

CAIRN UK HOLDINGS LIMITED
REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



COMPANIES HOUSE

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CAIRN UK HOLDINGS LIMITED

Directors:

James Smith
Simon Thomson

Secretary:

Anne McSherry

Independent Auditors:

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

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 audited Financial Statements for Cairn UK Holdings Limited ('the Company') for the year ended 31 December 2020.

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.

In 2018, 99% of the Company's shares in Vedanta Limited ("Vedanta"), previously seized by the Indian Income Tax Department ('ITD'), were sold in settlement of a disputed retrospective tax demand, with the Company. The Company, through its parent Cairn Energy PLC, subsequently instigated International Arbitration proceeds, claiming damages from the Government of India ("GoI") to recover losses suffered.

On 23 December 2020, Cairn Energy PLC ("Cairn"), the parent undertaking of the Company, announced that the tribunal established to rule on its claim against the GoI had found unanimously in Cairn's favour. Cairn's claim was brought under the terms of the UK-India Bilateral Investment Treaty (the "Treaty"), the legal seat of the tribunal was the Netherlands and the proceedings were under the registry of the Permanent Court of Arbitration. The tribunal ruled unanimously that India had breached its obligations to Cairn under the UK-India Bilateral Investment Treaty and that compensation was due. Addressing the jurisdiction of the arbitration, the tribunal ruled that the dispute was within the scope of the Treaty and other relevant legal parameters. It further ruled that the application to Cairn of the retrospective tax amendment introduced by the GoI was "grossly unfair", discriminatory and in breach of the "Fair and Equitable Treatment" standard of the Treaty.

The Tribunal therefore ordered the withdrawal of the tax demand in India and awarded to Cairn compensation equal to the value of the shares held in Cairn India Limited (subsequently merged with Vedanta) seized by India in 2014 and withheld tax refunds due on other matters, totalling US\$1,223m plus interest and costs, which is now payable. Interest is payable based on US\$ six-month LIBOR plus a semi-annual margin of 1.375%, accruing from 2014, and the costs awarded totalled US\$22m. The total amount due to Cairn at 31 December 2020 was US\$1,725m. Cairn has engaged directly with the GoI regarding satisfaction of the award, and it is also enforceable against Indian-owned assets in over 160 countries that have signed and ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Cairn has already taken steps to have the award recognised in certain major jurisdictions in which Indian sovereign assets have been identified.

Cairn is extremely confident that satisfaction of the award will be achieved either by negotiated settlement or by enforcement against Indian assets (with potential financing and risk sharing options available to accelerate access to cash recovered through enforcement). However, at the date of this report, neither route to recovery is sufficiently well defined in terms of the timing and amount of expected settlement to provide the virtual certainty required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" which would allow recognition of an asset on the Balance Sheet. The receivable under the award therefore remains classified as a contingent asset at this time.

In March 2021 Cairn received notice that the Government of India has petitioned the Dutch Court of Appeal to set aside the arbitration award. Cairn has full confidence in its position and will continue to take all steps necessary in order to protect the interests of its shareholders.

During the current year, the Company made a loss before tax of US\$5.2m (2019: loss US\$4.0m) which was due to a US\$5.8m administrative costs offset by US\$0.4m intercompany interest receivable and US\$0.2m increase in market value of its financial asset (equity shares in Vedanta).

The Company's operations were unaffected by the COVID-19 pandemic.

The Directors do not propose paying a dividend for the year ended 31 December 2020 (2019: US\$nil).

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company derive from holding investments in Vedanta and recovery of the arbitration award. The assessment order received from the Indian Income Tax Department has restricted the Company's ability to sell the remaining Vedanta shareholding.

Accounting Policies

The Company applies accounting policies in line with those of the Cairn Energy PLC Group ("the Group"). Significant accounting policies of the Group are included within the Annual Report and Accounts of Cairn Energy PLC.

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:

James Smith
Simon Thomson

The Company maintains qualifying third-party indemnity insurance on behalf of its directors.

CAIRN UK HOLDINGS LIMITED

Directors' Report (continued)

Statement of Directors' Responsibilities

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

The directors are responsible for preparing the Strategic Report, 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 year. Under that law the directors have prepared the Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 year. 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 for the Company, international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed; and
- 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.

