Registered No: SC304517

CAIRN UK HOLDINGS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 Cairn UK Holdings Limited ("the Company") for the year ended 31 December 2017.

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 profit before tax of US$344.3m (2016: loss US$0.2m) principally due to US$402.6m gain on derecognition of its financial asset (shares in Cairn India Limited) following the merger of that company with Vedanta Limited in April 2017. The Company now holds equity and redeemable preference shares in Vedanta Limited although it is currently prevented from transferring or selling the same.

In 2016 the Company received a final assessment order from the Indian Income Tax Department ("IITD") relating to the intra-group restructuring undertaken in 2006 prior to the IPO of Cairn India Limited ("CIL") in India, which cites a retrospective amendment to Indian tax law introduced in 2012. The assessment order is in the amount of INR 102bn (approximately US$1.6bn) plus interest and penalties totalling INR 188bn (approximately US$2.9bn). The total assets of the Company have a current value of US$1,107.1m and the Company has legal advice confirming that any recovery by the Indian authorities would be limited to such assets.

In addition to attaching the Company's shares in Vedanta Limited, during 2017 the IITD seized dividends due totalling INR 6.7bn. Following this seizure, the debtor was fully provided; the impact being US$104.7m charged to the income statement in 2017. The IITD has also notified the Company that a tax refund of INR 15.9bn (US$249m) due as a result of overpayment of capital gains tax on a separate matter in 2011, has been applied as partial payment of the tax assessment.

Subsequent to the year end, in the Spring of 2018, the IITD seized further dividends which had been voted and paid on the equity and redeemable preference shares in March 2018 totalling INR 4.4bn (US$67.8m at payment date).

Additional costs have been incurred of US$8.1m (2016: US$7.2m) in defending the Company's position in respect of a tax assessment in India.

The Company strongly contests the basis of this attempt to retrospectively levy tax on intra-Group share transfers. The final hearing in the international arbitration case brought by the Company under the UK-India Bilateral Investment Treaty is scheduled in August 2018, see note 11 for further details. Based on detailed legal advice, the Company is confident that it will be successful in this arbitration and accordingly no provision has been made in the financial statements relating to this assessment.

Cairn has reviewed the impact of the restriction on the sale of Vedanta shares, the receipt of the assessment and the seizure of the dividends in determining the ability of the Company to continue to operate as a going concern and the directors are satisfied that preparing the financial statements on a going concern basis is appropriate.

The Directors do not propose paying a dividend for the year ended 31 December 2017 (2016: nil).

Principal Risks and Uncertainties

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

Accounting Policies

The Company applies accounting policies in line with the Cairn Energy PLC Group accounting policies. Significant accounting policies of the Group are included in the Cairn Energy PLC financial statements.

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

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.

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.

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
1 June 2018

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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 2017; 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.

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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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 set out on page 3, 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.

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 received 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.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
1 June 2018

CAIRN UK HOLDINGS LIMITED
Income Statement
For the year ended 31 December 2017

	Notes	2017 US$m	2016 US$m
Administrative expenses	2	**(8.1)**	(7.2)
Operating loss	2	**(8.1)**	(7.2)
Net gain on derecognition of financial assets	5	**402.6**	-
Finance income	3	**54.5**	8.2
Exceptional provision against finance income receivable	3	**(104.7)**	-
Finance costs		**-**	(1.2)
Profit/(loss) before taxation		**344.3**	(0.2)
Taxation	4	**(27.7)**	-
Profit/(loss) for the year		**316.6**	(0.2)

Statement of Comprehensive Income
For the year ended 31 December 2017

	Notes	2017 US$m	2016 US$m
Profit/(loss) for the year		**316.6**	(0.2)
Other comprehensive income/(expense) – items that may be recycled to profit and loss			
Surplus on valuation of financial assets	5	**449.1**	272.1
Deferred tax charge on valuation of financial assets	4	**(96.5)**	-
Surplus on valuation recycled to income statement	5	**(435.6)**	-
Deferred tax charge on surplus on valuation recycled to income statement	4	**34.8**	-
Other comprehensive (expense)/ income for the year		**(48.2)**	272.1
Total comprehensive income for the year		**268.4**	271.9

