set |
|--|--|---|

8. Stakeholder engagement:

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> - Address findings from 2013 stakeholder engagement internal audit | <ul style="list-style-type: none"> - Governance and transparency - Exposure through supply chain and contractors | <ul style="list-style-type: none"> - Steps taken to engage with local staff/contractors in overseas offices and bases |
|--|--|--|

9. Transparency of tax payments:

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> - Develop and implement procedure to enable open and transparent disclosure of tax payments or other government contributions | <ul style="list-style-type: none"> - Governance and transparency | <ul style="list-style-type: none"> - No 2014 KPI set |
|---|---|---|

Behaving responsibly towards our people:

We use the skills and knowledge of our people to give us a competitive advantage and deliver performance. These objectives build on programmes to enhance the capabilities of our people and create an effective HSE culture.

10. Training/development:

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> - Roll out revised approach to performance management - Implement actions from 2013 Staff Engagement Survey - Improve recruitment and selection processes and management development programmes | <ul style="list-style-type: none"> - Succession planning - Staff recruitment/retention | <ul style="list-style-type: none"> - No 2014 KPI set |
|---|--|---|

11. HSE culture and communications:

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> - Implement further initiatives to strengthen behaviours in line with the HSE Culture Framework - Further enhance internal CR communications | <ul style="list-style-type: none"> - Protecting health, safety, environment and security - Preventing a major accident event - Preventing major spills | <ul style="list-style-type: none"> - Steps taken to further embed the HSE Culture Framework in the organisation |
|---|---|--|

Behaving responsibly towards the environment:

We recognise that exploration, development and production activities may have an impact on the environment. The CRMS defines the approach to assessing, managing and monitoring our environmental risks and helps us to manage the issues identified as important to stakeholders.

12. Climate change:

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> - Monitor developments on climate change and amend strategy accordingly | <ul style="list-style-type: none"> - Protecting health, safety, environment and security - Corporate governance | <ul style="list-style-type: none"> - Address climate change risks and actions through the stages of the PDP process on projects |
|---|---|--|

13. Biodiversity:

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> - Roll-out and apply the new approach to biodiversity through the PDP | <ul style="list-style-type: none"> - Protecting health, safety, environment and security - Corporate governance | <ul style="list-style-type: none"> - Address biodiversity risks and actions through the stages of the PDP process on projects |
|---|---|--|

Accountable to the core

Strong governance generates trust and ensures consistent global performance standards

Good governance means good business

Cairn's licence to operate depends on transparent relationships with governments, communities, partners, shareholders and suppliers globally. Therefore commitment to high standards of corporate governance, 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.

CR at Board level

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 that risk management is fully integrated. CR performance is a standing agenda item at 100% [▲] of Board meetings and CR considerations through the due diligence process, are integrated into 100% [▲] of investment proposals submitted for a Board decision.

In addition, key or emerging issues may merit particular consideration. In 2013, special presentations were made to the Board regarding Cairn's approach to well control, an update on ABC, the Cap & Secure Services, and the Cajun Express rig acceptance criteria. Findings from the investigation into the November 2013 lost time injury on the Cajun Express, the rig engaged for our operated well programme in Morocco, were shared. Senior management from Transocean, the Cajun Express contractor, presented their approach to managing HSE on the rig.

The HSE Leadership Team is chaired by Jann Brown, the Managing Director & Chief Financial Officer. It provides oversight on our approach and performance on all health, safety, environmental, security and human rights matters. Its members include a number of senior managers from across the business representing executive, corporate and operational responsibilities.

Business Principles and CR policies

Cairn's Business Principles, which are based on the core values of building respect, nurturing relationships and acting responsibly (the 3Rs), define our approach to everything we do. Our Business Principles spell out our commitment to the UN Global Compact through which we align our operations and strategies with the ten universally accepted principles in

the areas of human rights, labour, environment and anti-corruption. These Business Principles were updated most recently in September 2013 to reflect the expectations of our stakeholders and to strengthen the Company's commitments to anti-bribery and corruption, biodiversity and climate change management. Cairn also became a Participatory Company to the Extractive Industries Transparency Initiative (EITI) in September 2013. Our Business Principles and CR policies are available on our website at www.cairnenergy.com/responsibility. They will be reviewed again in 2014, and issued before the end of September this year.

Corporate Responsibility Management System (CRMS)

Behaving honestly, fairly and with integrity is an important part of continually improving our business performance. The CRMS helps to ensure that our operations, exploration and development activities are undertaken safely and in line with our Business Principles and policies. Aligned with international standards such as ISO 26000 Guidelines for Social Responsibility and the International Association of Oil and Gas Producers (OGP) industry guidance, the CRMS provides the framework effectively to manage CR requirements and risks wherever we operate. In 2013, Cairn completed the roll-out of the updated CRMS via seven workshops to all senior staff. During the year, we aimed to update all of our SOPs; 50% of these were prepared in 2013, and guidance on biodiversity and climate change has also been drafted.

To fully understand how the CRMS is embedded, and how it is used to manage the health, safety and security of staff and contractors as well as our social and environmental impacts, please refer to the graphic on pages 08-09 of this report.

Outlook

Following completion of the drilling programme in Morocco, Senegal and Republic of Ireland, Cairn will undertake a follow-up review of the application of the CRMS, its implementation and lessons learned. Our Environmental Management System (EMS) will be externally assured and we will also benchmark our CRMS against an approved version of the OGP Operating Management System when guidance is issued. Further objectives include completing any actions coming out of Cairn's 2013 Management Review and developing a checklist for scoping CR deliverables in the PDP.

[▲] Within KPMG's limited assurance scope.

Robust risk management

Governments invite Cairn to participate in exploration activity and set the standards for our operations. As well as applying our own requirements and meeting international industry standards, such as those developed by OGP, we commit to meeting or exceeding the host government's regulatory stipulations where possible. Cairn's Risk Management System, CRMS, performance standards and gated PDP, in which each stage of a project is checked before proceeding to the next, are designed to reduce risks in line with the 'As Low As Reasonably Practicable' (ALARP) principle.

Ensuring operational integrity

Robust risk management helps to prevent accidents and associated lost time. To protect the health, safety and security of our staff and contractors as well as safeguarding the environment, we audit suppliers' vessels, rigs and equipment as part of the tender process. Before operations begin, we also review their monitoring, inspection and maintenance procedures. Any shortfalls are reported and remedial actions followed up before operations begin.

Governance and transparency

Cairn's reputation for sound governance rests on making well informed and carefully considered decisions. When we enter a new country, our due diligence process starts with a thorough country risk assessment. We evaluate the commercial, legal, political, regulatory, health, safety, environmental, security and human rights issues and how best to manage these. In addition, technical and economic challenges and potential business partners involved in an investment opportunity are assessed.

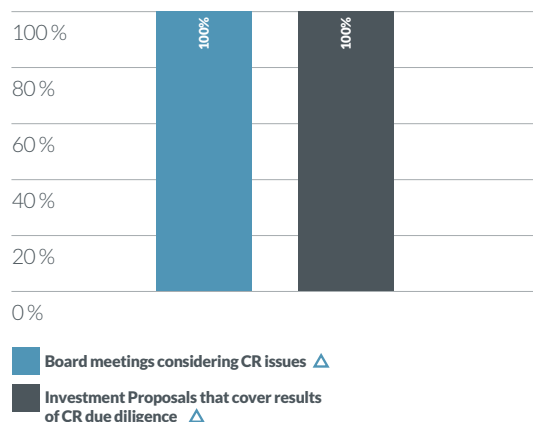
▲ Within KPMG's limited assurance scope.

Non-operated joint ventures

As part of our investment proposal due diligence we carry out checks on all aspects of CR and commission third party and peer reviews where appropriate. Whether it is joint venture partners who are operating on Cairn's behalf, or suppliers, Cairn reviews their CR approach and track record to ensure they operate to acceptable standards. Our approach to human rights and anti-bribery and corruption screening for reviewing investment opportunities is described in 'Ethical business practices' on pages 18-21.

Remuneration

Cairn's Remuneration Committee is responsible for determining the remuneration policy for key senior staff. Remuneration is dealt with in depth in the Directors' Remuneration Report section of the 2013 Annual Report. In recognition of the importance given to HSE performance, the Remuneration Committee has assigned a 10% weighting in the Group 2014 KPIs to delivery of the 10 HSE KPIs and a further 5% weighting to delivery of safety and environmental targets. Performance against Group 2014 KPIs will be a criterion for assessing the annual discretionary bonus.



The Board of Directors



Ethical business practices

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

Essential for business

For sound business reasons, Cairn has an established commitment to ethical business practices in all areas of operation. The topic forms part of every employee's induction process, and all staff sign our Code of Business Ethics. No infringements of the Code of Business Ethics were identified in 2013.

Human rights

Respecting human rights is critical to the development and maintenance of effective relationships with the communities where we operate. This is particularly important as we enter into a number of new geographical areas and emerging markets where legislation, or the implementation of legislation, to protect rights such as labour rights, working conditions and health and safety are developing.

Cairn supports 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.



United Nations Global Compact

Human rights due diligence

We apply human rights screening as part of the due diligence process before entering a country as an operator, for example in Senegal and Morocco. When considering a non-operated joint venture, we identify and check any human rights issues that arise through the investment proposal due diligence and establish any risks requiring management by the Operator (be that Cairn or another) before proceeding.



Cajun Express

Onboard the 'Cajun Express' drilling unit.

Prior to farming in to the Cap Boujdour permit we undertook a detailed review of Kosmos' Business Principles and the extensive analysis carried out by Kosmos and its advisers of the political, legal and human rights situation. Kosmos has signed a joint declaration of principles with Morocco's Office National des Hydrocarbures et des Mines (ONHYM) stating that exploration and production will comply with the principles of the Moroccan constitution and international standards, including the United Nations Charter. This requires local populations to be involved and consulted and stipulates that they will benefit equitably from exploration and production. Kosmos also stated its commitment to protecting the environment and complying with sustainable development requirements.

Cairn's five-step Human Rights procedure:	
1	Identify potential and actual human rights impacts
2	Plan, integrate and act
3	Monitor, measure and track findings
4	Communicate and report
5	Evaluate and review

CR and HR practitioners trained on human rights policies and procedures

50% ^Δ

This figure is calculated using the number of CR and HR practitioners in place at the end of 2013. 69% of global CR and HR practitioners at the time of the workshop received training, however this percentage fell because of additional personnel recruited throughout the year.

