Registered No: SC304517

CAIRN UK HOLDINGS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

CAIRN UK HOLDINGS LIMITED

Directors:

James Smith
Simon Thomson

Secretary:

Duncan 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 2014.

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 and therefore does not prepare a strategic report.

During the year the Company made a loss before tax of US$165.2m (2013: US$227.0m) due to an impairment of the available-for-sale financial asset of US$194.3m (2013: US$267.5m), offset by a dividend receivable of US$35.2m (2013: US$40.5m).

The Directors do not propose paying a dividend for the year ended 31 December 2014. In 2013 the Company declared dividends amounting to US$57.7m to the parent company. The dividend of was settled by being 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 tax year ending 31 March 2007. On 10 March 2015, Cairn UK Holdings Limited received a draft assessment order from the Indian Income Tax Department in respect of fiscal year 2006/7 to the amount of US$1.6billion plus any applicable interest and penalties. Cairn has instructed council to file a Notice of Dispute under UK-India Investment Treaty in order to protect its legal position and shareholder interests. Cairn has been restricted by the Indian Income Tax Department from selling its shares in, or receiving dividends declared by, Cairn India Limited. See note 11. No provision has been made in the financial statements relating to this draft assessment.

Cairn has reviewed the impact of the restriction on the sale of Cairn India shares and the subsequent receipt of the draft assessment in determining the ability of the Company to continue to operate as a a going concern and the Director's are satisfied that the preparing the financial statements on a going concern basis is appropriate.

Prior to the restriction in January, the Company disposed of shares in Cairn India Limited 'CIL'. The disposal of 0.6% shareholding leaves a residual 9.8% interest in Cairn India Limited. See note 5.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company derive from holding investments in CIL. A draft assessment order from the Indian Income Tax Department for $1.6bn has been received and the ability to sell Cairn India Limited's shareholding has been restricted.

Accounting Policies

Cairn UK Holdings Limited applies accounting policies in line with the Cairn Energy PLC Group accounting policies. Significant accounting policies of the Group are included in their financial statements. Accounting policies relating to non-material items are available on the Cairn Energy PLC website.

Financial Instruments

For detail of the Company's financial risk management policy see note 8.

Directors

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

Mike Watts (resigned 15 May 2014)
Jann Brown (resigned 15 May 2014)
James Smith (appointed 15 May 2014)
Simon 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 presented at the annual general meeting.

By Order of the Board

Duncan Wood

Secretary
Duncan Wood
50 Lothian Road
Edinburgh EH3 9BY
11 June 2015

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, Cairn UK Holdings Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 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.

What we have audited
Cairn UK Holdings Limited's financial statements comprise:

- the balance sheet as at 31 December 2014;
- 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 of the financial statements 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.

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.

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 in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

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

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 International Standards on Auditing (UK and Ireland) ("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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Report and Financial Statements 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.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
15 June 2015

CAIRN UK HOLDINGS LIMITED

Income Statement

For the year ended 31 December 2014

	Notes	2014 US$m	2013 US$m
Administrative expenses	2	**(8.5)**	-
Operating loss	2	**(8.5)**	-
Gain on disposal of available-for-sale financial assets		**3.9**	-
Impairment of available-for-sale financial assets	5	**(194.3)**	(267.5)
Finance income	3	**35.2**	40.5
Finance costs		**(1.5)**	-
Loss before taxation		**(165.2)**	(227.0)
Taxation	4	**45.4**	74.4
Loss for the year		**(119.8)**	(152.6)

Statement of Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 US$m	2013 US$m
Loss for the year		**(119.8)**	(152.6)
Other comprehensive income – items that may be recycled to profit and loss			
Deficit on valuation of financial asset	5	**(261.1)**	(110.7)
Deferred tax credit on valuation of financial asset		**56.5**	48.8
Valuation movement recycled to the Income Statement		**189.1**	267.5
Deferred tax charge on valuation movement recycled to Income Statement	4	**(40.9)**	(74.4)
Other comprehensive income for the year		**(56.4)**	131.2
Total comprehensive income for the year		**(176.2)**	(21.4)