Disclosure of Information to Auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that 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



Anne McSherry
Secretary
50 Lothian Road
Edinburgh
EH3 9BY
16 April 2021

CAIRN UK HOLDINGS LIMITED

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

Report on the audit of the financial statements

Opinion

In our opinion, Cairn UK Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report & Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the company financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

CAIRN UK HOLDINGS LIMITED

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

CAIRN UK HOLDINGS LIMITED

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

Auditors' responsibilities for the audit of the financial statements (continued)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles including tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to areas of estimate in the financial statements, particularly the India arbitration award, and posting of inappropriate journal entries in order to improve reported performance. Audit procedures performed included:

- Discussion with management, internal audit, internal and external legal counsel, and individuals outside the finance function, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Understanding management's controls designed to prevent and detect irregularities.
- Review of Board minutes and Internal Audit reports.
- Challenging assumptions and judgements made by management in its significant accounting estimates, particularly around the accounting for the India arbitration award.
- Identifying and testing journal entries, in particular, any journal entries posted by unexpected users, journals posted at unexpected times, journals reflecting unusual account combinations or journals with descriptions containing key unexpected words.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

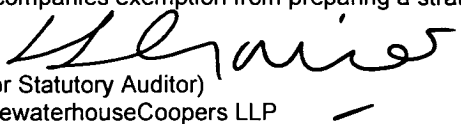
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

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.


Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
16 April 2021

CAIRN UK HOLDINGS LIMITED
Income Statement
For the year ended 31 December 2020

	Notes	2020 US\$m	2019 US\$m
Administrative expenses	2	(5.8)	(3.0)
Operating loss	2	(5.8)	(3.0)
Gain/(Loss) on financial assets at fair value through profit or loss	5	0.2	(1.8)
Finance income	3	0.4	0.8
Loss before taxation		(5.2)	(4.0)
Taxation	4	-	-
Loss for the year		(5.2)	(4.0)

Statement of Comprehensive Income
For the year ended 31 December 2020

	2020 US\$m	2019 US\$m
Loss for the year	(5.2)	(4.0)
Total comprehensive expense for the year	(5.2)	(4.0)

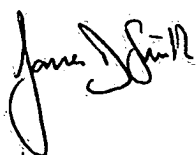
CAIRN UK HOLDINGS LIMITED

Balance Sheet

As at 31 December 2020

	Notes	2020 US\$m	2019 US\$m
Current assets			
Financial assets at fair value through profit or loss	5	5.2	5.0
Other receivables	6	5.9	11.1
Total assets		11.1	16.1
Current liabilities			
Other payables		0.2	-
Total liabilities		0.2	-
Net assets		10.9	16.1
Equity attributable to the owners of the parent			
Called-up share capital	7	361.2	361.2
Accumulated losses		(350.3)	(345.1)
Total equity		10.9	16.1

The Financial Statements on pages 7 to 19 were approved by the Board of Directors on 16 April 2021 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 2020

	2020 US\$m	2019 US\$m
Cash flows from operating activities		
Loss before taxation	(5.2)	(4.0)
(Gain)/Loss on financial assets at fair value through profit or loss	(0.2)	1.8
Finance income	(0.4)	(0.8)
Other payables movement	0.2	(2.1)
Net cash flows used in operating activities	(5.6)	(5.1)
Cash flows from financing activities		
Repayment by parent of loan	5.6	5.1
Net cash flows from financing activities	5.6	5.1
Net movement in cash and cash equivalents	-	-
Opening cash and cash equivalents at beginning of year	-	-
Closing cash and cash equivalents	-	-

CAIRN UK HOLDINGS LIMITED**Statement of Changes in Equity**

For the year ended 31 December 2020

	Called-up share capital US\$m	Accumulated losses US\$m	Total equity US\$m
At 1 January 2019	361.2	(341.1)	20.1
Loss for the year	-	(4.0)	(4.0)
Total comprehensive expense for the year	-	(4.0)	(4.0)
At 31 December 2019	361.2	(345.1)	16.1
Loss for the year	-	(5.2)	(5.2)
Total comprehensive expense for the year	-	(5.2)	(5.2)
At 31 December 2020	361.2	(350.3)	10.9

Cairn UK Holdings Limited

Notes to the Financial Statements

1 Significant Accounting Policies

a) Basis of preparation

The Financial Statements of Cairn UK Holdings Limited for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 16 April 2021. The Company is a private company limited by shares, 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, applied consistently throughout the period. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy. The Financial Statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The accounting policies adopted during the period are consistent with those adopted by the ultimate parent company, Cairn Energy PLC.

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 and its liquidity position 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 liquidity risk.

b) Going concern

The Company has sufficient financial resources with which the directors believe that the Company is well placed to manage its business risks successfully. The parent company, Cairn Energy PLC, will continue to pay operational expenses on behalf of the Company up to the level of the outstanding loan receivable by the Company. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of signing these Financial Statements.