^Δ Within KPMG's limited assurance scope.

Activities in 2013

Cairn's Human Rights Guidelines and procedures were updated in 2012, taking into account industry guidance from the global oil and gas industry association for environmental and social issues (IPIECA) and draft EU sector guidance on business and human rights. During 2012, 67% of employees were trained in these updated Guidelines. In 2013, 50%  of CR and HR practitioners were trained.

In 2013, the output from human rights screening assessments provided input to the scoping of the Environmental and Social Impact Assessments carried out for the Morocco and Senegal projects.

During 2014, we will further focus on applying the procedure for assessing and managing human rights in the business through the stages of the Project Delivery Process including provisions to address human rights in our relationships with suppliers and contractors.

Anti-bribery and corruption (ABC)

Cairn operates with integrity and has a zero tolerance approach to bribery and corruption. Country and Company-level ABC risk screening forms an important part of the decision making process when entering new countries or negotiating with potential partners and major suppliers. This is both a legal requirement and critical to our reputation as a business. In 2013, one business opportunity was not pursued as a result of ABC concerns that were identified during the risk screening.

Our Group Code of Business Ethics and ABC Management System (ABCMS) guide our own behaviour and clarify our expectations of partners and suppliers. Before entering into a business relationship, we work through a process of information gathering and risk identification to flag up any potential bribery and corruption issues. If concerns arise, a third party check is undertaken. The purpose of this research and assessment is to establish whether potential ABC issues are manageable and if any resulting risks lie within our criteria for acceptable risk.

Since its implementation in 2011, Cairn has undertaken internal and external reviews of the ABC management system to strengthen it. In Q2 2013, we implemented a review by external legal advisers of the ABC due diligence process on two new business transactions to determine the lessons learned. These have been subsequently incorporated into the Business Partners and Supply Chain ABC due diligence procedures. The findings from this review were also presented to members of the Executive Team, the Management Team and the Corporate Team. Our work with suppliers and business partners is described in further detail on pages 44-47.

As shown in the graph overleaf, all staff were trained in our updated anti-corruption policies and procedures when they were rolled out 2012. In 2013 new staff were trained.

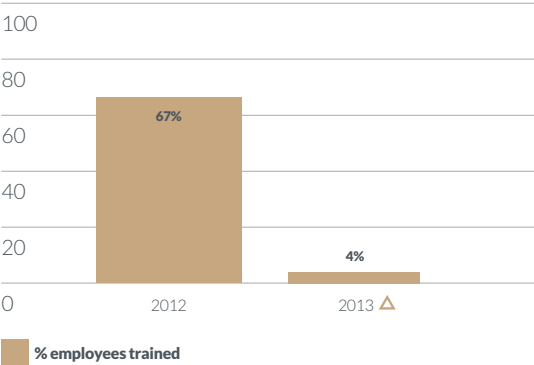
Additionally a session was held with members of the Supply Chain Department to identify how the process of ABC assessments of suppliers during the tender process can be enhanced. The relevant procedure will be updated during early 2014.

In Senegal, Cairn is taking the additional step of working with the business ethics specialist Good Corporation, whose standard we used to inform an ABC risk assessment. We are translating our ABC policies and procedures into local languages and will be training Senegalese staff in Q1 2014.

In 2014, we will update our ABCMS and Code of Business Ethics and will run ABC refresher training. In-country risk assessments in Morocco and Senegal will be completed to assess compliance with our procedures.

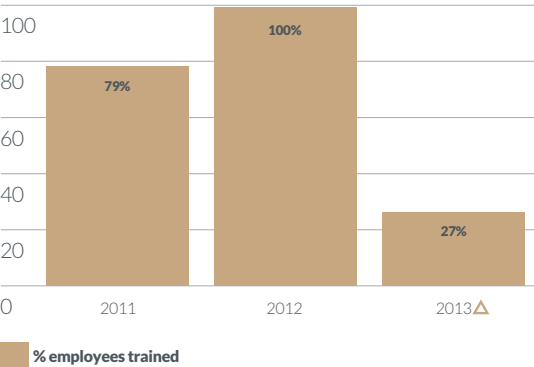
 Within KPMG's limited assurance scope.

Employees trained on Cairn's human rights policies and procedures (%)



Note:
In 2013 this included 50% of CR and HR practitioners.

Employees trained on Cairn's anti-corruption policies and procedures (%)



Note:
All Cairn employees have been trained in Cairn's anti-corruption policies & procedures but these are the figures for employees who received training in the reporting year.

Transparency

Cairn's shareholders expect clear insights into the business and we keep them informed via the Company website, regulatory reports and regular meetings with institutional investors.

Transparency about tax contributions and other payments to governments are two specific areas of interest to stakeholders. The Group operates in various different territories with diverse tax obligations and requirements and it ensures that in every territory it is committed to complying fully with local tax rules and regulations. Additionally the Group has adopted a policy to ensure that any tax planning activity is always aligned with the commercial reality.

We have been explicit since 2005 in our support for the principles of the EITI, a multi-stakeholder initiative aimed at bringing transparency to payments to governments from mineral or oil and gas extraction. We disclose these payments voluntarily and detail amounts paid in various geographies over five years in the graph opposite. Our commitment to transparency of payments was strengthened and formalised in 2013, when we became a Participating Company in the EITI.



Public consultation

In 2013 Cairn toured the Baffin Bay area of North West Greenland in preparation for possible drilling, subject to approvals.

△Within KPMG's limited assurance scope.

In January 2014, Cairn received a request from the Indian Income Tax Department to provide information in relation to the year ended 31 March 2007. The correspondence indicates that the enquiry stems from amendments introduced in the 2012 Indian Finance Act with retrospective effect which seek to tax prior year transactions. While the interactions with the Indian Income Tax Department continue, Cairn has been restricted from selling its shares in CIL (valued at US\$1.0 billion as at 31 December 2013). This matter is addressed further in the Financial Review in the Annual Report.

Whistle-blowing

Employees are encouraged to report any infringements they come across using the Whistle-blowing Procedure, which was updated in late 2012. Anyone with a concern would in the first instance contact their regional director or head of department, and if not satisfied can raise it with the legal department. A confidential whistle-blower line is available and all cases are followed up. In 2013, there were no cases reported of potential infringements of the Code of Business Ethics.

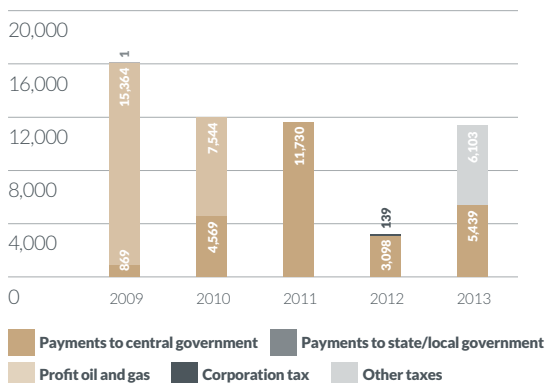
Monitoring and checking

Safety comes first at all times. At an operational level, regional directors are accountable for all activities within a given region, while HSE personnel are responsible for assisting in compliance with regulations, obtaining permits and developing and implementing asset-specific plans. Employees are encouraged to be vigilant about reporting any actual or potential risks at any time.

Regulatory approval for Cairn's activities is often granted by host governments subject to specified conditions and, in accordance with our CRMS, we maintain compliance registers to monitor activities and ensure compliance with these conditions.

At a corporate level, oversight was provided in 2013 by the Group HSE, Risk and Compliance Department. Peer review, benchmarking against standards, government audits and appraisals from potential lenders also provided valuable external corroboration.

Total payments to host governments (US\$'000)



People come first

In Cairn's business, the health, safety, security and wellbeing of people are a priority

Key HSE action points in 2014

1

Further enhance CR Management System

2

Strengthen behaviour in line with HSE Culture Framework

3

Continue to improve internal HSE /CR communications

Focus on safety

Three of the most important issues highlighted by the materiality process relate to protecting people's health, safety and security and preventing major accidents.

Cairn is committed to operating safely and acting properly at all times, and 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. Cairn's HSE Leadership Team is responsible for embedding the CR approach and procedures across the Group, and applying these in our everyday work is down to every employee. Regional directors are responsible at an operational level for ensuring that operations adhere to our HSE standards, that risks are minimised to ALARP and that we have plans in place to manage incidents should they occur.

HSE top of mind

As part of our commitment to raising HSE awareness, we finalised and rolled out the HSE Culture Framework during 2013. 79% [▲] of staff attended training workshops, as described in the case study on page 25. Additionally, all senior management role profiles now include HSE responsibilities. Managers engage with major contractors at a senior level and discuss HSE matters explicitly.

In recognition of the importance given to HSE performance, the Remuneration Committee continues to include HSE as a criterion in the assessment of the annual discretionary bonus, as described in 'Accountable to the core' on pages 16-17.

Security

Cairn recognises that with expansion into new countries, the risks to the security of our people and assets have increased. Following a tender process, the Company appointed Drum Cussac in March 2013 to provide external advice and support to its activities. An independent security review was commissioned which confirmed the adequacy of our marine and aviation security procedures. Drum Cussac also provided inputs to other security procedures, including ensuring consistency with the Voluntary Principles on Security and Human Rights (VPSHR). An updated travel health, safety and security procedure was issued in May 2013, which requires travel risk assessments to be completed and travel management plans issued for trips to locations deemed to have heightened health, safety or security risks.

[▲] Within KPMG's limited assurance scope.

Preventing major accidents

As well as keeping day-to-day activities safe, the CRMS and risk management processes play a vital role in assessing and managing potential major accident hazards, and these are described in more detail on pages 32-35 'Responsible exploration'. Rigorous procedures are applied to ensure that 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 assessments (known as HAZIDs) to highlight possible risks. In the unlikely event of a major accident we have contingency plans and trained staff ready. The plans reflect industry standards and will target the protection of human life and the environment.

Health, safety and security performance

Cairn's performance over the last five years, for selected safety indicators, is shown overleaf. More detailed CR performance information is also presented on our website. Over the five-year period, the main operated activity has been the drilling programmes in Greenland in 2010 and 2011 and in Morocco in 2013.