CAIRN UK HOLDINGS LIMITED

Balance Sheet

As at 31 December 2017

	Notes	2017 US$m	2016 US$m
Non-current assets			
Available-for-sale financial assets	5	**1,072.2**	656.1
		1,072.2	656.1
Current assets			
Other receivables	6	**34.9**	93.2
		34.9	93.2
Total assets		**1,107.1**	749.3
Current liabilities			
Other payables		**0.4**	0.4
		0.4	0.4
Non-current liabilities			
Deferred tax liability	4	**89.4**	-
		89.4	-
Total liabilities		**89.8**	0.4
Net assets		**1,017.3**	748.9
Equity attributable to the owners of the parent			
Called-up share capital	7	**361.2**	361.2
Available-for-sale reserve		**223.9**	272.1
Retained earnings		**432.2**	115.6
Total equity		**1,017.3**	748.9

The financial statements on pages 6 to 20 were approved by the Board of Directors on 1 June 2018 and signed on its behalf by:

Simon Thomson
Director

Registered No: SC304517

CAIRN UK HOLDINGS LIMITED

Statement of Cash Flows

For the year ended 31 December 2017

	2017 US$m	2016 US$m
Cash flows from operating activities		
Profit/(loss) before taxation	**344.3**	(0.2)
Net gain on derecognition of financial assets	**(402.6)**	-
Finance income	**(54.5)**	(8.2)
Exceptional provision against finance income receivable	**104.7**	-
Finance costs	-	1.2
Trade and other payables movement	-	(0.2)
Net cash used in operating activities	(8.1)	(7.4)
Cash flows from investing activities		
Inter-company lending	8.1	7.4
Net cash flows generated from financing activities	8.1	7.4
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 2017

	Called-up share capital US$m	Available-for-sale reserve US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2016	361.2	-	115.8	477.0
Loss for the year	-	-	(0.2)	(0.2)
Surplus on valuation of financial assets	-	272.1	-	272.1
Total comprehensive income/(expense) for the year	-	272.1	(0.2)	271.9
At 1 January 2017	361.2	272.1	115.6	748.9
Profit for the year	-	-	316.6	**316.6**
Surplus on valuation of financial assets	-	449.1	-	**449.1**
Deferred tax charge on valuation of financial assets	-	(96.5)	-	**(96.5)**
Surplus on valuation recycled to income statement	-	(435.6)	-	**(435.6)**
Deferred tax charge on surplus on valuation recycled to income statement	-	34.8	-	**34.8**
Total comprehensive income/(expense) for the year	-	(48.2)	316.6	**268.4**
At 31 December 2017	**361.2**	**223.9**	**432.2**	**1,017.3**

1 Significant Accounting Policies

a) Basis of preparation

The financial statements of Cairn UK Holdings Limited for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 1 June 2018. 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 registered company number is SC304517.

The Company prepares its financial statements on a historical cost basis, unless accounting standards require an alternate basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy or notes to the financial statements. The accounting policies have been consistently applied to all the years presented. The financial statements comply with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ("IFRS").

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 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.

The Company has reviewed the impact of the restriction on the sale of Vedanta shares, the receipt of the assessment order and the seizure of the dividends 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 the arbitration process and accordingly do not expect this to cause an outflow of assets in the going concern period.

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") as adopted by the EU, and interpretations issued by the IFRS Interpretations Committee and Companies Act 2006 applicable to companies reporting under IFRS. The Group's financial statements are also consistent with IFRS as issued by the IASB as they apply to accounting periods ended 31 December 2017.

Effective 1 January 2017, the Company has adopted the following amendments to standards:

- Amendments to IAS 7 Statement of Cash Flows
- Amendments to IAS 12 Income Taxes
- Amendments to IFRS 12 Disclosure of Interests in Other Entities

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

1 Significant Accounting Policies (continued)

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

- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2018)
- Amendments to IFRS 2 Share Based Payments (effective 1 January 2018)
- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)

No early adoption of the above new standards is intended. The amendments to IAS 28, IFRS 2, IFRS 15 and IFRS 16 are not expected to have any material impact on Cairn's results or financial statement disclosures.

