Registered No: SC304517

CAIRN UK HOLDINGS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

CAIRN UK HOLDINGS LIMITED

Directors:

J D Smith
S J Thomson

Secretary:

D A Wood

Independent Auditors:

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Solicitors:

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

Registered Office:

50 Lothian Road
Edinburgh
EH3 9BY

Registered No:

SC304517

CAIRN UK HOLDINGS LIMITED

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2013.

Business Review
This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

During the year the Company made a loss before tax of US$227.0m (2012: profit US$55.1m) due to an impairment of the available-for-sale financial asset of US$267.5m net of a tax credit (2012: US$nil), offset by a dividend received of US$40.5m (2012: US$28.0m).

The Company declared dividends during the year amounting to US$57.7m (2012: US$1,313.6m) to the parent company. The dividend of was settled by offset against the loan due from the parent.

In January 2014, Cairn was contacted by the Indian Income Tax Department to provide information in relation to the year ending 31 March 2007. The Indian Income Tax Department is examining the taxable gain, if any, on the sale recorded in the 2006 year end financial statements of the Company. While interaction with the Indian Income Tax Department continues, Cairn has been restricted by the Indian Income Tax Department from selling its shares in Cairn India Limited and from receiving dividends from Cairn India.

Prior to being contacted by the Indian Income Tax Department, Cairn disposed of 0.6% shareholding in Cairn India Limited, leaving a residual holding of 9.7%. See note 10 for further information.

Principal Risks and Uncertainties
The principal risks and uncertainties facing the Company derive from holding investments, where the ability to sell Cairn India Limited's shareholding has been restricted. There is also a potential tax liability relating to the Indian Income Tax Department enquiry. Cairn Energy PLC will take whatever steps are necessary to protect its interests. The actions of the Indian Income Tax Department were taken without any prior discussion with Cairn and could not have been anticipated. It is therefore not possible at this stage to predict the course of any future action it might take.

Financial Instruments
For detail of the Company's financial risk management policy see note 7.

Directors
The directors of the company who were in office during the year and up to the date of signing the financial statements were:

M J Watts (resigned 15 May 2014)
J M Brown (resigned 15 May 2014)
J D Smith (appointed 15 May 2014)
S J Thomson

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CAIRN UK HOLDINGS LIMITED

Directors' Report (continued)

Disclosure of Information to Auditors
The directors of the Company who held office as at the date of this report confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. In making this confirmation, the directors have taken appropriate steps to make themselves aware of the relevant audit information and that the Company's auditors are aware of this information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be prepared at the annual general meeting.

By Order of the Board

Duncan Wood

Secretary
Duncan Wood
50 Lothian Road
Edinburgh EH3 9BY
3 June 2014

CAIRN UK HOLDINGS LIMITED

Independent auditors' report to the members of Cairn UK Holdings Limited

Report on the financial statements

Our opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The financial statements, which are prepared by Cairn UK Holdings Limited, comprise:

- the balance sheet as at 31 December 2013;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.
In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Cairn UK Holdings Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
3 June 2014

CAIRN UK HOLDINGS LIMITED

Income Statement

For the year ended 31 December 2013

Continuing Operations	Notes	2013 US$'000	2012 US$'000
Administrative expenses		**(37)**	(27)
Operating loss	2	**(37)**	(27)
Impairment of available-for-sale financial assets	5	**(267,486)**	-
Loss on sale of available-for-sale financial assets	5	**-**	(83,058)
Finance income	3	**40,503**	28,024
Loss before taxation		**(227,020)**	(55,061)
Taxation	4	**74,391**	144,553
(Loss)/profit for the year		**(152,629)**	89,492

CAIRN UK HOLDINGS LIMITED

Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 US$'000	2012 US$'000
(Loss)/profit for the year		**(152,629)**	89,492
Other comprehensive income – items that maybe recycled to profit and loss			
(Deficit)/surplus on valuation of financial asset	5	**(110,745)**	55,603
Deferred tax credit/(charge) on valuation of financial asset		**48,828**	(18,835)
Valuation movement recycled to the Income Statement		**267,484**	(12,777)
Deferred tax (charge)/credit on valuation movement recycled to Income Statement	4	**(74,391)**	9,089
Other comprehensive income for the year		**131,176**	33,080
Total comprehensive income for the year		**(21,453)**	122,572