A key element of Cairn's approach to safety is applying lessons learned from previous operations. Following the drilling campaign in Greenland, where no lost time injuries were recorded, we identified that for large rigs with a high proportion of new crew, an enhanced level of HSE and technical supervision is required.

Enhanced HSE supervision was put in place on the Cajun Express drilling rig in Morocco during autumn 2013. Unfortunately, despite our working closely with the rig operator, Transocean, ahead of the start of operations, there was a lost time injury during the early stages of the drilling operations offshore Morocco, in which a member of the rig crew was injured whilst carrying out planned maintenance to a lift. In this case a detailed investigation led to the conclusion that improvements to the contractor's

preventative maintenance risk assessment processes and work procedures were required. As a result, Transocean are conducting a thorough review around the management of the planned maintenance system to ensure that work instructions are thorough and comprehensive and risk assessments can be fully aligned with each identified task. Shortly after the incident, senior management, led by Cairn's Chief Executive, Simon Thomson, visited the rig to re-emphasise the importance of learning from such incidents and minimising the chance of them occurring.

Regrettably, a number of low-level safety incidents and near misses, mainly involving lifting operations, occurred during early shore base operations for the Morocco drilling programme. Specific training was provided for local shore base contractor employees in local languages and this provision has been included in the preparations for our future shore base operations in Senegal and Republic of Ireland in 2014. One incident at the Agadir shore base resulted in a lost time injury when a contractor employee trapped his finger between the tail and side gates of a truck. Lessons learned from this investigation have included the importance of a 'One Task One Talk' culture that ensures that staff can concentrate on managing the risks for the task in hand rather than being overwhelmed by many instructions for a number of tasks.

There have been no fatalities of Cairn staff or contractors during 2013 ▲, and for over five years.



Cajun Express

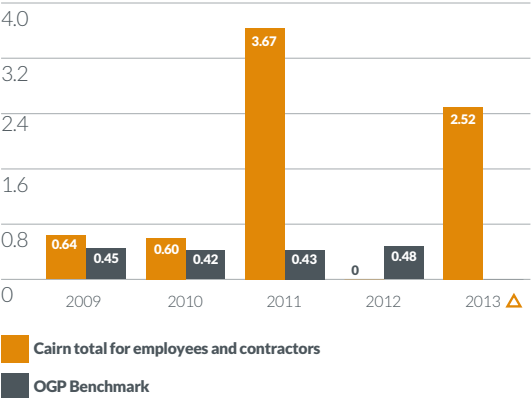
Onboard the 'Cajun Express' drilling unit.

▲ Within KPMG's limited assurance scope.

Future plans

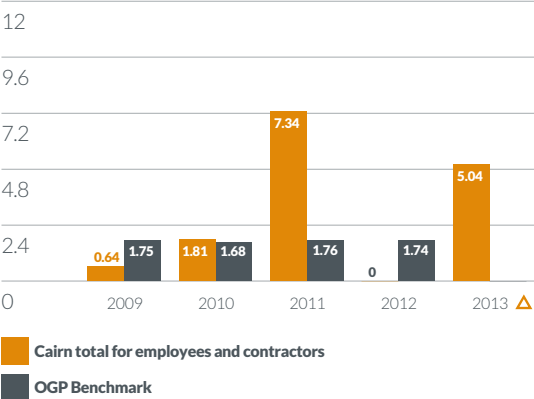
Cairn's main focus in 2014 will be, above all, to ensure the safety and security of our operational drilling programmes in Morocco, Senegal and Republic of Ireland in addition to non-operated drilled activity elsewhere. We will prioritise the preparation and roll-out of our HSE and security Standard Operating Procedures and update related guidance. In addition we will aim to strengthen behaviours in line with our HSE Culture Framework among employees and contractors working for Cairn. We will also enhance communications to raise visibility of HSE across the organisation.

Lost Time Injury Frequency (LTIF)
(Lost time injuries per million hours worked)

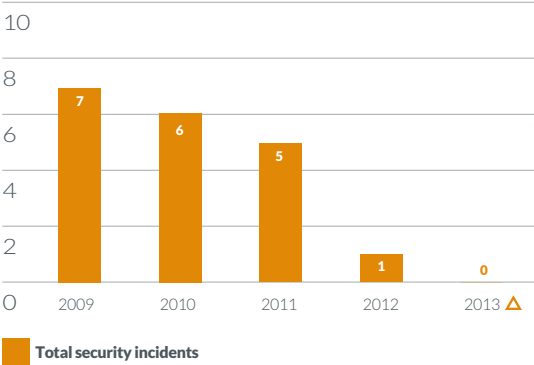


Notes:
1. OGP is the International Association of Oil and Gas Producers. We have included the overall OGP benchmark figures (average of onshore and offshore). OGP benchmark figures are not yet available for 2013.
2. Cairn TRIR and LTIF statistics can be higher than the OGP benchmark after only one incident, or a small number of incidents, because our exploration activities often last for only a short time period so there are relatively few hours worked compared with ongoing production and other long term operations.

Total Recordable Injury Rate (TRIR)
(Total recordable injuries per million hours worked)



Total security incidents
(number)



Staff trained in HSE Culture Framework ▲
79%

Number of fatalities:
None
in the last 5 years.

▲ Within KPMG's limited assurance scope.

Strengthening HSE culture

HSE Culture Framework

Workshops underline desired behaviours

In June 2013, Cairn commenced the roll-out of our HSE Culture Framework to maintain and strengthen existing HSE culture and performance and to engage our staff and contractors more deeply in that process. The Framework was rolled out via workshops facilitated by the Keil Centre, who are experts in the human and organisational factors which impact on health and safety. In total, 15 workshops were held in the Edinburgh, London and Stavanger offices to ensure that everyone had an opportunity to attend.

Goals

The workshops aimed to provide clarity on the behaviours expected in the area of HSE and how the HSE Culture Framework can be used in our everyday activities for all personnel, team leaders and managers. They provided encouragement for staff to speak up if they witnessed any unsafe practices in the workplace. At the end of the session, each team was asked to develop a Team Improvement Plan to enhance HSE in their areas of work.

To continue the process of embedding the HSE Culture Framework at Cairn, a number of further enhancements are planned for 2014. They include:

- Having an HSE objective in every senior manager's performance review;
- Using the framework in the investigation of incidents;
- Implementing further initiatives to strengthen behaviours in line with the HSE Culture Framework;
- Strengthening the visibility of our key HSE messages and culture; and
- Preparing for a follow up survey in early 2015 to measure progress made in enhancing our HSE culture and to identify next steps.

Attracting and nurturing top talent

In a fiercely competitive recruitment market, Corporate Responsibility is a factor in making Cairn an employer of choice

Recruitment

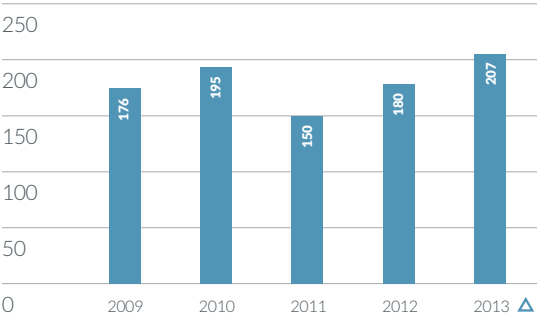
An increase in the world's population and the rise in demand for energy resources mean that the demand for skilled people in the oil and gas industry will continue for years to come.

Integral to this is the need to:

- Recruit talented people with the required technical capability in the areas where they are needed most;
- Provide the appropriate experience and training to allow staff to perform at their best; and
- Create a vibrant working environment and culture which engages and retains our talent.

Well qualified employees create tangible business benefits: they play a key role in ensuring operational integrity and provide the competence and appropriate skills needed to deliver value for stakeholders safely, effectively and efficiently. To resource the organisation with the skills Cairn needs, we must stand out as an employer of choice – and our CR approach is one way to do this. The case study on page 29 describes Cairn's recruitment approach in 2013.

Total employees



Number of employees

Learning and development

Having recruited good people, we also invest in them by ensuring that they have the appropriate training and experience required to perform their jobs effectively in the delivery of our strategy and business plan. Cairn continues to be very active in providing staff with development opportunities through a variety of means (internal and external courses, conferences, executive coaching, mentoring, on-the-job training, projects, etc.) to enhance their skills and capabilities.



Our people

Cairn has its headquarters in Edinburgh, Scotland supported by operational offices in London, Morocco, Senegal, Norway, Spain and Greenland.

In 2013, a total of 1,214 training days were undertaken by staff. This represents, on average, 5.8 days per employee compared to 5.5 days in 2012, and well above the UK average of 3.6 days per employee per year (Chartered Institute of Personnel and Development).

As an international company, Cairn can offer opportunities to work overseas in roles which will help develop individuals. One particular example is the Deputy Head of Legal who expressed an interest in working overseas and was provided with the opportunity to work in Morocco during our drilling campaign.

In 2013, we were once again successfully accredited as an Investor in People (IIP), having achieved the standard for the first time in 2004. An area for improvement as identified by the IIP audit process includes some enhancements to the performance appraisal process which now forms part of our objectives for 2014.

Succession planning

To address risks associated with the potential loss of key personnel in a competitive labour marketplace, the results of our work on succession planning were shared with the Board of Directors in 2013. The latest review of our talent pipeline demonstrates that 64% of 'key' roles have at least one successor ready in around 24 months. Plans are now being made to develop the selected talent to ensure that they are capable of fulfilling key roles when required, in addition to planning how best to address gaps where no potential successor has been identified.

Culture and engagement

Maintaining our unique culture is an important factor in differentiating us from other exploration and production companies. Our values of Respect, Relationships and Responsibility (the 3Rs) are well understood by everyone and as part of our strategy to further reinforce our strong culture, we undertook a 360-degree appraisal on all members of staff globally. In 2013, we started the process of reviewing our performance management practices. This review is aimed at ensuring a clear line of sight between company, team and individual objectives in addition to recognising and rewarding behaviours which are consistent with our company values and culture.