CAIRN UK HOLDINGS LIMITED

Balance Sheet

As at 31 December 2014

	Notes	2014 US$m	2013 US$m
Non-current assets			
Available-for-sale financial assets	5	**702.6**	1,027.6
		702.6	1,027.6
Current assets			
Other receivables	6	**89.2**	-
		89.2	-
Total assets		**791.8**	1,027.6
Current liabilities			
Other payables		**1.5**	0.1
		1.5	0.1
Non-current liabilities			
Deferred tax liabilities	4	**9.4**	70.4
		9.4	70.4
Total liabilities		**10.9**	70.5
Net assets		**780.9**	957.1
Equity attributable to the owners of the parent			
Called-up share capital	7	**361.2**	361.2
Available-for-sale reserve		**-**	56.4
Retained earnings		**419.7**	539.5
Total equity		**780.9**	957.1

The financial statements on pages 6 to 19 were approved by the Board of Directors on 11 June 2015 and signed on its behalf by:

James Smith
Director

Registered No: SC304517

CAIRN UK HOLDINGS LIMITED
Statement of Cash Flows
For the year ended 31 December 2014

	2014 US$m	2013 US$m
Cash flows from operating activities		
Loss before taxation	**(165.2)**	(227.0)
Gain on disposal of available-for-sale financial asset	**(3.9)**	-
Impairment of available-for-sale financial assets	**194.3**	267.5
Finance income	**(35.2)**	(40.5)
Finance costs	**1.5**	-
Trade and other payables movement	**1.5**	-
Net cash used in operating activities	**(7.0)**	-
Cash flows from investing activities		
Proceeds on disposal of available-for-sale financial assets	**62.6**	-
Dividend received	**-**	40.5
Net cash flows from investing activities	**62.6**	40.5
Cash flows from financing activities		
Inter-company lending	**(55.6)**	(40.5)
Net cash flows used in financing activities	**(55.6)**	(40.5)
Net movement in cash at bank	**-**	-
Opening cash at bank at beginning of year	**-**	-
Closing cash at bank	**-**	-

CAIRN UK HOLDINGS LIMITED

Statement of Changes in Equity

For the year ended 31 December 2014

	Called-up share capital US$m	Available-for-sale reserve US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2013	361.2	(74.8)	749.8	1,036.2
Loss for the year	-	-	(152.6)	(152.6)
Deficit on valuation of financial asset	-	(110.7)	-	(110.7)
Deferred tax credit on valuation of financial asset	-	48.8	-	48.8
Valuation movement recycled to Income Statement	-	267.5	-	267.5
Deferred tax credit on valuation movement recyclei to Income Statement	-	(74.4)	-	(74.4)
Total comprehensive income for the year	-	131.2	(152.6)	(21.4)
Dividend paid	-	-	(57.7)	(57.7)
At 1 January 2014	361.2	56.4	539.5	957.1
Loss for the year	-	-	(119.8)	**(119.8)**
Deficit on valuation of financial asset	-	(261.1)	-	**(261.1)**
Deferred tax credit on valuation of financial asset	-	56.5	-	**56.5**
Valuation movement recycled to the Income Statement		189.1		**189.1**
Deferred tax credit on valuation movement recyclei to Income Statement	-	(40.9)	-	**(40.9)**
Total comprehensive income for the year	-	(56.4)	(119.8)	**(176.2)**
At 31 December 2014	**361.2**	**-**	**419.7**	**780.9**

1 Significant Accounting Policies

a) Basis of preparation

The financial statements of Cairn UK Holdings Limited ("the Company") for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 11 June 2015. 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 8 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.

The Company has sufficient financial resources with which the directors believe that the Company is well placed to manage its business risks successfully, despite the current uncertain economic outlook. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Cairn has reviewed the impact of the restriction on the sale of Cairn India shares and the subsequent receipt of the draft assessment in determining the ability of the Company to continue to operate as a a going concern and the Director's are satisfied that the preparing the financial statements on a going concern basis is appropriate.

b) Accounting standards

The Company prepares its financial statements in accordance with applicable International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") 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 2014.

Effective 1 January 2014, the Company has adopted the following standards:

- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 "Joint Arrangements"
- IFRS 12 "Disclosure of interests in Other Entities"
- IAS 27 (amendment) "Separate Financial Statements"
- IAS 28 (amendment) "Investments in Associates and Joint Ventures"

There was no impact on the results for the year as a result of adoption.

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

- Annual improvements to IFRSs 2010-2012 Cycle (effective 1 July 2014)

The adoption of these amendments will have no material impact on the Company's results or financial statement disclosures. There are no other standards or amendments issued by the IASB and endorsed by the EU that will impact the Company.

c) Foreign currencies

These financial statements continue to be presented in US dollars (US$), the functional currency of the Company.