CAIRN UK HOLDINGS LIMITED

Balance Sheet

As at 31 December 2013

	Notes	2013 US$'000	2012 US$'000
Non-current assets			
Available-for-sale financial assets	5	**1,027,528**	1,138,273
		1,027,528	1,138,273
Current assets			
Trade and other receivables		-	17,582
Cash at bank		**13**	12
		13	17,594
Total assets		**1,027,541**	1,155,867
Current liabilities			
Trade and other payables		**40**	427
		40	427
Non-current liabilities			
Deferred tax liabilities	4	**70,421**	119,250
		70,421	119,250
Total liabilities		**70,461**	119,677
Net assets		**957,080**	1,036,190
Equity attributable to the owners of the parent			
Called-up share capital	6	**361,189**	361,189
Available-for-sale reserve		**56,358**	(74,818)
Retained earnings		**539,533**	749,819
Total equity		**957,080**	1,036,190

The financial statements on pages 6 to 20 were approved by the Board of Directors on 3 June 2014 and signed on its behalf by:

Simon Thomson
Director

Registered No: SC304517

CAIRN UK HOLDINGS LIMITED
Statement of Cash Flows
For the year ended 31 December 2013

	2013 US$'000	2012 US$'000
Cash flows used in operating activities		
Loss before taxation	**(227,020)**	(55,061)
Impairment of available-for-sale financial assets	**267,486**	-
Loss on sale of available-for-sale financial assets	-	83,058
Finance income	**(40,503)**	(28,024)
Net cash used in operating activities	**(37)**	(27)
Cash flows used in financing activities		
Expenses incurred on disposal of investment	-	(54,173)
Proceeds on sale of available-for-sale financial assets	-	1,285,616
Expenses incurred on sale of available-for-sale financial assets	-	(842)
Group borrowing	**(40,465)**	(1,246,892)
Dividend received	**40,503**	17,982
Net cash flows from financing activities	**38**	1,691
Net increase in cash at bank	**1**	1,664
Opening cash at bank at beginning of year	**12**	9
Exchange loss on cash at bank	-	(1,661)
Closing cash at bank	**13**	12

CAIRN UK HOLDINGS LIMITED
Statement of Changes in Equity
For the year ended 31 December 2013

	Called-up share capital US$'000	Available-for-sale reserve US$'000	Retained earnings US$'000	**Total equity US$'000**
At 1 January 2012	361,189	(107,898)	1,973,942	**2,227,233**
Profit for the year	-	-	89,492	**89,492**
Surplus on valuation of financial asset	-	55,603	-	**55,603**
Deferred tax charge on valuation of financial asset	-	(18,835)	-	**(18,835)**
Valuation movement recycled to Income Statemen	-	(12,777)	-	**(12,777)**
Deferred tax credit on valuation movement recycled to Income Statement	-	9,089	-	**9,089**
Total comprehensive income for the year	-	33,080	89,492	**122,572**
Dividend paid	-	-	(1,313,615)	**(1,313,615)**
At 1 January 2013	361,189	(74,818)	749,819	**1,036,190**
Loss for the year	-	-	(152,629)	**(152,629)**
Deficit on valuation of financial asset	-	(110,745)	-	**(110,745)**
Deferred tax credit on valuation of financial asset	-	48,828	-	**48,828**
Valuation movement recycled to the income statement		267,484		**267,484**
Deferred tax credit on valuation movement recycled to Income Statement	-	(74,391)	-	**(74,391)**
Total comprehensive income for the year	-	131,176	(152,629)	**(21,453)**
Dividend paid	-	-	(57,657)	**(57,657)**
At 31 December 2013	**361,189**	**56,358**	**539,533**	**957,080**

1 Accounting Policies

a) Basis of preparation

The financial statements of Cairn UK Holdings Limited ("the Company") for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 3 June 2014. The Company is a limited company incorporated in Scotland and domiciled in the United Kingdom. The registered office is located at 50 Lothian Road, Edinburgh, Scotland.

The Company prepares its financial statements on a historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 2. The financial position of the company, its liquidity position and borrowing facilities are presented in the financial statements and supporting notes. In addition, note 7 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives and details of its financial instruments; and its exposures to credit risk and liquidity risk.

Although the Company holds net current liabilities as at 31 December 2013, the Company's ultimate parent company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months. Hence these accounts have been prepared on a going concern basis.

b) Accounting standards

The Company prepares its financial statements in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the EU. The Company's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board ("IASB") as they apply to accounting periods ended 31 December 2013.