Impact on society

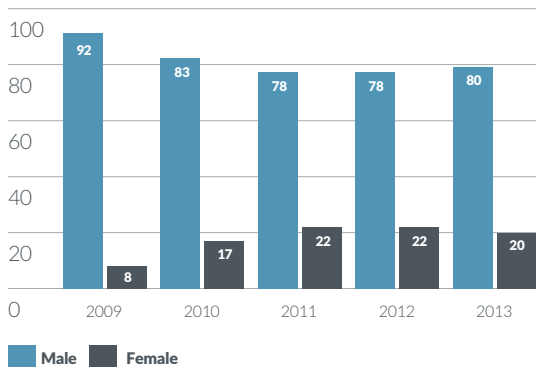
Providing employment opportunities and transferable skills to people wherever Cairn operates, particularly in emerging markets, is a lasting way to contribute to local economies. Therefore we seek to hire local contractors wherever we are active, provided they meet our health and safety standards, a practice host governments value highly.

Diversity

Diversity is about valuing variety and individual differences and creating a culture, an environment and practices which respect these differences. As research indicates, a diverse workforce can improve creativity and problem solving resulting in better decisions. In 2013:

In 2013:	
50%	of Cairn staff are women
10%	of Cairn staff work part time
100%	of parents return to work following maternity/adoption/paternity leave
21	different nationalities are employed at Cairn
3.4%	of the workforce is disabled
42	average age at Cairn

Gender breakdown of Cairn's Board of Directors (%)



In 2013, 28% of management roles at Cairn were held by women, and female representation on the Board was 20%, a lower figure than last year due to the recruitment of an additional male director. We are actively participating in a major piece of industry research aimed at encouraging more women onto boards. The 30% Club is a group of chairmen and organisations committed to promoting more women onto boards. Cairn is actively participating in their 'Balancing the Pyramid' project which is exploring the behavioural differences between men and women and what makes women successful leaders in the corporate environment. Our Managing Director & Chief Financial Officer, Jann Brown, is a committee member of the 30% Club.



Outlook

In 2014 we will

Roll out our revised approach to performance management;

Implement actions identified in our 2013 Engagement Survey;

Improve our HR Oracle system which supports HR services;

Improve recruitment to better represent our 'Employee Value Proposition' (see case study opposite); and

Implement new 'bite sized' Management Development programmes.



Our people
Staff in the Edinburgh headquarters office.



Discovering Hidden Value



Cairn took a stand at the Careers in Earth Science event, Dynamic Earth, Edinburgh.

CR in action

Boosting staff numbers

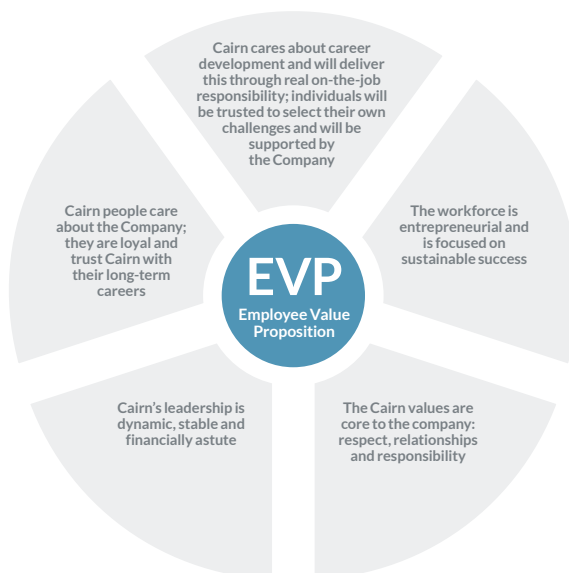
Our Employee Value Proposition is well communicated at Cairn to help current employees understand the employee deal and attract new talent

One of the challenges facing our industry is the recruitment and retention of skilled talent. In 2013, due to higher levels of activity, we increased our staff headcount by 13.7% globally. A quarter of the new roles were in the areas of geoscience and engineering with the majority being filled by professionals with many years of experience. Throughout this process, the Employee Value Proposition (EVP) was well communicated to candidates.

In 2014 we aim to support the EVP with process improvements to better reflect our culture and values. With the goal of distinguishing us from our competitors, we will emphasise our culture on the career website, in interviews and during induction.

We continue to ensure that we have a steady pipeline of young talent coming into the organisation by maintaining strong relationships with a number of schools and universities in addition to an active programme of summer internships. In 2013, we partnered with Career Academies, an organisation which aims to increase social mobility and

raise the aspirations of 16-19 year-olds by boosting their employability skills and providing them with real life experiences of the workplace. During the year we provided work placements for six students from Career Academies, providing them with an insight into the oil and gas industry and the opportunity to be mentored by a staff member.



Minimising risks to the environment

Cairn minimises potential environmental impacts by applying international standards, adhering to local requirements and rigorously managing risks

Precautionary principle

Cairn takes a precautionary approach and avoids, wherever possible, negative impacts to the environment and biodiversity. We will not operate in UNESCO World Heritage sites and will only undertake operations within other protected areas or recognised sites after due diligence on potential biodiversity impacts.

Management systems in practice

Governments award exploration and development opportunities knowing that our licence to operate and our track record depends on balancing value creation for all stakeholders with rigorous care for the environment. 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 aspects must be managed at every stage of the exploration, drilling or development programme. Possible environmental impacts and their management are evaluated at every decision point in the five stage PDP described below.

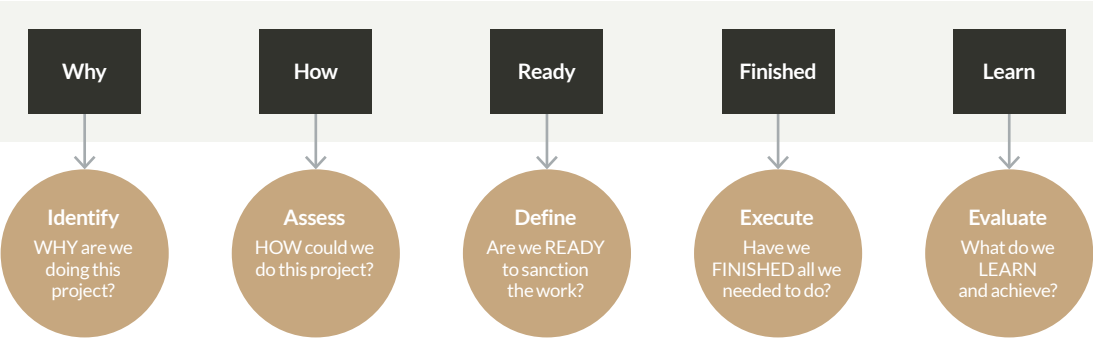
Minimising risk

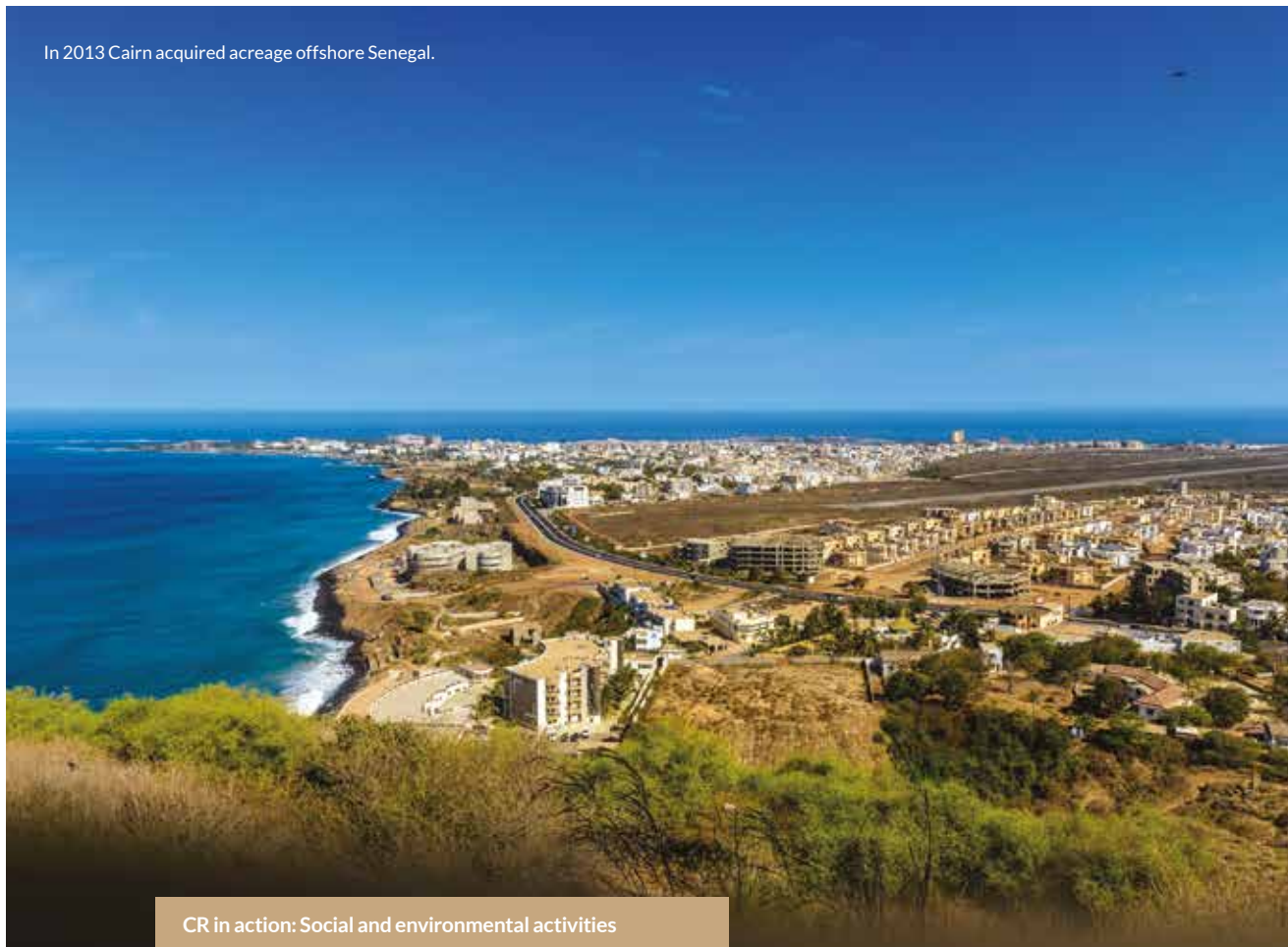
Designed to identify and assess the environmental aspects of our operations, Environmental Impact Assessments (EIAs) allow us to determine the significance of impacts and define actions to manage and monitor these risks. With this information to hand, we can review project alternatives and make informed decisions when planning our activities. An example of the EIA process that we carried out in Senegal in 2013 is featured on the opposite page. EIA findings are subject to a thorough technical review by expert stakeholders and on occasion, to wider consultations at public hearings. Measures to manage 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.