IFRS 9 Financial Instruments
The adoption of IFRS 9 will result in re-classification of the Company's available-for-sale financial asset as a financial asset held at fair value through profit and loss. As a result mark-to-market movements currently recorded in other comprehensive income and recycled to the income statement only on disposal or impairment shall now go direct to the income statement. There will be no change to the valuation of the asset.

IFRS 9 also requires entities to adopt an "expected loss" approach to measuring impairment when considering trade and other receivables. The Company's exposure to credit risk at the year end is low and a provision for expected losses is not expected to be material. This reflects both the low volume of receivables due from third parties at the year end and historic rate of recovery of amounts due from partners in joint operations. There will therefore be no material impact on the financial statements on adoption.

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 2017	**YTD Average 2017**	Closing 2016	YTD Average 2016
Indian Rupee	**63.84**	**65.09**	67.95	67.17

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.

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, 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 or 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.

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

1 Significant Accounting Policies (continued)

g) 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.

On derecognition of a financial asset, arising either through cash disposal or in exchange for an alternate asset, cumulative gains or losses recognised in other comprehensive income are recycled to the income statement and included with the gain or loss on disposal with the closing book of the financial asset immediately prior to derecognition and the fair value of the consideration received.

h) 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. Other receivables include dividends which are recognised on the ex-dividend date.

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.

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.

1 Significant Accounting Policies (continued)

k) Exceptional items

The Company does not present any items of income and expense as extraordinary items. However, where items have a significant impact on profit or loss, occur infrequently and are not part of the normal operating cycle, such items may be disclosed as exceptional items on the face of the income statement.

l) 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.

Contingent liability - taxation

The Company has received an assessment order from the Indian Income Tax Department relating to the intra-group restructuring undertaken in 2006 in the amount of US$1.6bn plus interest and penalties totalling US$2.9bn. The Company strongly contests the basis of this assessment, and is pursuing its rights under Indian law to appeal the assessment, and furthermore has commenced international arbitration proceedings, with final hearings being in August 2018, see note 11 for further details. The Company has not made any accounting provision in respect of the tax assessment.

2 Operating Loss

Administrative expenses

Administrative expenses of US$8.1m (2016: US$7.2m) represent costs incurred defending the Company's tax position in India.

Auditors' Remuneration

The Company's auditors' remuneration for 2017 was US$22,041 (2016: US$23,045). 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 (2016: US$nil).

Employees

This company has no employees (2016: none).

3 Finance Income and Exceptional Provision Against Finance Income Receivable

	2017 US$m	2016 US$m
Dividend income	**52.3**	8.2
Exchange gain	**2.2**	-
	54.5	8.2

Dividend income is receivable from Vedanta.

Dividend income relating to the Company's residual interest in Cairn India was receivable from Vedanta Limited after the merger of the two companies. However, following the seizure by the Indian Tax Department of the income held in abeyance, the unpaid dividend receivable has been fully provided against, with an exceptional provision of US$104.7m charged to the income statement. Though the Company is restricted from selling the shares in Vedanta Limited, title to the shares remains with the Company. Therefore the provision against the dividends receivable does not impact the carrying value of the investment in Vedanta Limited. See notes 5, 6 and 11 for further details.

4 Taxation

Analysis of tax credit in year

	2017 US$m	2016 US$m
Deferred tax:		
Indian deferred tax at 21.63% (2016: 21.63%) on recognition of financial assets	**(7.1)**	-
Indian deferred tax recycled to other comprehensive income on derecognition of financial assets	**34.8**	-
Total tax charge on profit/(loss)	**27.7**	-
Tax included in other comprehensive income		
Deferred tax charge on valuation of financial assets	**96.5**	-
Deferred tax charge on valuation movement recycled to income statement	**(34.8)**	-
Total tax charge in other comprehensive income	**61.7**	-

Deferred tax movements through the income statement on the recognition and disposal of financial assets, and deferred tax movements through other comprehensive income on the valuation of financial assets, represent the deferred tax impact of movements in the year in respect of the shares that the Company holds in Vedanta Limited (Cairn India Limited prior to April 2017) detailed in note 5. The charge on the valuation of financial assets of US$96.5m is offset by the credit recorded in the income statement on derecognition of the shares in Cairn India Limited of US$7.1m, resulting in a closing deferred tax liability of US$89.4m relating to the financial assets held at 31 December 2017.