Effective 1 January 2013, the Company has adopted the following standards impacting the Company's accounting policies and/or presentation in the Company's financial statements:

- IFRS 13 'Fair Value Measurement'; (effective 1 January 2013)
- IAS 1 (amended) 'Presentation of Financial Statements'; (effective 1 January 2013)
- IAS 19 (revised) 'Employee Benefits'; (effective 1 January 2013)

The amendments to accounting policies may result in minor changes in disclosures within the Statement of Other Comprehensive Income and notes to these financial statements but have no material impact on the results for the year. Other changes to IFRS effective 1 January 2013 have no impact on the accounting policies or financial statements.

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

- IFRS 10 'Consolidated Financial Statements'; (effective 1 January 2014)
- IFRS 11 'Joint Arrangements'; (effective 1 January 2014)
- IFRS 12 'Disclosure of interests in Other Entities' (effective 1 January 2014)
- IAS 27 (amendment) 'Separate Financial Statements' (effective 1 January 2014)
- IAS 28 (amendment) 'Investments in Associates and Joint Ventures' (effective 1 January 2014)

The adoption of these new standards will not result in any changes to the financial statements. No other standards issued by the IASB and endorsed by the EU, but not yet adopted are expected to have any material impact on the financial statements.

c) Functional currency

The functional currency of Cairn UK Holdings Limited is US Dollars (US$). The Company holds a non-controlling interest in Cairn India Limited and consequently the Company's activities as a holding company are an extension to those of the Company's parent, Cairn Energy PLC. It is therefore appropriate for the functional currency of the Company to be in line with the functional currency of Cairn Energy PLC. The Company's policy on foreign currencies is detailed in note 1(g).

1 Accounting Policies (continued)

d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are categorised as financial assets held at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company holds financial assets which are classified as either available-for-sale financial assets or loans and receivables.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. Financial liabilities are categorised as either fair value through profit or loss or held at amortised cost. All of the Company's financial liabilities are held at amortised cost.

Financial instruments are generally recognised as soon as the Company becomes party to the contractual regulations of the financial instrument

Available-for-sale financial assets

The Company's available-for-sale financial assets represent listed equity shares which are held at fair value (the quoted market price). Movements in the fair value during the year are recognised directly in equity and are disclosed in the Statement of Comprehensive Income. The cumulative gains or losses that arise on subsequent disposal of available-for-sale assets are recycled through the Income Statement.

At each reporting date, the fair value of the financial asset is compared to the value at the date of its initial recognition for signs of a prolonged or significant deficit in the valuation, which would indicate impairment. Where impairment is identified, cumulative losses recognised in Other Comprehensive Income are recycled to the Income Statement. In the event of a subsequent recovery in the valuation of the asset, there is no reversal of impairment; any such post-impairment gains are recognised as a surplus through other comprehensive income. Any further impairment losses will be recognised through the Income Statement.

Trade payables and other non derivative financial liabilities

Trade payables and other creditors are non-interest bearing and are measured at fair value initially and amortised cost subsequently.

e) Equity

Equity instruments issued by Cairn are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

f) Taxation

The total tax charge or credit represents the sum of current tax and deferred tax. The current tax is based on taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss.

Deferred tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised for deductible temporary differences that exist only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered.

A deferred tax asset or liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

1 Accounting Policies (continued)

g) Foreign currencies

The Company translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date.

h) Key estimations and assumptions

The Company has used estimates and assumptions in arriving at certain figures within the financial statements. The resulting accounting estimates may not equate with the actual results which will only be known in time. Those areas believed to be key areas of estimation are noted below, with further details of the assumptions contained in the relevant note.

Impairment testing

The fair value of the financial asset is compared to the value at the date of its initial recognition for signs of a prolonged or significant deficit in the valuation, which would indicate impairment. See note 1(d) for further details.

2 Operating Loss

Auditors Remuneration
The Company's auditors' remuneration of US$10,953 (2012: US$9,372) has been borne by the ultimate parent company Cairn Energy PLC. Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking.

The Company has a policy in place for the award of non-audit work to the auditors which, in certain circumstances, requires approval by the Audit Committee of Cairn Energy PLC, the ultimate parent undertaking.

Employees
This company has no employees.