Non-operated joint ventures

Cairn counts both investments operated by ourselves and joint ventures managed by business partners (i.e. operated and non-operated investments) in our portfolio of assets. In Morocco, Senegal, Republic of Ireland and Greenland we operate the drilling programmes and apply our management systems and standards as described above. Cairn's acquisition and farm-in activity in 2012/13 has given us access to joint ventures operated by other companies such as Statoil ASA, Premier Oil, Kosmos Energy, EnQuest and Chariot Oil & Gas. As explained in the Governance section, our due diligence process gives us confidence in the integrity and HSE track record of the operators we work with.

Our gated project delivery process





CR in action: Social and environmental activities

An invitation to participate in Senegal

Responding to stakeholders: Cairn's Environmental and Social Impact Assessment (ESIA)

As part of our application to carry out exploration drilling offshore Senegal, we undertook an ESIA. The aim was to identify the potential impacts exploration drilling could have on the local population, environment and potentially sensitive habitats. A consultation process with local stakeholders was arranged in accordance with local and our own requirements. Possible effects on plants and animals in marine, coastal and wetland areas were assessed so that we could respond appropriately.

Identifying stakeholders

To help identify stakeholders, we undertook in-country scouting trips, engaged with partners and consultants based in Senegal, used indigenous and corporate media monitors and internet sources and commissioned an external agency to carry out a stakeholder mapping exercise. Amongst others, we held meetings with national and regional government

bodies, industry associations, fishermen's organisations, public research centres, supply chain representatives and the NGOs WWF and Oceania. The engagement helped us to understand the representative groups' key concerns, consider appropriate responses and gauge the level of support for exploration drilling.

Responsiveness

The reaction of the majority of stakeholders towards exploration during the research and consultation period was positive. A key issue which was brought up was the potential impacts on fishing. The fishing sector in Senegal is vital both socially and economically, providing a major food source, 63,000 jobs and over 12% of the country's exports by value. Responding to this stakeholder concern, we were able to present mitigation measures for noise, vibration and vessel movement and share study findings showing that exploration drilling activities have a low impact on marine fauna. We also addressed concerns about a possible oil spill by explaining our Oil Spill Prevention and Contingency Plan.

Responsible exploration

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

Preventing and responding to a major accident event

The prevention of any accident is a key focus of the oil and gas industry. At Cairn, rigorous procedures are followed to identify, assess and manage potential risks and impacts in line with the ALARP principle. Risks are managed and accidents prevented through safe design, review and assessment of equipment, defined operating procedures, training and performance monitoring. Contingency plans, equipment and trained staff are ready to respond in the unlikely event of a major accident.

Preventing major spills

We actively support the International Association of Oil and Gas Producers (OGP) initiatives in preventing major accidents and hydrocarbon spills. Most notably, we are participating in the Joint Industry Projects (JIPs) for enhancing the industry’s approach to oil spill prevention and response.

One of the key outcomes from the JIP is a new approach to oil spill risk assessment and response planning which includes a structured and detailed analysis of oil spill risk, including development of potential spill scenarios, likelihood and consequence analysis, detailed modelling and development of credible response capability. Cairn has applied this new approach in developing its oil spill response plans for the Morocco, Senegal and Republic of Ireland offshore drilling programmes.

To complement this initiative we invested heavily in securing access to the Capping Stack System, the Subsea Incident Response Toolkit and the Global Dispersant Stockpile, all of which are managed by Oil Spill Response Limited (OSRL) – see the ‘Oil spill prevention and contingency planning’ case study on page 35 for more information.

We take a leading role in well and oil spill expert groups of the Greenland Oil Industry Association (GOIA) and in 2013 we also joined the Irish Offshore Operators Association (IOOA).

As shown in the tables adjacent, there were no spills to the environment in 2013.

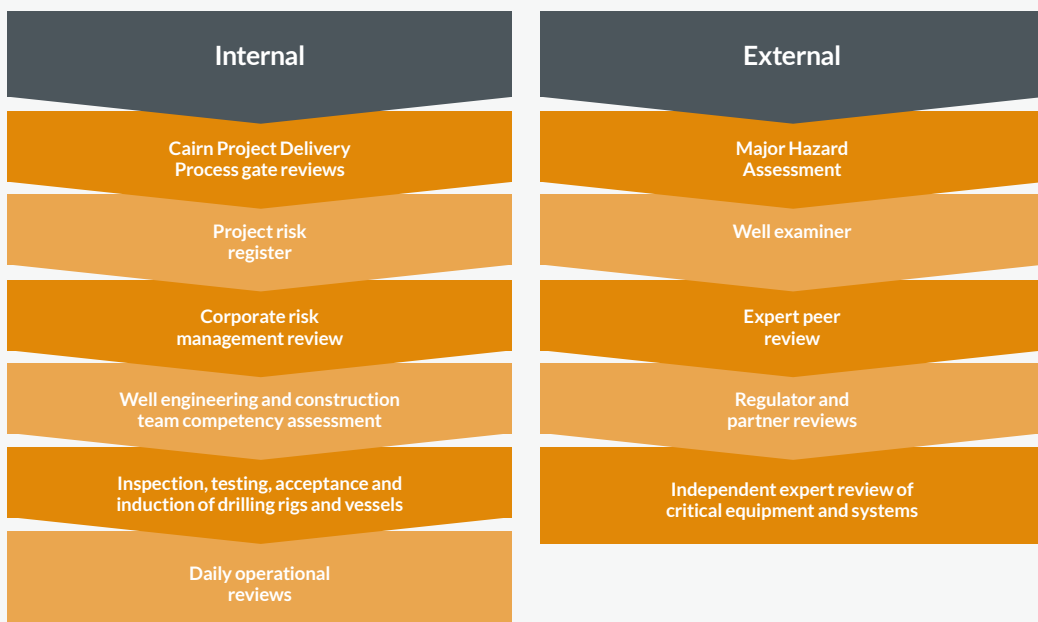
Total spills (number)					
	2009	2010	2011	2012	2013 ▲
Oil	0	0	0	0	0
Fuel	1	1	1	0	0
Chemical	0	3	0	1	0
Waste	1	0	0	0	0
Other	0	0	2	0	0

Total spills (barrels)					
	2009	2010	2011	2012	2013 ▲
Oil	0	0	0	0	0
Fuel	0.01	28.3	0.06	0	0
Chemical	0	56.85	0	2.20	0
Waste	0.06	0	0	0	0
Other	0	0	9.44	0	0

Note:
Spill categories:
Oil: crude oil.
Fuel: diesel, gasoline, kerosene, heating oil, aviation fuel.
Chemical: any other raw material or ancillary.
Waste: any material (solid, liquid, gas) that is introduced into the work location as a product of the work but that fulfils no further useful purpose at that location.
Other: other material not included in categories above.
N.B. If something fits into more than one category, we report against the category that provides the most information, e.g. chemical rather than waste when reporting waste chemicals.

▲Within KPMG’s limited assurance scope.

Well engineering and construction internal and external assurance processes



Deep-water drilling

Cairn's reputation for responsible exploration rests upon a rigorous approach to well design, control and blow-out prevention in drilling operations. It is the characteristics of geological formations that have the most influence on the complexity of drilling a well rather than the depth of water in which it is drilled. We apply the same uncompromising well design approach, with an emphasis on prevention, to all categories of water, whether shallow or deep.

Well design

Wells are designed to exceed the expected characteristics of the formations which are to be encountered and are assessed by an independent external expert well examiner who verifies that the design complies with the stated standards. The requirements of the Cairn Well Engineering and Construction (WEC) and CR Management Systems are translated into specific well designs, project plans and procedures. These are independently verified through a series of reviews from an expert, regulators and partners. An independent expert assesses critical equipment and systems before drilling can commence.

Primary well control

In any well design, the primary well control barrier is provided by the 'weight' of drilling fluid acting on the hole, or wellbore, created by the drill in the rock formation. This barrier is sustained by maintaining a wellbore fluid column with a higher pressure inside the wellbore than the fluid pressure in the pore spaces of the rock formation itself.

Secondary well control

Secondary well control is provided by high specification blow-out preventers (BOPs). The BOP consists of a series of mechanical sealing devices called 'rams' with associated back-up systems. If the primary drilling fluid barrier is lost, the blow-out preventer rams and valves are operated to close the well, regain control and stop any fluid flow to the external environment. We recognise that in deep-water wells, the complexity of these secondary well control devices increases due to the need to rely upon dynamic positioning systems to keep the drilling rig on location.

Tertiary well control

In the very rare event that both primary and secondary well control barriers are breached, tertiary controls to regain well control and collect or disperse spilled oil are deployed. These are described in the case study 'Oil spill prevention and contingency planning in Morocco' on page 35.

Resource development in the Arctic

Exploration in the wider Arctic region, beyond the High Arctic, 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 hydrocarbon resources in its territory for the benefit of its people.

Responsibility

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. Cairn's commitment to avoiding risks and applying every practicable means to minimise impacts on human life and the environment is longstanding.

Cairn's track record and experience demonstrate that we are well equipped for the task of exploring for oil and gas. We have completed a range of operations in Greenland since 2008/9, including drilling eight offshore wells, without any serious injuries or significant environmental incidents. We contributed a total benefit of £186m to the Greenland economy between 2010 and 2012. See Cairn's CR Report 2012 available at www.cairnenergy.com.

We participated in the House of Commons Environmental Audit Committee (EAC) which reported in September 2012. In January 2013 the UK Government published its response to the report of the EAC, which subsequently produced a further report in July 2013.

Emergency response

While Cairn plans to avoid possible accidents, in the unlikely event of one occurring we have robust plans in place to manage potential incidents appropriately. In June 2013, the Emergency Response Coordination Centre was re-established to manage critical situations during exploration drilling in all operational areas. Emergency Response Group

Members were briefed and trained and have taken part in table-top exercises during the year. In addition:

- Three Emergency Response Procedures (ERPs) were developed and implemented for low level operations offshore Morocco, Senegal and Greenland;
- Oil Spill Contingency Plans and Emergency Response Procedures were developed for drilling activities in Morocco and Senegal;
- Oil Spill Response certified training and practical training (DECC/IMO Level 2 and 3) for shore-based teams in emergency response and recovery vessel deployment was carried out;
- Consultation with the Irish authorities took place for the development of the ERP and Oil Spill Prevention and Contingency Plans (OSPCPs) for the Spanish Point appraisal well; and
- ERP and OSPCP workshops were held with the Senegalese authorities ahead of submitting drilling applications.