Factors affecting tax charge for the year

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

	2017 US$m	2016 US$m
Profit/(loss) before taxation	**344.3**	(0.2)
Tax at the standard rate of UK corporation tax of 19.25% (2016: 20%)	**66.3**	-
Effects of:		
Non-taxable income	**(10.1)**	(1.6)
Temporary differences not recognised	**(52.9)**	0.5
Impact of exceptional provision against finance income	**20.1**	-
Non-deductible expenses	**1.4**	1.1
Tax losses claimed from other group companies	**(0.2)**	-
Impact of higher overseas tax rate	**3.1**	-
Total tax charge on profit/(loss)	**27.7**	-

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2017 of 19.25% (2016: 20%).

The UK main rate of corporation tax is currently 19% (20% prior to 1 April 2017). The change in the UK tax rate had no impact on either the Company's net deferred tax position at 31 December 2017 nor on the tax charge for the year.

4 Taxation (continued)

Reconciliation of movement in deferred tax liability

	Total US$m
At 1 January 2016 and 1 January 2017	-
Deferred tax credit to income statement on recognition of financial assets	7.1
Deferred tax charge through other comprehensive income on valuation of financial assets	(96.5)
At 31 December 2017	**(89.4)**

No deferred tax asset was recognised on expenses of management carried forward for future relief of US$5.7m (2016 US$5.5m) or non-trade finance deficits of US$4.1m (2016: US$4.1m) as it is not considered probable that these will be utilised in future periods. A deferred tax liability of US$89.4m has been recognised in the current year in respect of the excess of US$413.3m of the carrying value of the available-for-sale financial asset over the tax base as at 31 December 2017. No deferred tax asset was recognised in 2016 on the excess of US$2.7m of tax base over the carrying value of the available-for-sale financial asset as at 31 December 2016.

5 Available-for-sale Financial Assets

Fair value	**Listed equity shares US$m**	**7.5% Redeemable preference shares of INR10 US$m**	**Total US$m**
As at 1 January 2016	384.0	-	384.0
Surplus on valuation	272.1	-	272.1
As at 1 January 2017	656.1	-	656.1
Surplus on valuation of Cairn India Limited shares prior to merger	**163.6**	-	**163.6**
Disposal of shares in Cairn India Limited on merger	**(819.7)**	-	**(819.7)**
Addition of shares in Vedanta Limited on merger	**671.8**	**114.9**	**786.7**
Surplus on valuation of Vedanta Limited shares after merger	**279.7**	**5.8**	**285.5**
As at 31 December 2017	**951.5**	**120.7**	**1,072.2**

In April 2017, Cairn India Limited underwent a merger with Vedanta Limited as a result of which the Company now holds both equity shares and redeemable preference shares in Vedanta Limited. Prior to that date the Company held a 9.8% stake in Cairn India Limited via equity shares, the market value of which at the time of the merger was US$819.7m. The market value of the Vedanta shares on the merger date was US$786.7m, resulting in a loss on disposal of US$33.0m.

Movements in the fair value during the year are recognised directly in equity and are disclosed in the statement of comprehensive income. On derecognition, the cumulative surplus arising on the valuation of shares in Cairn India Limited of US$435.6m was recycled from equity, through other comprehensive income, to the income statement, generating a net gain on disposal as summarised below:

	US$m
Loss on disposal of shares in Cairn India Limited on merger with Vedanta Limited	(33.0)
Cumulative surplus on valuation of shares in Cairn India Limited recycled from equity	435.6
Net gain on derecognition of financial assets	**402.6**

5 Available-for-sale Financial Assets (continued)

The derecognition of the financial asset relating to Cairn India Limited also resulted in the recycling of the related deferred tax charge of US$34.8m to the income statement and a credit of US$7.1m direct to the income statement as per note 4.