In light of the COVID-19 pandemic, the directors have considered the ability of the Cairn Energy PLC to continue to support the Company through the going concern period and have satisfied themselves that the parent company has adequate resources to meet its obligations to the Company, restricted to the operating expenses.

The Company has reviewed the impact of the receipt of the assessment order, the seizure of the Vedanta shares and dividends and the restriction on the sale of the remaining Vedanta shares in determining the ability of the Company to continue to operate as a going concern. The directors are confident that the Company will be successful in recovering the arbitration award either by negotiated settlement or by enforcement against Indian assets.

Based on the above the directors are satisfied that preparing the Financial Statements on a going concern basis is appropriate.

c) Accounting standards

The company prepares its Financial Statements in accordance with applicable IFRS, issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") in conformity with the requirements of the Companies Act 2006. The Company's Financial Statements are also consistent with IFRS as issued by the IASB as they apply to accounting periods ended 31 December 2020.

Effective 1 January 2020, the Company has adopted the following amendments to standards:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies"
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"
- Revised Conceptual Framework for financial reporting

The adoption of the amendments above has had no material impact on the Company results or financial statement disclosures.

There are no new standards or amendments, issued by the IASB and endorsed under the Companies Act, that have yet to be adopted by the Company that will materially impact the Company's Financial Statements.

Cairn UK Holdings Limited

Notes to the Financial Statements (continued)

1 Significant Accounting Policies (continued)

d) 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.

Rates of exchange to US\$1 were as follows:

	Closing 2020	YTD Average 2020	Closing 2019	YTD Average 2019
Indian Rupee	73.05	74.08	71.36	70.40

e) Finance income

Dividend income is recognised on an accruals basis where the right to receive a payment is established. Dividend income is recognised within finance income subject to assessing for recoverability.

f) 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, financial assets at fair value through other comprehensive income or financial assets subsequently measured at amortised cost. The Company holds financial assets which are classified as financial assets held at fair value through profit or loss and financial assets at amortised cost.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. Financial liabilities are categorised as 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.

g) Financial assets at fair value through profit or loss

The Company's financial assets at fair value through profit or loss represent listed equity shares and redeemable preference shares which are, or were, held at fair value (the quoted market price). Movements in the fair value of the financial assets during the year and gains or losses on derecognition of the assets are recognised directly in the Income Statement.

h) Other receivables

Other receivables 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.

An impairment loss allowance is recognised, where material, for expected credit losses on all financial assets held at the balance sheet date. Expected credit losses are the difference between the discounted contractual cash flows due to the Company, and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided.

Cairn UK Holdings Limited

Notes to the Financial Statements (continued)

1 Significant Accounting Policies (continued)

i) Equity

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

j) Taxation

The total tax charge or credit represents the sum of current tax and deferred tax.

The current tax credit is based on the taxable 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 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.

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.

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.

k) Significant accounting judgements, key estimations and assumptions

The Company has used accounting judgments, 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.

Contingent asset – Arbitration Award Settlement Due from the Government of India

On 23 December 2020, the Company announced that the tribunal to rule on its claim against Government of India had found in Cairn's favour. The tribunal ruled unanimously that India had breached its obligations to Cairn under the UK-India Bilateral Investment Treaty and that compensation was due.

At the date of this report, no routes to recovery of the asset are sufficiently well defined in terms of the timing and amount of expected settlement to provide the virtual certainty required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" which would allow recognition of an asset on the Balance Sheet. The receivable under the award therefore remains classified as a contingent asset at this time. Full details on the contingent asset are given in note 11.

Cairn UK Holdings Limited

Notes to the Financial Statements (continued)

2 Operating Loss

Administrative expenses

Administrative expenses of US\$5.8m (2019: US\$3.0m) represent costs incurred on the arbitration defending the Company's tax position in India.

Auditors' Remuneration

The Company's auditors' remuneration for 2020 was US\$10,271 (2019: US\$10,217). 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 all circumstances, requires approval by the Audit Committee of Cairn Energy PLC, the ultimate parent undertaking. No such costs were incurred by the Company during the year (2019: US\$nil).

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 emoluments for the year of US\$2.5m (2019: US\$2.3m), share-based payments of US\$0.4m and pension contributions of US\$0.2m (2019: US\$0.2m) all of which was paid by other companies in the group. 290,683 LTIP share awards to Directors vested during 2020 (2019: none). Share-based payments shown above represent the market value at the vesting date of these awards.