Future outlook

During 2014, we will continue to ensure that employees, contractors and other key agencies focus on safety and remain alert to potential incidents, develop plans to avoid these and, should an incident occur, have in place robust procedures to manage it effectively. Specific ERPs and OSPCPs for operational activities will be developed for approval by the relevant regulator.



Agadir

Agadir, the location of Cairn's shorebase during its operations offshore Morocco.



Cajun Express

Onboard the 'Cajun Express' drilling unit.

CR in action

Oil spill prevention and contingency planning in Morocco

Meticulously designed and extensively examined wells are supported by comprehensive contingency plans

Oil spill prevention in Morocco, and all locations where Cairn operates, starts with well designs that exceed requirements for the expected characteristics of the geological formations to be encountered.

Tertiary well control

Primary and secondary well control is built into the design and this is described on page 33. In the very unlikely event that both primary and secondary well control barriers are breached, tertiary controls are employed. A scenario defining the impact of the blow-out known as the 'worst credible case discharge' is used in conjunction with information gathered via the Environmental Impact Assessment to ensure that an appropriate plan is developed. The plan is based on a three tier response system. Tier 1 is the response to a localised spill close to the operation. Equipment and personnel to respond to a localised spill are located on the rig and the platform support vessels. Should the incident prove beyond this local capability or affect a larger area, resources for an enhanced response (Tier 2) are provided from the shore base. Tier 3 response resources are located internationally with the ability to be mobilised through Cairn's membership of OSRL. OSRL membership gives Cairn access to:

- A substantial supply of mechanical equipment including booms, skimmers and collection equipment for offshore and near shore response;
- Specialist fire-resistant booms for application of in-situ burning techniques;

- A supply of equipment and aircraft for the aerial application of dispersant to the water surface;
- The Sub-sea Incident Response Toolkit (SIRT), which enables dispersant to be applied at a sub-sea level, subject to government approval. This reduces the amount of oil reaching the surface or the shore, and increases its amenability to biodegradation;
- The Global Dispersant Stockpile, which provides a stockpile of dispersants with the widest worldwide approvals, large enough to provide for serious incidents; and
- The Capping Stack System (CSS), which can be deployed to shut-in the well and prevent oil from escaping to sea, at which point subsea dispersant is no longer needed.

In addition, we have carried out training and practical exercises to ensure that priority actions are understood, equipment handling is mastered and appropriate logistics are in place.

In Morocco this specifically included:

- Oil Spill Contingency Plan and Emergency Response Procedure completed in August and October 2013 for the Fom Draa and Juby Maritime exploration wells;
- Oil Spill Contingency Plan Logistics workshop in July 2013;
- Oil Spill Response certified training and practical training in equipment deployment provided by OSRL in July and October 2013;
- A series of desk-top exercises and focused training sessions in Q4 2013; and
- An Emergency Response real-time exercise carried out in October 2013.

Managing our footprint

Managing and minimising our environmental impacts is an intrinsic part of operating with integrity

Measuring our environmental footprint

During 2013, Cairn implemented further studies in Greenland to understand the impact of previous campaigns and to baseline environmental conditions in the Pitu block in advance of possible future operations. This is strictly controlled in Greenland and Cairn has continued to invest and participate in baseline assessment work in Greenland through our licence agreements. Baseline work was also conducted offshore Morocco to better understand seabed conditions and ensure no sensitive habitats would be impacted by the well. See also the case study 'Monitoring drilling impacts' on page 39.

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 observe, assess and monitor biodiversity through assessment of the potential environmental and social impacts. During 2013, a Biodiversity Framework document was developed, which informs the assessment process. The framework outlines the primary requirements to ensure that potential and actual impacts on biodiversity and ecosystems are assessed and managed. This will enhance our environmental assessment work going forward.

As stated in our Business Principles, we seek to use biological resources sustainably. We are committed to not operating in UNESCO designated World Heritage Sites, and will only undertake operations that affect other protected areas and

recognised sites (such as Ramsar sites and International Union for Conservation of Nature (IUCN) category I-IV areas) after due diligence of potential biodiversity impacts. In addition, we are committed to:

- Implementing procedures to avoid and, where this is not feasible, to reduce or remedy biodiversity loss and seek opportunities to make positive contributions to biodiversity conservation;
- Taking a participatory approach to working with stakeholders to ensure that their concerns are addressed within the planning of activities, and that their interests and knowledge of biodiversity and use of ecosystem services are recognised and respected; and
- Monitoring our impacts and measuring positive contributions to biodiversity conservation.

The Biodiversity Framework is supported by new Biodiversity Guidance which gives additional advice for identifying, assessing, defining, executing and evaluating biodiversity risks and impacts and associated management strategies within our business.

We will roll out and apply our new approach to biodiversity in 2014, integrate it with our CRMS and align it with the gated PDP.



Baffin Bay, Greenland

Cairn operates multiple blocks offshore the Western and Southern coasts of Greenland.



Agadir, Morocco

Agadir, located 100-200 nautical miles from our blocks offshore Morocco.

Climate change

Oil and gas production supplies the energy needed to catalyse economic development around the world and provides a solution until technological innovation can deliver a low-carbon economy. Climate change may affect Cairn's own business and the lives of people around the world. We therefore monitor and manage the greenhouse gases (GHGs) emitted during our activities. During 2013, new guidance was developed on climate change which identifies considerations to be made at each stage of the PDP.

How we report

Cairn has reported GHG emissions in annual CR Reports since 2001 and to the Carbon Disclosure Project since 2006. We disclose our GHG emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and use emission factors that are appropriate to Cairn for our scope 1, 2 and 3 GHG emissions. Scope 1 emissions arise from fuel combustion during offshore rig, marine vessel and aircraft operations and from the use of land-based vehicles (99.9%), and include

the incineration of waste on marine vessels / rigs (<0.01%). Our scope 2 emissions derive from the use of electricity in our offices and shore bases. Scope 3 emissions are emitted during business travel, including by air and rail.

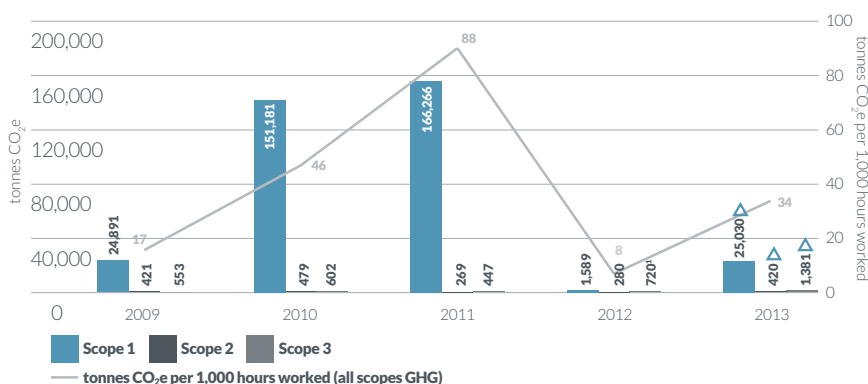
Emissions and level of activity

The graph below of our GHG emissions over five years shows that they are heavily dependent on the level of operational activity in any given period. In 2010 and 2011 Cairn's major drilling programme offshore Greenland involved drilling 8 wells and resulted in higher emissions than in 2012, when there was a limited amount of survey activity. Emissions rose in 2013 when we carried out surveys and commenced drilling offshore Morocco.

The varying levels of operational activity make it very difficult to identify a baseline and set targets for total GHG reduction over time.

Our GHG emissions intensity is calculated per thousand hours worked, as this provides a direct relationship with our

Total absolute and normalised GHG emissions (scopes 1, 2 and 3)



¹ 2012 air travel figures have been re-stated due to miscalculations being identified in the database.

Note:

For calculating Scope 1 Emissions, we use emission factors from the API Compendium 2009 and also from EEMS 2008 (UK Environmental and Emissions Monitoring System for the Department of Energy and Climate Change (DECC)).

For calculating Scope 2 Emissions we use emission factors from the IEA (International Energy Agency) report 'CO₂ Emissions from Fuel Combustion Highlights' (2013 Edition).

For calculating air travel emissions we use journey type (domestic, short

haul, long haul), seat class (economy, premium economy, business, first), distance, and an uplift factor. For some flights, where the seat class is not known, or data is not available broken into flight sectors with the associated seat class, applicable average emission factors may be used. For rail travel emissions we use rail type (national rail, eurostar) and distance. We use emission factors from '2012 Guidelines to Defra/DECC's GHG Conversion Factors for Company Reporting'.

For further details about our GHG emissions' calculations, please see our website.

activity. Factors such as the nature of the work in hand (i.e. drilling or survey), environmental conditions and distances between operations and logistic support bases have further significant influences on the intensity of GHG emissions.

We reviewed our climate change strategy in 2013 based on a gap analysis against peer companies and updated our Business Principles to reflect the findings. In 2014 we will continue to review external developments and update our approach to climate change appropriately.

Noise

An element of noise is generated at every stage of oil and gas exploration and drilling activities, notably from seismic surveys, drilling activities, support vessels and aircraft used in crew changes. Minimising impacts caused by noise includes using a 'soft start' in seismic surveys to encourage marine mammals to move away before the full seismic activity commences and ensuring that, wherever practical, aircraft routes avoid sensitive seabird colonies and marine mammals.

Waste

Before operational activity commences, we establish specific waste management plans for each operation which cover anticipated and potential hazardous and non-hazardous waste. In Morocco and Senegal, we undertook reviews of in-country waste management capabilities as part of the planning process. In Morocco we worked together with another oil and gas operator, Kosmos, to review waste management facilities and provide recommendations to contractors. Our HSE advisers in-country provide day-to-day supervision to ensure

that waste streams are recorded accurately and managed appropriately, according to the plan. As we show in the tables on page 32, there were no waste spills in 2013.

Waste management during the drilling programme in Senegal in 2014 will involve specialist contractors who will address the potential shortfall of in-country capabilities, especially for potentially hazardous waste.