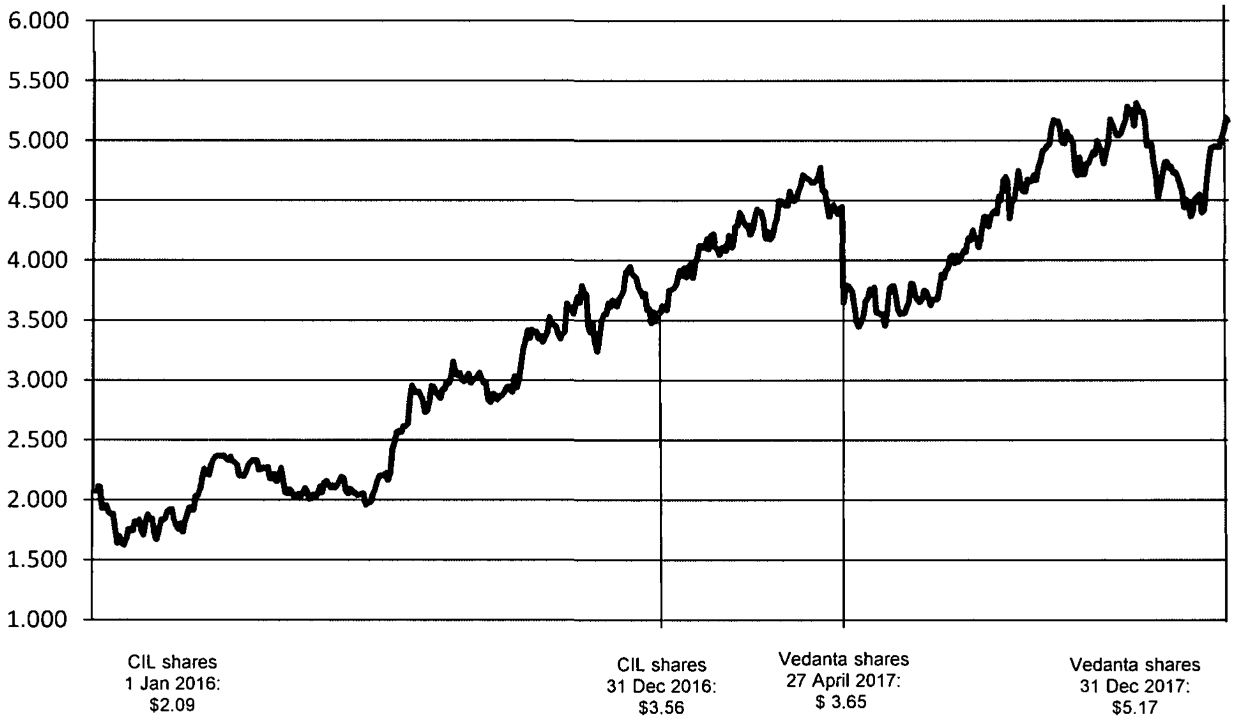
The listed equity shares held at 31 December 2017 in the ordinary share capital of Vedanta Limited, listed in India, have by their nature no fixed maturity or coupon rate. These listed equity securities present the Company with an opportunity for return through dividend income and trading gains and are Level 1 assets measured at fair value. The redeemable preference shares have a coupon of 7.5%, a term of 18 months and will be cash settled in October 2018. These too are Level 1 assets measured at fair value.

The Company is currently restricted from selling its shares in Vedanta Limited pending conclusion of the ongoing arbitration proceedings. See note 11. As timing of the arbitration award may extend beyond one year from the balance sheet date, all available-for-sale financial assets are classified as non-current.

The Company is exposed to equity price risks arising from the listed equity investments it holds in Vedanta Limited.

Sensitivity analysis

At the year end the closing Vedanta Limited share price used to value the available-for-sale financial assets was INR329.9 (US$5.17). The movement in the Cairn India Limited share price since 1 January 2016 to the merger date in April 2017 and the movement in the Vedanta Limited equity share price over the period from recognition to the year end is shown below. The graph below does not include the Vedanta Limited redeemable preference shares.



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 the highest and lowest share prices for Vedanta Limited measured in the eight-month period from the merger date. Those prices are determined using the closing INR share price converted to US$ at the daily rate. These are considered to be reasonably possible changes for the purposes of sensitivity analysis.