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. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

1 Significant 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 held at fair value and other receivables held at amortised cost.

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, with the exception of derivative financial instruments which are held at fair value through profit or loss.

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.

Other receivables

Other receivables (classified as loans and receivables under IAS 39) that have fixed or determinable payments that are not quoted on an active market are initially measured at fair value and then subsequently at amortised cost using the effective interest method less any impairment.

The carrying amounts of other receivables are tested at each reporting date to determine whether there is objective material evidence of impairment, for example overdue debt. Any impairment losses are recognised through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement or Balance Sheet in accordance with where the original receivable was recognised.

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.

1 Significant Accounting Policies (continued)

f) Taxation (continued)

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 operations 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.

g) Significant accounting judgements, key estimations and assumptions

The Company has used accounting judgment, 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 of Available-for-sale Financial Asset

The Company's ~10% shareholding in Cairn India Limited, classified as a non-current available-for-sale financial asset, suffered a significant fall in value during 2014. The size of the deficit was such that cumulative mark-to-market valuation movements recognised in "Other Comprehensive Income" and classified as an available-for-sale reserve in equity, were recycled to the Income Statement as impairment.

The closing book value of the asset represents the quoted market price of the Company's residual holding. Although the Company is currently not able to sell its 9.8% stake, there is no restriction in the wider market where Cairn India Limited shares trade freely at this price.

Deferred taxation

The deferred tax liability relating to the Company's investment in Cairn India Limited, classified as an available-for-sale financial asset, is provided on the assumption that any future disposal will result in a capital gains tax liability.

Provision for tax charge

The Company has received a draft assessment order from the Indian Income Tax Department in respect of fiscal year 2006/7 to the amount of US$1.6bn plus any applicable interest and penalties. Supported by detailed legal advice, on the strength of the legal protections available to it under international law, the Company does not believe that there is a present obligation for future costs that can be reliably estimated and therefore the Company does not intend to make any accounting provision in respect of the draft tax assessment (see note 11).

2 Operating Loss

Administration expenses
Administration expenses of US$8.5m (2013: nil) represent costs incurred defending the Company's tax position in India.

Auditors Remuneration
The Company's auditors' remuneration of US$12,186 (2013: US$10,953) has been borne by the ultimate parent company Cairn Energy PLC. Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking (2013: US$nil).

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. Costs of US$31,306 were incurred by the Company during the year (2013: US$nil).

Employees
This company has no employees (2013: none).

3 Finance Income

	2014 US$m	2013 US$m
Dividend income	**35.2**	40.5
	35.2	40.5

Dividend income is receivable from Cairn India Limited. See notes 5,6 and 11.

4 Taxation

Analysis of tax credit in year

	2014 US$m	2013 US$m
Deferred tax:		
Indian deferred tax at 21.63% (2013: 21.63%) on valuation of financial asset	**(45.4)**	(74.4)
Tax credit on loss	**(45.4)**	(74.4)

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:

	2014 US$m	2013 US$m
Loss before taxation	**(165.2)**	(227.0)
Tax at the standard rate of UK corporation tax of 21.5% (2013 23.25%)	**(35.5)**	(52.8)
Effects of:		
Non-taxable income	**(7.5)**	(9.4)
Non-deductible expenses	**0.6**	-
Temporary differences not recognised	**0.3**	-
Deferred tax on disposal of financial asset	**(3.4)**	
Impact of overseas tax rate	**0.1**	4.3
Adjustments relating to prior year	**-**	(16.5)
Total tax credit	**(45.4)**	(74.4)

The UK main rate of corporation tax was 23% prior to 1 April 2014, and 21% from that date onwards. The reduction in the tax rate from 23% to 21% has resulted in an average rate of corporation tax of 21.5% for the year ended 31 December 2014, as shown above. The rate will reduce to 20% on 1 April 2015.