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 Union. Offshore chemicals are subject to pre-screening, substitution and ranking using a colour code system.

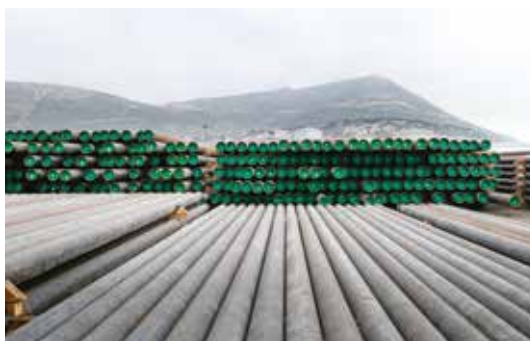
Wherever possible, we select those with least impact (green classification), so-called PLONOR chemicals (Pose Little or No Risk) as a first choice, then yellow and finally red, when no other option exists or if it is necessary to ensure the safety of operations. In 2013, we used only green and yellow chemicals, and it is anticipated that this will also be the case in 2014.

No chemical spills to sea were recorded in 2013.



Morocco

Supporting Cairn's drilling operations offshore Morocco.



Supply base, Agadir

Cairn's supply base during its operations offshore Morocco.



CR in action

Monitoring drilling impacts

By analysing pre- and post-drill core and sediment samples around our rigs, Cairn is validating its environmental assessments

Carrying out an Environmental Baseline Survey (EBL) of an area prior to drilling is a useful tool for assessing seafloor and environmental sensitivities of a location. In marine areas, the aim is to identify the key features of the seabed and to understand pre-existing biodiversity characteristics and habitats. The EBL can also provide information against which to compare a post-drill assessment and findings.

Detailed sampling and analysis

In Greenland, Cairn has applied detailed sampling and analytical protocols, in some cases using innovative techniques, to carry out an additional, more detailed EBL in the vicinity of the rig itself. These techniques support on-going research providing an in-depth understanding of drilling impacts on the marine environment.

The detailed EBL included taking core sediment samples in the areas where drilling is anticipated and setting up

environmental traps to capture sediment from the drill 'cuttings' that spread out in the water and settle. During drilling, video footage and photographic cameras log real-time activity. After drilling, cores are taken from the same locations as the pre-drilling samples and sediments collected in the traps are analysed. Novel coring and sediment collection equipment and protocols were applied to improve collection and assist in improving the quantification of specific chemicals.

Fine-tuning modelling

The detailed EBL is valuable in enabling us to test the accuracy of our predictive modelling and better understand the distribution of drill cuttings and settlement over time. Our findings will help fine-tune our modelling in the future, and to date, show that drilling impacts on the marine environment are not significant, particularly when compared with some other types of marine activity, for instance trawling.

Engaging for the long term

Regular stakeholder engagement to understand and manage any potential environmental and social factors is vital

Managing expectations

Strong relationships based on mutual trust and respect, are crucial to our on-going business success. We respect the people, communities and governments we work with. To understand their aspirations and expectations from our initiatives, we actively engage with them throughout an upstream oil and gas project lifecycle.

Local participation in oil and gas activities is important to communities, and the graph opposite shows that the percentage of managers we hired from the local population in 2013 varied with the expertise available in the country of operation. Our employees are 99% ^Δ nationals and 1% ^Δ expatriates. We are also aware that the development of skills and enterprise associated with the industry must be sustainable – whether or not exploration is successful.

Cairn's CSR Policy, CRMS and Stakeholder Management Guidelines set out how we identify and engage with diverse groups. An internal audit of stakeholder engagement processes was carried out in 2013, which confirmed that effective stakeholder management is in place. The internal audit highlighted a number of refinements to our processes including formalising the recording of stakeholder engagement at the asset level and managing the disclosure of information by partners and host governments. Management will address these enhancements during 2014.

Key interests of stakeholders are outlined in the table in 'Mapping our priorities' on page 12 of this report, and these feed into regular reviews of our Business Principles and updates to the materiality matrix.

1 First step: Consultation

How Cairn engages with communities

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 plans for a particular project or asset.

Our stakeholder engagement plans always, as a minimum, comply with local country requirements.

The PCDP process allows us to assess if further engagement may be desirable, matched to the materiality of issues and risks to the business. Engagement plans are therefore tailored for each project.

Where challenging matters including land acquisition, resettlement, water use, security and potential or perceived impacts on livelihoods are involved, we consult extensively with key stakeholders.

2 Second step: Impact Assessment

We use a range of environmental, social and human rights assessments and baseline surveys to assess the potential effects of operations, tailoring them to meet government requirements. ESIA's and social baseline studies are designed as participatory processes in which the research and discussion may include environmental issues, employment and

livelihoods, economy, local business participation, education and training, community health, infrastructure, culture and heritage.

3 Third step: Social Management Plans

Social management programmes tailored to managing the potential impacts and opportunities to the host country and local community needs are developed as the result of the impact assessment process. Sometimes these programmes may be referred to as community investment or formalised as Impact Benefit Agreements.

How Cairn responds to stakeholders Senegal and Morocco

As a result of our ESIA in Senegal (see case study 'An invitation to participate' on page 31), and the EIA in Morocco, we are working to address stakeholder interests. In both countries we have helped build capacity by implementing an awareness course for the authorities involved in offshore drilling and emergency response. We are also providing notification to fishermen around our activities in order to avoid impacting their own. In addition, we are offering opportunities to local businesses to support the drilling campaign.

^Δ Within KPMG's limited assurance scope.

21 projects for education and community development in Greenland

21

How Cairn responds to stakeholders Spain

In 2012, a PCDP was completed in anticipation of future activities offshore Valencia. Responding to concerns from local fishermen about the impact on fish during seismic surveys, the area to be surveyed was reduced by almost half, the seismic campaign was cut from 116 to 75

days, the overlap between the seismic area and the fishing grounds was reduced and the distance from fish nurseries was increased.

How Cairn responds to stakeholders Greenland

Recognising that communities in the Baffin Bay area of Greenland wanted more time to consider information about proposed drilling activities, consultation for developing our EIA and SIA with local people began earlier than in the previous

campaigns. In 2013, we also avoided repeated consultations with small communities by collaborating with other oil and gas operators in the Baffin Bay area to develop a joint Social Baseline study.

Republic of Ireland and Senegal

We are participating in local oil spill and pollution prevention organisations in response to stakeholder concerns about impacts on the environment.

A legacy in India

In 2004, Cairn discovered the Mangala oil field in Rajasthan, India. In partnership with the International Finance Corporation and the Government of Rajasthan, an Enterprise Centre was set up in Barmer in July 2007, which later became a not-for-profit organisation, the Cairn Enterprise Centre (CEC). In 2011/12, courses in advanced welding, pumps and valves, basic

computer training and spoken English were offered. According to Cairn India's 2012/2013 Sustainability Report, a total of 8,200 people have been trained for vocational skills at the CEC, 85% of whom have been placed. Cairn Energy completed the sale of a majority shareholding in Cairn India in 2011 and today holds a ~10% shareholding.

In 2014, we will develop a Standard Operating Procedure to promote a consistent approach to community investment at asset level.

Over 30 stakeholders engaged in participatory approach to ESIA Senegal

30

Total national and expatriate employees (%)

	2009	2010	2011	2012	2013 ^Δ
National	97	97	99	99	99
Expatriate	3	3	1	1	1

Managers hired from the local population (%)



^Δ Within KPMG's limited assurance scope.



In 2011 Cairn established a community development fund in Greenland to support local projects including the building of this activity park in Ilulissat.

CR in action

Giving People Time

In preparation for possible drilling, subject to approvals, Cairn invested in two rounds of stakeholder engagement in the Baffin Bay area of Greenland

Greenlandic regulations require oil companies to carry out a Social Impact Assessment before undertaking exploration drilling.

The Social Impact Assessment must be a participatory process and in 2013 Cairn followed up its 2012 SIA scoping consultation with a further tour in the Baffin Bay area of Northwest Greenland. We engaged with local people about plans for potential exploration drilling in the Pitu block.

Three key findings emerged:

- A high proportion of the residents in this North Western part of Greenland are hunters and fishermen and their central concern was the effect drilling could have on marine mammals;
- The second major discussion topic was the potential impact of an oil spill on the local environment, upon which they rely for their livelihoods; and

- Finally an underlying anxiety was identified about skills development in the area, as it is recognised that opportunities for young people are limited, which is also true of the small towns nearby.

Applying outcomes

The outcomes of this consultation will be included in Cairn's future SIA submission which will provide the basis for developing an Impact Benefit Agreement with the Government of Greenland if drilling is approved. In 2010 and 2011, Impact Benefit Agreements between Cairn and the Government of Greenland provided support to education and community development initiatives; training opportunities within operations; local business opportunities; and institutional capacity building. The full outcomes are described on the website at www.cairnenergy.com/responsibility.

Partners in excellence

High skill levels and demanding standards come first when choosing whom to work with

Upholding CR standards

With the majority of the man-hours worked in connection with Cairn's business activity contracted out at times of significant operational activity, our relationships with suppliers are crucial. As shown in the graph below, the number of hours worked by contractors rises and falls in line with our level of activity. For example, in 2013, contractor man-hours rose to 426,908 from 39,023 last year. However, the number of man-hours worked by employees remains relatively steady over time.

Our focus is on selecting the right partners, communicating expectations, ensuring effective policies and management processes, monitoring performance and sharing lessons learned. Verifying that Cairn's suppliers and business partners share our focus on carrying out operations safely and efficiently and upholding our CR standards is essential to maintaining our licence to operate.

Choosing 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. We apply a rigorous selection process in choosing contractors, including plotting potential partners on an HSE contractor risk evaluation matrix. This is embedded in our Contractor Management Procedures, updated in 2013.

Our Invitations to Tender set out our expectations and include copies of the Business Principles, Corporate Social Responsibility, Health, Safety, Security and Environmental policies, along with the Code of Business Ethics, to which all potential contractors must confirm their capability to comply.