As at 31 December 2017	Effect on profit for year US$m	Effect on equity US$m
Increase to the highest share price since April 2017 – INR 343 (US$5.32)	-	21.7
Decrease of 10% on closing share price in 2017 - INR 297 (US$4.65)	-	(74.6)
Decrease of 20% on closing share price in 2017 - INR 264 (US$4.13)	-	(149.1)
Decrease to the lowest share price since April 2017- INR 222 (US$3.45)	(24.5)	(248.3)

The impact on the profit for the year arising on the decrease to the lowest share price since April 2017 reflects notional cumulative losses that would be recycled to the income statement from Other Comprehensive Income had the share price been at this level at the Balance Sheet date.

6 Other Receivables

	2017 US$m	2016 US$m
Other receivables	-	50.6
Amounts receivable from parent company	34.9	42.6
	34.9	93.2

US$50.6m of dividends receivable from Cairn India Limited were accrued to 31 December 2016. In April 2017, on the merger of Cairn India Limited with Vedanta Limited, a further dividend of US$52.4m was declared, which increased the total due to Cairn to US$104.7m. Post declaration of the April dividend, the Indian Income Tax Department has seized the funds due to the Company from Vedanta Limited in part-settlement of the assessment order issued relating to the disputed retrospective tax demand. See note 11. Consequently this receivable was fully provided against during the year. Foreign exchange movements subsequent to the time of the provision have increased both the debtor and provision at the Balance Sheet date to US$105.9m.

As at 31 December 2017, the ageing analysis of other receivables, excluding prepayments, is set out below:

	Total US$m	< 30 days US$m	>120 days US$m
2017			
Neither past due nor impaired	**34.9**	34.9	-
Past due and impaired	**105.9**	-	105.9
Allowance for doubtful debts	**(105.9)**	-	(105.9)
As at 31 December 2017	**34.9**	**34.9**	**-**
2016			
Neither past due nor impaired	42.6	42.6	-
Past due but not impaired	50.6	-	50.6
As at 31 December 2016	93.2	42.6	50.6

7 Called-up Share Capital

	2017 £1 Ordinary Number	2016 £1 Ordinary Number	2017 £1 Ordinary US$m	2016 £1 Ordinary US$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, foreign currency risk, and market risk arising from equity price fluctuations, see note 5. The Board of the Company's ultimate parent company, Cairn Energy PLC, through the Treasury Sub-Committee, and Executive team as appropriate, reviews and agrees policies for managing each of these risks and these are summarised below.

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 Company does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The primary financial assets and liabilities of the Company comprise listed equity shares (Vedanta only), intra-group loans and other receivables. 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.

8 Financial Risk Management: Objectives and Policies (continued)

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 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 forecasts show that the Group will be able to operate within its current debt facilities and have financial headroom for the 12 months from the date of approval of the Cairn Energy PLC 2017 Annual Report and Accounts.

Surplus cash is invested in a combination of money market liquidity funds, repos, 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.

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 to 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.

Capital Management
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 2017.

Company capital and net debt were made up as follows:	**31 December 2017 US$m**	31 December 2016 US$m
Net debt	-	-
Equity	**1,017.3**	748.9
Capital and net debt	**1,017.3**	748.9
Gearing ratio	**0%**	0%

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 fair value of financial assets has been calculated by discounting the expected future cash flows at prevailing interest rates. The Company's financial assets, together with fair values are as follows:

Financial assets

	Carrying amount		Fair value	
	31 December 2017 US$m	31 December 2016 US$m	**31 December 2017 US$m**	31 December 2016 US$m
Available-for-sale financial assets	**1,072.2**	656.1	**1,072.2**	656.1
Other receivables	**-**	50.6	**-**	50.6
Amounts receivable from parent company	**34.9**	42.6	**34.9**	42.6
	1,107.1	749.3	**1,107.1**	749.3

The receivables above are current, held at amortised cost and unimpaired, with the exception of the dividends due in respect of the Vedanta shares of US$105.9m, which have been provided in full. See note 6 for further details concerning the ageing and provisions against other receivables.