The directors do not believe that it is practicable to apportion these amounts 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..

Employees

The Company has no employees (2019: none).

3 Finance Income

	Year ended 2020 US\$m	Year ended 2019 US\$m
Finance Income		
Interest receivable	0.4	0.8
	0.4	0.8

4 Taxation

Factors affecting tax credit for the year

A reconciliation of income tax credit applicable to the loss before income tax to the UK statutory rate of income tax is as follows:

	Year ended 2020 US\$m	Year ended 2019 US\$m
Loss before taxation	(5.2)	(4.0)
Tax at the standard rate of UK corporation tax of 19% (2019: 19%)	(1.0)	(0.8)
Effects of:		
Temporary differences not recognised	-	-
Non-deductible expenses	1.0	0.8
Tax losses claimed from other group companies	-	-
Impact of lower overseas tax rate	-	-
Total tax credit on loss	-	-

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2020 of 19% (2019: 19%).

The UK main rate of corporation tax is currently 19% (2019: 19%). In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

No deferred tax asset was recognised as at 31 December 2020 on the excess of US\$nil (2019 restated: US\$nil) of tax base over the carrying value of the financial assets at fair value through profit or loss.

Cairn UK Holdings Limited

Notes to the Financial Statements (continued)

5 Financial Assets at Fair Value through Profit or Loss

	Listed equity shares US\$m	Total US\$m
Fair value		
At 1 January 2019	6.9	6.9
Deficit on valuation of Vedanta shares	(1.9)	(1.9)
At 31 December 2019	5.0	5.0
Surplus on valuation of Vedanta shares	0.2	0.2
At 31 December 2020	5.2	5.2

The listed equity shares held at 31 December 2020 in the ordinary share capital of Vedanta, listed in India, have by their nature no fixed maturity or coupon rate. These listed equity securities present the Company with an opportunity for return through dividend income and trading gains and are Level 1 assets measured at fair value. The Company is currently restricted from selling its remaining shares in Vedanta. To resolve this matter and the arbitration award, discussions with the Government of India are ongoing. See note 11 for more details.

Sensitivity analysis

At the year end the closing Vedanta share price used to value the available-for-sale financial assets was INR161 (US\$2.21).

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 various scenarios including applying the movement between the highest and lowest share prices during 2020 of INR103 (US\$1.42) to the closing share price. Those prices are determined using the closing INR share price converted to US\$ exchange rate at the year end. These are considered to be reasonably possible changes for the purposes of sensitivity analysis.

As at 31 December 2020	Effect on loss for year US\$m	Effect on equity US\$m
Increase to share price of INR103 (US\$3.63)	3.3	3.3
Decrease to share price of INR103 (US\$0.79)	(3.3)	(3.3)

6 Other Receivables

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Amounts receivable from parent company	5.9	11.1
	5.9	11.1

7 Called-up Share Capital

	2020 £1 Ordinary Number	2019 £1 Ordinary Number	2020 £1 Ordinary US\$m	2019 £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

Cairn UK Holdings Limited

Notes to the Financial Statements (continued)

8 Financial Risk Management: Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk, market risk and foreign currency risk. The Board of Cairn Energy PLC, through the Treasury Sub-Committee, reviews and agrees policies for managing each of these risks and these are summarised below.

Cairn Energy PLC's treasury function 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 has adequate liquidity at all times in order to meet immediate cash requirements. There are no significant concentrations of risks unless otherwise stated. The Company does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The primary financial assets and liabilities comprise listed equity shares in Vedanta, intra-group loans and financial liabilities held at amortised cost. The Company's strategy has been to finance its operations through group funding. Other alternatives such as equity issues and other forms of non-investment-grade debt finance are reviewed by the Board, when appropriate.

Liquidity risk

Cairn Energy PLC Group's treasury function closely monitors and manages its liquidity risk using both short and long-term cash flow projections, supplemented by debt and equity financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in asset production profiles and cost schedules. The Group runs various sensitivities on its liquidity position on a quarterly basis throughout the year.

The Group invests cash 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 and medium-term expenditure requirements.

Market risk

The Company is also exposed to market risk arising from equity price fluctuations on financial assets at fair value through profit or loss (see note 5 for details).

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 and 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.

Capital Management

The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Company to support its own funding requirements. The Company 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. No significant changes were made in the objectives, policies or processes during the year ended 31 December 2020.