Focus on HSE

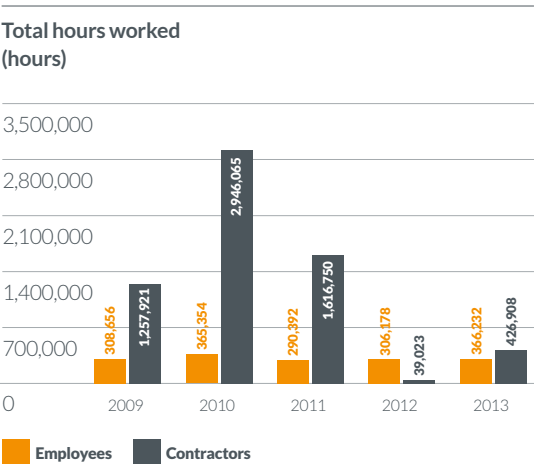
In an offshore drilling campaign, typically the activities of the rig, marine vessels, helicopters and the supply base contractors are the most significant to HSE performance. The assessment of the contractors' HSE management is based on industry information and considerations such as the potential implication of accidents and the number of people involved. Recognising that leadership plays a crucial role in embedding appropriate HSE behaviours, during 2013 we put in place a Strategic Contractors Engagement Plan. We engaged proactively at the senior management level with 91% Δ of the key contractors identified in the Contractors Engagement Plan, and delivered a programme of briefings on HSE topics. This was supported by a senior management visit, including the Cairn Chief Executive, to the Cajun Express drilling rig offshore Morocco, described in the case study on page 47.

HSE performance in contractor management by Cairn staff will be reflected in two Key Performance Indicators in 2014. Their progress will be assessed, and discretionary bonuses calculated accordingly.

Monitoring and checking

Cairn's Contractor Performance Management process includes 10 contractor HSE KPIs. All contractors are required to complete and deliver a regular scorecard detailing their HSE performance. We assess whether this meets expectations, requires improvement or is unsatisfactory – in which event immediate action is required.

Where we are a minority joint venture partner and do not have operational control, we conduct due diligence and engage constructively with partners to ensure familiarity with the operator's standards before an agreement to proceed with operations is made.



Δ Within KPMG's limited assurance scope.

Total contractors 2013 (number) [△]

539

Completion of contractor engagement plan [△]

91%



Local content

In Morocco in 2013 we worked with a number of local suppliers including the port authority and helicopter operations handling services.

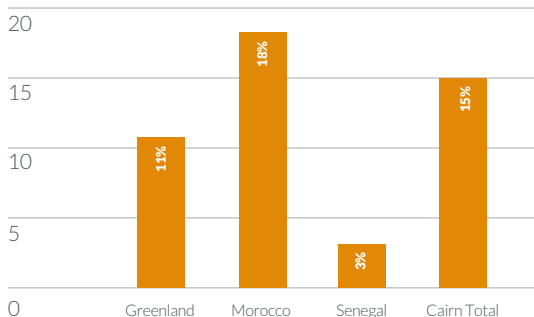
Minding our ABCs

Cairn has a zero tolerance approach to bribery and corruption and conducts a risk-based due diligence procedure for anti-bribery and corruption during the selection of service providers, which was updated in 2013. Where necessary, we also engage a specialist external consultant to carry out background verification checks on contractors. In 2014, Cairn's HSE presentation to contractors will include an anti-bribery and corruption element.

Local content

In order to deliver Cairn's strategy we are regularly operating in countries with no or relatively little oil and gas activity. To ensure that we create social and economic benefit for host communities, our procurement policy encourages the use of local suppliers wherever the right expertise is available, or can be developed without compromising the high standards required in the industry. We include local companies with the required competence in bid lists and request international contractors to consider the use of local sub-contractors where possible. The graph below shows that 15% of contractors used by Cairn in 2013 were national. For more detail please refer to www.cairnenergy.com/responsibility.

Contractors that are national (%)



Percentage of contractors that were national in 2013

Note:

Only 1 out of 11 planned senior management briefings did not take place. This was because the Ireland programme was delayed so the meeting was rescheduled to 2014.

[△] Within KPMG's limited assurance scope.

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

In Morocco in 2013 we worked with a number of local suppliers including the onshore base logistics agent, the port authority, the airport authority, helicopter operations handling services, waste management contractors, security services, accommodation, office services and an ESIA consultancy. Specific skills training has been provided to some contractors, for instance HSE Supervision and oil spill contingency planning. This will continue in 2014 in Morocco and Senegal, along with specialist training in Republic of Ireland.

Outlook

Key objectives for 2014 are to implement our new HSE Contractor Management Procedures, the Strategic Contractors Engagement Plan and the contractor management process which re-emphasise the importance of delivering safe operations. To Cairn, this is an important part of building strong relationships with business partners, and is crucial to our on-going success.

Local content

In Morocco in 2013 we worked with a number of local suppliers including the port authority and the airport authority.





Simon Thomson, CEO, and senior management visit the 'Cajun Express' drilling unit, offshore Morocco, November 2013.

CR in action

Management visit to Cajun Express, offshore Morocco

A senior management tour re-emphasised the importance of high HSE standards

Following a lost time injury (LTI) on board the Cajun Express during drilling of the first well offshore Morocco in November 2013, senior management, led by our Chief Executive Simon Thomson, visited the rig to re-emphasise the importance of learning from such incidents and promote practices to help minimise the chance of them occurring.

The visit reflected management's commitment to ensuring that Cairn's high standards of HSE management and performance are met and consistently maintained by contractors, one of the Group's 2013 CR objectives. During the visit, Simon reiterated the importance, above all else, of safety throughout our operations, engaging with management and personnel involved in rig floor activities.

Simon was accompanied by a number of those responsible at Cairn for delivering a safe drilling campaign including the Director of Exploration and Head of New Ventures, the Drilling Manager, the Morocco Asset Manager and the Morocco Country Manager. We also took this opportunity to invite our partner the Moroccan National Oil Company, ONHYM (Office National des Hydrocarbures et des Mines), to participate in the visit.

During the visit, safety was paramount. Two thorough safety briefings were conducted during the day: one before transferring by helicopter to the rig, conducted by Heliconia, the helicopter contractor, and one on arrival on the rig, from Transocean personnel responsible for the day-to-day management on board the Cajun Express. This included encouraging the visitors to employ the "Time Out" mechanism if they saw anything of concern at any time. "Time out" is designed to transcend language and seniority barriers on board the rig so that at any time anyone can halt and question an activity by using the phrase "Time Out".

About this report

This report contains the most important highlights of Cairn's Corporate Responsibility activities during 2013

Scope and boundaries

This report provides a succinct overview of Cairn's approach to CR. It includes those operated assets in which the Company has control of CR policies and practices. It covers our priority CR issues and related performance highlights from across our global operations during 2013, and outlines key objectives for 2014. For readers seeking more comprehensive information and performance data, this is available at Cairn's website www.cairnenergy.com/responsibility.

Our report covers Cairn's global operations from 1 January to 31 December 2013, covering Cairn's activities and offices in the UK, Norway, Spain, Greenland, Morocco and Senegal. It excludes the performance of non-operated joint venture activities and the performance of Cairn India Limited (Cairn Energy PLC ~10% shareholding).

Audiences

Target audiences for this report include governments, business partners including contractors, shareholders and Non-Governmental Organisations but it is also suitable for the wider stakeholder community.

Reporting standards

Cairn reports its 2013 Corporate Responsibility Report (CRR) in accordance with AccountAbility's AA1000 Assurance Standard founding principles of inclusivity, materiality and responsiveness. This ensures 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 use the Global Reporting Initiative Sustainability Reporting Guidelines G3.1. We follow its content principles of materiality, stakeholder inclusiveness, sustainability context and completeness; and its quality principles of balance, comparability, accuracy, timeliness, clarity and reliability.

Data

CR performance is measured across the Cairn Group using a number of Key Performance Indicators. We use definitions set by the GRI and the International Association of Oil and Gas Producers (OGP) to provide comparable and credible data that can be benchmarked against our peers in the oil and gas sector.

Content

This report covers a selection of the CR topics of most significance to Cairn's stakeholders and greatest material importance to our business. These were assessed by internal specialists and approved by Cairn's Management, Corporate and Executive Teams. Detailed content and descriptions of the methodologies and definitions used in data collection and presentation are available in Cairn's full CR report at www.cairnenergy.com/responsibility.

Reporting

Cairn has reported on its CR performance annually since 2001. The last CR report was issued in April 2013 to the requirements of the GRI Application level B+, which was self declared and GRI checked. Cairn is a signatory to the United Nations Global Compact and we prepare an annual Communication on Progress on our performance against the 10 principles as part of that commitment. This report is in accordance with ISO 26000 and the AA 1000 APS (Principles Standard).

Assurance process

We engaged KPMG LLP to undertake a limited assurance engagement, reporting to Cairn Energy PLC ('Cairn Energy') only, using the International Standard on Assurance Engagements ('ISAE') 3410: 'Assurance Engagements on Greenhouse Gas Statements' and ISAE 3000: 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' over the selected Corporate Responsibility performance data that have been marked in this report with the symbol **Δ** and the description of Cairn Energy's adherence to the AA1000 AccountAbility.

Principles Standard ('AA1000APS') (2008) principles of inclusivity, materiality and responsiveness marked with the symbol +. The principles set out in AA1000APS (which is available at AA1000APS <http://www.accountability.org>) are intended to drive reporters to take action to: establish a strategy based on a comprehensive and balanced understanding of and response to material issues and stakeholder issues and concerns; establish goals and standards against which the strategy and associated performance can be managed and judged; and disclose credible information about strategy, goals, standards and performance to those who base their actions and decisions on this information.

KPMG LLP have provided an unqualified opinion in relation to the selected Corporate Responsibility performance data and the description of Cairn Energy's adherence to the AA1000APS principles and their full assurance opinion is available in the Corporate Responsibility section of our website at www.cairnenergy.com/corporate-responsibility/assurance.

The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance engagement. In order to reach their opinion, KPMG LLP performed a range of procedures which included interviews with management, examination of reporting systems and documentation, as well as selected data testing at a site and Head Office level. A summary of the work they performed is included within their assurance opinion.

Non-financial performance information, greenhouse gas quantification in particular, is subject to more inherent limitations than financial information. It is important to read the selected Corporate Responsibility performance information contained within this Corporate Responsibility Report in the context of KPMG LLP's full limited assurance opinion; Cairn Energy's reporting guidelines for the selected Corporate Responsibility performance data available on our website at www.cairnenergy.com/corporate-responsibility/reporting; and the GRI reporting principles for defining report quality for the description of adherence to AA1000APS which is available at www.globalreporting.org/reporting.



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