4 Taxation (continued)

Reconciliation of Deferred Tax Liability

	Total US$m
At 1 January 2013	(119.2)
Credit to Income Statement	74.4
Credit recognised in other comprehensive income on valuation of available-for-sale financial asset	48.8
Charge recognised in other comprehensive income on valuation movement of financial asset recycled to Income Statement	(74.4)
At 31 December 2013	(70.4)
Credit to Income Statement	**45.4**
Credit recognised in other comprehensive income on valuation of available-for-sale financial asset	**56.5**
Charge recognised in other comprehensive income on valuation movement of financial asset recycled to Income Statement	**(40.9)**
At 31 December 2014	**(9.4)**

A deferred tax liability of US$9.4m (2013: US$70.4m) has been recognised in respect of an available-for-sale financial asset, with a carrying value which is higher than its tax base. This has resulted in a credit to the Income statement of US$45.4m (2013: US$74.4m), and a deferred tax credit of US$15.6m (2013: debit of US$25.6m) recognised within other comprehensive income.

5 Available-for-sale Financial Assets

	Listed equity shares US$m
As at 1 January 2013	1,138.4
Deficit on valuation	(110.8)
As at 31 December 2013	1,027.6
Deficit on valuation	**(261.1)**
Disposal	**(63.9)**
As at 31 December 2014	**702.6**

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

In January 2014, Cairn was contacted by the Indian Income Tax Department to provide information in relation to the year ending 31 March 2007 resulting in a draft assessment order being received on 10 March 2015 (see note 11). While interaction with the Indian Income Tax Department continues, Cairn has been restricted by the Indian Income Tax Department from selling its shares in, or receiving dividends declared by, Cairn India Limited.

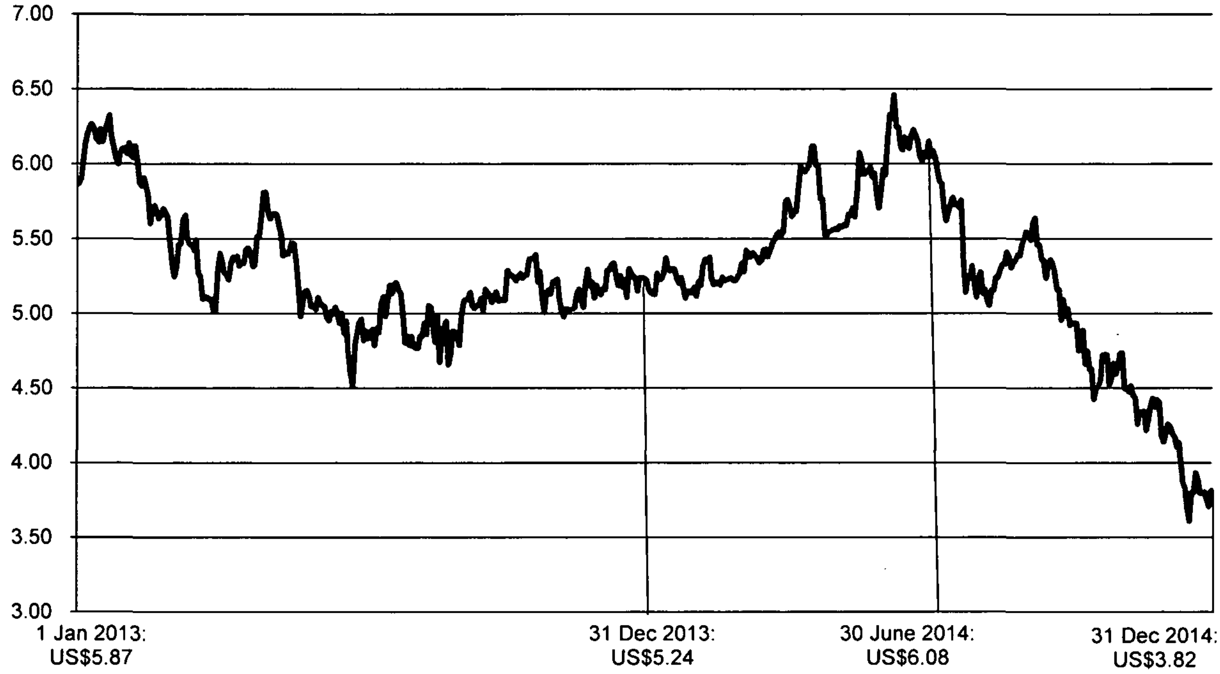
Prior to the restriction in January, the Company disposed of 12,048,836 shares in Cairn India Limited, recognising a gain of US$3.9m. This includes prior year unrealised gains recycled from equity of US$5.1m. The disposal of 0.6% shareholding leaves a residual 9.8% interest in Cairn India Limited.