3 Finance Income

	2013	2012
	US$'000	US$'000
Dividend received	**40,503**	17,982
Exchange gain	-	10,042
	40,503	28,024

4 Taxation

Analysis of tax credit in year

	2013	2012
	US$'000	US$'000
Deferred tax:		
Indian deferred tax at 21.012% (2012: 21.012%) on valuation of financial asset	**(74,391)**	(144,553)
Tax credit on loss	**(74,391)**	(144,553)

A reconciliation of income tax expense applicable to the loss before income tax at the applicable tax rate to income tax expense at the Company's effective income tax rate is as follows:

	2013	2012
	US$'000	US$'000
Loss before taxation	**(227,020)**	(55,061)
Tax at the standard rate of UK corporation tax of 23.25% (2012 24.5%)	**(52,782)**	(13,490)
Effects of:		
Gain on disposal of investment – not taxable in UK	-	20,349
Non-taxable income	**(9,417)**	(4,476)
Non-deductible expenses	**8**	6
Impact of lower overseas tax rate	**4,333**	(144,553)
Temporary differences not recognised	-	(1,813)
Impact of reduction in UK rate of corporation tax	-	(118)
Group relief claimed	-	(458)
Adjustments relating to prior year	**(16,533)**	-
Total tax credit	**(74,391)**	(144,553)

The UK main rate of corporation tax was 24% prior to 1 April 2013, and 23% from that date onwards. The reduction in the tax rate from 24% to 23% has resulted in an average rate of corporation tax of 23.25% for the year ended 31 December 2013, as shown above. The rate will reduce to 21% on 1 April 2014 and to 20% on 1 April 2015.

A deferred tax liability is recognised at the year end of US$70.4m (2012:US$119.2m) in relation to available-for-sale financial assets, as the carrying value of the asset concerned is in excess of its tax base.

4 Taxation (continued)

Reconciliation to Deferred Tax Liabilities

	Liabilities US$'000	Total US$'000
At 1 January 2012	(254,057)	(254,057)
Initial recognition of deferred tax provision on available-for-sale financial asset	144,553	144,553
Deferred tax credit on movement in fair value of available-for-sale financial asset recognised in other comprehensive income	(9,746)	(9,746)
At 1 January 2013	(119,250)	**(119,250)**
Credit to Income Statement	74,391	**74,391**
Debit on movement in fair value of available-for-sale financial asset recognised within other comprehensive income	(25,562)	**(25,562)**
At 31 December 2013	**(70,421)**	**(70,421)**

A deferred tax liability of US$70.4m (2012: US$119.2m) has been included within available-for-sale financial assets, in respect of a financial asset with a carrying value which is significantly higher than its tax base. This has resulted in a credit to the Income statement of US$74.4m (2012: US$144.6m), and a deferred tax debit of US$25.6m (2012: US$9.7m) recognised within other comprehensive income.

5 Available-for-sale Financial Assets

	Listed equity shares US$'000
As at 31 December 2011	**2,463,278**
Disposals	**(1,380,608)**
Surplus on valuation	**55,603**
As at 31 December 2012	**1,138,273**
Deficit on valuation	**(110,745)**
As at 31 December 2013	**1,027,528**

Available-for-sale financial assets represent the Company's remaining strategic investment in the share capital of Cairn India, listed in India, which by its nature has no fixed maturity or coupon rate. These listed equity securities present the Company with opportunity for return through dividend income and trading gains. At the year end, the Company held 10.3% of the shareholding in Cairn India Limited.

At 30 June 2013, the value of the investment in Cairn India Limited had fallen to US$955.6m. As this represented a significant fall in value from its original recognition, the accumulated deficit of US$267.5m in the available-for-sale reserve was recycled to the Income Statement and recorded as impairment. In the second half of the year the value of the asset increased by US$72.0m. This increase is included within other comprehensive income.

During 2012, the Company disposed of 11.5% of its shareholding in Cairn India Limited in two separate transactions resulting in the recognition of a loss of US$81.5m in the Income Statement, including US$12.8m recycled from the reserves. The remaining minority holding of 10.3% is not held for trading and continues to be classified as non-current available-for-sale financial asset. The fair value of US$1,027.6m (2012: US$1,138.4m) is based on the closing market value at 31 December 2013 of INR 323.75 (2012: INR 319.10).

Subsequent to the year end, the Indian Income Tax department have placed a restriction on Cairn selling further shares in Cairn India Limited. As no restriction existed at the measurement date there is no impact on the closing valuation of the available-for-sale financial asset or on the results for the year. Full details are given in note 10.

5 Available-for-sale Financial Assets (continued)

Sensitivity Analysis

The sensitivity analyses have been determined based on the exposure to equity price risks at the reporting date, assuming all other variables are held constant. US share price equivalents have been calculated using exchange rates at the respective balance sheet dates.