Company capital and net debt were made up as follows:

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Net debt	-	-
Equity	10.9	16.1
Capital and net debt	10.9	16.1
Gearing ratio	-	-

Cairn UK Holdings Limited

Notes to the Financial Statements (continued)

9 Financial Instruments

Set out below is the comparison by category of the carrying amounts and fair values of all the Company's financial instruments that are carried in the Financial Statements:

Financial assets

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Carrying amount and fair value		
<i>Financial assets at amortised cost</i>		
Amounts receivable from parent company	5.9	11.1
<i>Financial assets at fair value through profit or loss</i>		
Listed equity shares	5.2	5.0
	11.1	16.1

For all financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value.

All of the Company's financial assets are expected to mature within one year.

Financial liabilities

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Carrying amount and fair value		
<i>Financial liabilities at amortised cost</i>		
Accruals and other payables	0.2	-

Fair value

The Company holds listed equity shares as a financial asset at fair value through profit or loss. 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. The equity shares and redeemable preference shares were previously recorded as available-for-sale financial assets. The measurement of the assets remains unchanged.

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

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Assets measured at fair value – Level 1		
<i>Financial assets at fair value through profit or loss</i>		
Equity shares - listed	5.2	5.0
	5.2	5.0

Cairn UK Holdings Limited

Notes to the Financial Statements (continued)

10 Related Party Transactions

The following table provides the balances which are outstanding with group companies at the balance sheet date:

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Amounts receivable from parent company	5.9	11.1
Amounts payable to parent company	(0.2)	-
	5.7	11.1

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

Other transactions

During the year, the Company's parent company Cairn Energy PLC, issued invoices to the Company of US\$5.5m (2019: US\$4.5m), and Capricorn Energy, a fellow subsidiary of the Company, issued invoices to the Company of US\$0.3m (2019: US\$0.5m).

11 Contingent Asset

Arbitration Award Settlement Due from the Government of India

On 23 December 2020, Cairn Energy PLC ("Cairn"), the parent undertaking, announced that the tribunal established to rule on its claim against the Government of India ("GoI") had found unanimously in Cairn's favour. Cairn's claim was brought under the terms of the UK-India Bilateral Investment Treaty (the "Treaty"), the legal seat of the tribunal was the Netherlands and the proceedings were under the registry of the Permanent Court of Arbitration. The tribunal ruled unanimously that India had breached its obligations to Cairn under the UK-India Bilateral Investment Treaty and that compensation was due. Addressing the jurisdiction of the arbitration, the tribunal ruled that the dispute was within the scope of the Treaty and other relevant legal parameters. It further ruled that the application to Cairn of the retrospective tax amendment introduced by the GoI was "grossly unfair", discriminatory and in breach of the "Fair and Equitable Treatment" standard of the Treaty.

The Tribunal therefore ordered the withdrawal of the tax demand in India and awarded to Cairn compensation equal to the value of the shares held in Cairn India Limited (subsequently merged with Vedanta) seized by India in 2014 and withheld tax refunds due on other matters, totalling US\$1,223m plus interest and costs, which is now payable. Interest is payable based on US\$ six-month LIBOR plus a semi-annual margin of 1.375%, accruing from 2014, and the costs awarded totalled US\$22m. The total amount due to Cairn at 31 December 2020 was US\$1,725m. Cairn has engaged directly with the GoI regarding satisfaction of the award, and it is also enforceable against Indian-owned assets in over 160 countries that have signed and ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Cairn has already taken steps to have the award recognised in certain major jurisdictions in which Indian sovereign assets have been identified.

Cairn is extremely confident that satisfaction of the award will be achieved either by negotiated settlement or by enforcement against Indian assets (with potential financing and risk sharing options available to accelerate access to cash recovered through enforcement). However, at the date of this report, neither route to recovery is sufficiently well defined in terms of the timing and amount of expected settlement to provide the virtual certainty required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" which would allow recognition of an asset on the Balance Sheet. The receivable under the award therefore remains classified as a contingent asset at this time.

In March 2021 Cairn received notice that the Government of India has petitioned the Dutch Court of Appeal to set aside the arbitration award. Cairn has full confidence in its position and will continue to take all steps necessary in order to protect the interests of its shareholders.

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.

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Notes to the Financial Statements (continued)

13 Event after the Balance Sheet Date

In March 2021 Cairn received notice that the Government of India has petitioned the Dutch Court of Appeal to set aside the arbitration award. Cairn has full confidence in its position and will continue to take all steps necessary in order to protect the interests of its shareholders. See note 11 for more details.