5 Available-for-sale Financial Assets (continued)

At 31 December 2014, the value of the investment in Cairn India Limited had fallen to US$702.6m. The significant accumulated deficit of US$194.3m from the date of a previous impairment was recycled to the Income Statement and recorded as impairment. An impairment of US$267.5m was recycled to the Income Statement in June 2013 following a significant fall in value from the date of original recognition.

Sensitivity Analysis

At the year end the closing Cairn India Limited share price used to value the available-for-sale financial assets was INR 240.55/US$3.82 (2013: INR 323.75/US$5.24). The movement in the Cairn India Limited share price over the current and prior year is as follows:



The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date, assuming all other variables are held constant. Sensitivities have been run based on the highest and lowest share prices measured in the preceding 12-month period and on decreases of 10% and 20% on the share price at 31 December 2014. Those prices are determined using the closing INR share price converted to US$ at the daily rate.

As at 31 December 2014	**Effect on loss for year US$m**	**Effect on Equity US$m**
Increase to the highest share price in 2014 – INR 383 (US$6.46)	**-**	**382.2**
Decrease to the lowest share price in 2014 - INR 229 (US$3.61)	**(30.0)**	**(30.0)**
Decrease of 10% on closing share price in 2014 - INR 216 (US$3.43)	**(60.8)**	**(60.8)**
Decrease of 20% on closing share price in 2014 - INR 192 (US$3.05)	**(131.1)**	**(131.1)**

As at 31 December 2013	Effect on loss for year US$m	Effect on Equity US$m
Increase to the highest share price in 2013 - 340 INR (US$6.33)	-	167.7
Decrease to the lowest share price in 2013 - 274 INR (US$4.51)	(54.6)	(111.2)

6 Other Receivables

	2014 US$m	2013 US$m
Other receivables	33.6	-
Amounts receivable from parent company	55.6	-
	89.2	-

Other receivables include dividends receivable of US$33.6m (INR 2.1bn) from Cairn India Limited. This balance revalues at the closing Balance Sheet date each month and the foreign exchange difference arising is recognised in the Income Statement. While the restriction over Cairn's investment remains, Cairn India Limited is unable to remit these dividends to the Group. See notes 5 and 11.

7 Called-up Share Capital

	2014 £1 Ordinary Number	2013 £1 Ordinary Number	2014 £1 Ordinary US$m	2013 £1 Ordinary US$m
Allotted, issued and fully paid ordinary shares				
At 1 January and 31 December	**186,537,131**	186,537,131	**361.2**	361.2

8 Financial Risk Management: Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk, credit risk, market risk arising from equity price fluctuations, interest rate risk, foreign currency risk and commodity price risk. The Board of the Company's ultimate parent company, Cairn Energy PLC through the Treasury Sub-Committee, 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 the 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 Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The primary financial assets and liabilities of the Company comprise cash, short and medium-term deposits, notice accounts, certificates of deposit, money market liquidity funds, listed equity shares (Cairn India Limited only), intra-group loans and other receivables and financial liabilities held at amortised cost. Cairn Energy PLC's strategy has been to finance the operations of subsidiaries through a mixture of retained profits and bank borrowings. Other alternatives such as equity issues and other forms of non investment-grade debt finance are reviewed by the Cairn Energy PLC Board, when appropriate.

Liquidity risk
Cairn Energy PLC closely monitors and manages the liquidity risk of its subsidiaries using both short and long-term cash flow projections, supplemented by debt financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in and delays of development projects. The forecasts show that the Group will be able to operate within its current debt facilities and have significant financial headroom for the 12 months from the date of approval of the 2014 Annual Report and Accounts.

Surplus cash is invested in a combination of money market liquidity funds, notice accounts and term deposits with a number of international and UK financial institutions, ensuring sufficient liquidity to enable the Cairn Energy PLC Group and its subsidiaries to meet its short and medium-term expenditure requirements.

8 Financial Risk Management: Objectives and Policies (continued)

Interest rate risk
Surplus funds are invested at floating rates. 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 (2013: none).

The Company's loss before tax is not sensitive to changes in interest rates.