As at 31 December 2013	**Effect on loss for year US$'000**	**Effect on Equity US$'000**
Increase to the highest share price in 2013 - 340 INR (US$6.33)	**-**	**167,700**
Decrease to the lowest share price in 2013 - 274 INR (US$4.51)	**(54,600)**	**(111,200)**

As at 31 December 2012	Effect on profit for year US$'000	Effect on Equity US$'000
Increase to the highest share price in 2012 - 392 INR (US$7.96)	-	361,400
Decrease to the lowest share price in 2012 - 307 INR (US$5.52)	-	(16,400)

6 Called-up Share Capital

	2013 £1 Ordinary Number	2012 £1 Ordinary Number	**2013 £1 Ordinary US$'000**	2012 £1 Ordinary US$'000
Allotted, issued and fully paid ordinary shares				
At 1 January and 31 December	**186,537,131**	186,537,131	**361,189**	361,189

7 Financial Risk Management: Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk, credit risk and market risk arising including equity price fluctuations, interest rate risk and foreign currency risk. The Board of the Company's ultimate parent company, Cairn Energy PLC, reviews and agrees policies for managing each of these risks and these are summarised below.

The Group's treasury function, at Cairn Energy PLC, and Executive Team as appropriate are responsible for managing these risks, in accordance with the policies set by the Board. Management of these risks is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques. These potential exposures are managed whilst ensuring that the Company and Group have adequate liquidity at all times in order to meet their immediate cash requirements. There are no significant concentrations of risks unless otherwise stated.

The primary financial instruments comprise cash, listed equity shares, intra-group loans and other receivables and financial liabilities held at amortised cost. The Group's strategy has been to finance its operations through a mixture of retained profits and group borrowings. Other alternatives such as equity and other forms of non investment-grade debt finance are reviewed by the Board, when appropriate.

7 Financial Risk Management: Objectives and Policies (continued)

Liquidity risk
The Group currently has surplus cash which it has placed in a combination of money market liquidity funds and term deposits with a number of international and UK financial institutions, ensuring sufficient liquidity to enable the Group to meet its short/medium-term expenditure requirements. The Group is conscious of the current environment and constantly monitors counterparty risk. Policies are in place to limit counterparty exposure and maturity. The Group monitors counterparties using published ratings and other measures. Repayment of principal is the overriding priority and this is achieved by diversification and shorter maturities to provide flexibility.

At 31 December 2012 Cairn Energy PLC Group had a total of US$55.0m of facilities in place to cover the issue of performance guarantees. During the year these facilities were increased to US$60.0m. Fixed rates of bank commission and charges applied to these facilities. US$33.8m was utilised as at 31 December 2013. On 21 February 2014 the facilities were further increased to US$100.0m.

Cairn Energy PLC also issued a US$100.0m Letter of Credit on 22 July 2013 as required under the membership of the Oil Spill Response Scheme's 'Cap and Contain' arrangement. This guarantee is cash backed with US$100.0m being placed with BNP Paribas to support the letter of credit.

Interest rate risk
Surplus funds are placed on short/medium-term deposits at floating rates. It is Cairn's policy to invest with banks or other financial institutions that first of all offer what is perceived as the greatest security and, second, the most competitive interest rate. Managing counterparty risk is considered the priority.

Short/medium-term borrowing arrangements are generally entered into at floating rates. From time to time the Group may opt to manage a proportion of the interest costs by using derivative financial instruments like interest rate swaps. At this time, however, there are no such instruments (2012: none).

Foreign currency risk
Cairn manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position. Generally the exposure has been limited given that receipts and payments have mostly been in US dollars and the functional currency of most companies in the Group is US dollars.

The Group also aims where possible to hold surplus cash, debt and working capital balances in functional currency which in most cases is US dollars, thereby matching the reporting currency and functional currency of most companies in the Group. This minimises the impact of foreign exchange movements on the Group's Balance Sheet.

Where residual net exposures do exist and they are considered significant the Company and Group may from time to time, opt to use derivative financial instruments to minimise its exposure to fluctuations in foreign exchange and interest rates.

Credit risk
Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions.

Investment credit risk for investments with banks and other financial institutions is managed by the Group Treasury function in accordance with the Board approved policies of Cairn Energy PLC. Investments of surplus funds are only made with approved counterparties who meet the appropriate rating and/or other criteria, and are only made within approved limits. The Board continually re-assesses the Group's policy and updates as required. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty failure.

At the year end the Company does not have any significant concentrations of bad debt risk.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the Balance Sheet date.

7 Financial Risk Management: Objectives and Policies (continued)

Capital Management
The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Group to carry out committed work programme requirements. The Group monitors the long-term cash flow requirements of the business in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility.

The Company manages the capital structure and makes adjustments to it in light of changes to economic conditions. To maintain or adjust the capital structure, Cairn may buy-back shares, make a special dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or other such restructuring activities as appropriate. No significant changes were made in the objectives, policies or processes during the year ended 31 December 2013.

Company capital and net debt were made up as follows:

	31 December 2013 US$'000	31 December 2012 US$'000
Trade and other payables	**40**	427
Less cash at bank	**(13)**	(12)
Net debt	**27**	415
Equity	**957,080**	1,036,190
Capital and net debt	**957,107**	1,036,605
Gearing ratio	**0.00%**	0.04%

8 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the Balance Sheet date. The Company's financial assets and liabilities, together with their fair values are as follows:

Financial assets

	Carrying amount		**Fair value**	
	31 December 2013 US$'000	31 December 2012 US$'000	**31 December 2013 US$'000**	31 December 2012 US$'000
Cash at bank	**13**	12	**13**	12
Amounts owed by group companies	**-**	17,582	**-**	17,582
Available-for-sale financial assets	**1,027,528**	1,138,273	**1,027,528**	1,138,273
	1,027,541	1,155,867	**1,027,541**	1,155,867

The cash at bank above is current and unimpaired.

The fair value of financial assets has been calculated by discounting the expected future cash flows at prevailing interest rates.

8 Financial Instruments (continued)

Fair value
The Company holds listed equity shares as a non-current available-for-sale financial asset. The Company determines and discloses the fair value of these by reference to the quoted (unadjusted) prices in active markets for those shares at the measurement date.

At 31 December 2013 the Company held the following financial instruments measured at fair value:

Assets measured at fair value – Level 1	2013 US$'000	2012 US$'000
Available-for-sale financial assets		
Equity shares - listed	**1,027,528**	1,138,273
	1,027,528	1,138,273

9 Related Party Transactions

The following table provides the balances which are outstanding with the Group companies at the Balance Sheet date:

	31 December 2013 US$'000	31 December 2012 US$'000
Amounts owed by parent undertaking	**-**	17,582
Amounts to owed to Group companies	**(40)**	(427)
	(40)	17,155

The amounts outstanding are unsecured, repayable on demand and will be settled in cash.

Remuneration of key management personnel and directors
The directors of the Company are also directors of other companies in the Cairn Energy PLC group. The directors received remuneration for the year of US$4.6m and pension contributions of US$0.3m all of which was paid by other companies in the group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Cairn Energy PLC and fellow subsidiary companies. There are no agreements between the Company and the Board of Directors.

Other transactions
The Company declared and paid dividends during the year amounting to US$57.7m (2012: US$1,313.6m) to the parent company. The dividend was settled by offset against loans due from the parent.

10 Post Balance Sheet Events

Restriction on sale of available-for-sale financial asset
In January 2014, Cairn was contacted by the Indian Income Tax Department to provide information in relation to the year ending 31 March 2007. The information requested focused on the internal restructuring of the Cairn Group which took place prior to the IPO of Cairn India Limited in January 2007. Specifically, the Indian Income Tax Department is examining the taxable gain, if any, on the sale recorded in the 2006 year end financial statements of the Company.

Cairn has re-confirmed with its advisers that throughout its history of operating in India the Group have been fully compliant with the tax legislation in force in each year. The Indian Income Tax Department are continuing their examination and presently there is no determination whether Cairn has any further liability to Indian taxation.

While interaction with the Indian Income Tax Department continues, the Company has been restricted by the Indian Income Tax Department from selling its shares in Cairn India Limited and from receiving dividends from Cairn India.

The Company classifies the remaining investment in Cairn India Limited as a non-current available-for-sale financial asset. This asset is measured at fair value at the Balance Sheet date. As the restriction was not effective at the year end, no adjustment is made to the fair value reflected in the Group's 31 December 2013 Balance Sheet.

Prior to being contacted by the Indian Income Tax Department, the Company disposed of 12,048,836 shares in Cairn India Limited in January 2014. The disposal of 0.6% shareholding leaves a residual 9.7% interest in Cairn India Limited.

11 Ultimate Parent Company

The Company is a subsidiary of Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY.

Copies of Cairn Energy PLC's financial statements are available to the public and may be obtained from the above mentioned address.