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

Credit risk
Credit risk arises from cash and cash equivalents, investments 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. These policies limit counterparty exposure and maturity and take account of published ratings, market measures and other market information. The limits are set to minimise the concentration of risks and therefore mitigate the risk of financial loss through counterparty failure. It is Cairn's policy to invest with banks or other financial institutions that are viewed to offer firstly offer the greatest degree of security, and, secondly the most competitive interest rates. Repayment of principal is the overriding priority and this is achieved by diversification and shorter maturities to provide flexibility. The Board continually re-assesses the Group's policy and updates as required.

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.

Market risk: equity price risk
The Company is exposed to equity price risks arising from the listed equity investments it holds in Cairn India Limited. Equity investments are held for strategic rather than trading purposes and the Group does not actively trade these investments, which are classified as non-current available-for-sale financial assets.

Movements in the fair value during the year are recognised directly in equity and are disclosed in the Statement of Comprehensive Income. The cumulative gain or loss that arises on disposal of available-for-sale financial assets is recycled through the Income Statement.

Further details on the impact of equity price movements on the fair value of the available-for-sale financial assets are included in note 5.

Capital Management
The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Company to carry out committed work programme requirements of the subsidiary companies. The Group's treasury function 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, the Company may issue shares for cash, 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 2014.

Company capital and net debt were made up as follows:

	31 December 2014 US$m	31 December 2013 US$m
Other payables	**1.5**	0.1
Net debt	**1.5**	0.1
Equity	**780.9**	957.1
Capital and net debt	**782.4**	957.2
Gearing ratio	**0.19%**	0.01%

9 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 2014 US$m	31 December 2013 US$m	**31 December 2014 US$m**	31 December 2013 US$m
Available-for-sale financial assets	**702.6**	1,027.6	**702.6**	1,027.6
Other receivables	**33.6**	-	**33.6**	-
Amounts receivable from parent company	**55.6**	-	**55.6**	-
	791.8	1,027.6	**791.8**	1,027.6

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.

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 the Company held the following financial instruments measured at fair value:

Assets measured at fair value – Level 1	**2014 US$m**	2013 US$m
Available-for-sale financial assets		
Equity shares - listed	**702.6**	1,027.6
	702.6	1,027.6

10 Related Party Transactions

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

	31 December 2014 US$m	31 December 2013 US$m
Amounts receivable from parent company	**55.6**	-
	55.6	-

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$4.8m (2013: US$4.6m) and pension contributions of US$0.4m (2013: 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
In 2013 the Company declared and paid dividends amounting to US$57.7m to the parent company. The dividend was settled by offset against loans due from the parent.

11 Post Balance Sheet Event

On 10 March 2015, Cairn UK Holdings Limited received a draft assessment order from the Indian Income Tax Department in respect of fiscal year 2006/7 to the amount of US$1.6billion plus any applicable interest and penalties. Cairn has instructed council to file a Notice of Dispute under UK-India Investment Treaty in order to protect its legal position and shareholder interests.

Correspondence received from the Income Tax Department indicates that the assessment stems from amendments introduced in the 2012 Finance Act which seek to tax prior year transactions under retrospective legislation. The transactions subject to the assessment are those undertaken to effect the group reorganisation that was required to enable the Initial Public Offering ("IPO") of Cairn India Limited in 2007.

Since the original contact from the Income Tax Department in January 2014, Cairn has continued to confirm with its advisers that throughout its history of operating in India, Cairn has been fully compliant with the tax legislation in force in each year and paid all applicable taxes.

Cairn strongly contests the basis of the draft assessment and the Notice of Dispute is supported by detailed legal advice on the strength of the legal protections available to it under international law. Under the terms of the UK-India Investment Treaty, the Government of India and Cairn are now required to enter a period of negotiations to seek a resolution to the dispute. To the extent that a satisfactory resolution is not reached during that period, an international arbitration panel will be constituted to adjudicate on the matter.

Cairn continues to be restricted by the Indian Income Tax Department from selling its ~10% shareholding in CIL, currently valued at US$702.6m. Supported by detailed legal advice, on the strength of the legal protections available to it under international law, Cairn does not intend to make any accounting provision in respect of the draft tax assessment. In addition, Cairn will seek restitution of losses resulting from the attachment of its CIL stake since 2014.

The Indian Tax Department has also issued an assessment to Cairn India Limited, the Company's former subsidiary for failure to withhold tax in the amount of US$1.6billion, plus a further US$1.6billion in interest and penalties in relation to the Cairn Group restructuring that was undertaken in 2006 prior to the IPO.

12 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.