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	**2017 US$m**	2016 US$m
Available-for-sale financial assets		
Equity shares - listed	**951.5**	656.1
Redeemable preference shares – listed	**120.7**	-
	1,072.2	656.1

10 Related Party Transactions

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

	31 December 2017 US$m	31 December 2016 US$m
Amounts receivable from parent company	**34.9**	42.6
	34.9	42.6

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$2.4m (2016: US$2.3m) and pension contributions of US$0.2m (2016: US$0.2m) 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
During the year, the Company's parent company Cairn Energy PLC, issued invoices to the Company of US$7.3m (2016: US$6.2m), and Capricorn Energy, a fellow subsidiary of the Company, issued invoices to the Company of US$0.8m (2016: US$1.2m).

11 Contingent Liability

In January 2014 the Company received notification from the Indian Income Tax Department (the "IITD") that it was restricted from selling its approximately 10% shareholding in Cairn India Limited ("CIL"), which at that time had a market valuation of INR 60bn (US$1.0bn). In that notification, the IITD claimed to have identified unassessed taxable income resulting from certain intra-group share transfers undertaken in 2006 (the "2006 Transactions"), such transactions having been undertaken in order to facilitate the IPO of CIL in 2007. The notification made reference to Indian tax legislation enacted in 2012 with retrospective effect which the IITD was seeking to apply to the 2006 Transactions.

Following the merger in April 2017 of CIL and Vedanta Limited, the Company's shareholding in CIL has been replaced by approximately a 5% shareholding in Vedanta Limited issued together with redeemable preference shares, both of which the Company is prohibited from selling or transferring. At 31 December 2017, the market value of the equity and preference shares in Vedanta Limited was together INR 68.4bn (approximately US$1.1bn).

In addition to attaching the Company's shares in Vedanta Limited, the IITD has seized dividends due from those shares totalling INR 6.7bn (US$105m). Subsequent to the year-end the IITD has seized further dividends due totalling INR 4.4bn (US$68m). The IITD has also notified the Company that a tax refund of INR 15.9bn (US$249m) due as a result of overpayment of capital gains tax on a separate matter in 2011, has been applied as partial payment of the tax assessment of the 2006 Transactions. This tax refund was previously classified as a contingent asset where the inflow of economic benefits was considered less than probable.

The IITD holds the Company as an assessee in default in respect of tax demanded on the 2006 transactions, and as such has continued to pursue enforcement against its assets in India. To date these enforcement actions have included; attachment of the shareholding in Vedanta Limited (valued at US$1.1bn at year end) for potential sale, seizure in 2017 of the US$105m dividends due, subsequent to the year-end further seizure of dividends of US$68m, and offset of a US$249m tax refund due in respect of another matter.

The assessment by the IITD of principal tax due on the 2006 Transactions is INR 102bn (US$1.6bn), plus applicable interest and penalties. Interest is currently being charged on the principal at a rate of 12% per annum from February 2016, although this is subject to the IITD's Indian court appeal that interest should be back-dated to 2007. Penalties are currently assessed as 100% of the principal tax due, although this is subject to appeal in the Indian courts by the Company that penalties should not be charged given the retrospective nature of the tax levied.

The Company has legal advice confirming that the maximum amount that could ultimately be recovered by the IITD is limited to the value of the Company's assets, principally the ordinary and redeemable preference shares in Vedanta Limited plus the seized dividends and tax refund from 2011.

In March 2015 the Company filed a Notice of Dispute under the UK-India Bilateral Investment Treaty (the "Treaty") in order to protect its legal position and seek restitution of the value effectively seized by the IITD in and since January 2014. The principal claims are that the assurance of fair and equitable treatment and protections against expropriation afforded by the Treaty have been breached by the actions of the IITD, which is seeking to apply retrospective taxes to historical transactions already closely scrutinised and approved by the Government of India. The IITD has attached and seized assets to try to enforce such taxation. The Company's plea is therefore that the effects of the tax assessment should be nullified and the Company should receive recompense from India for the loss of value resulting from the 2014 attachment of CUHL's shares in CIL and the withholding of the tax refund, which together total approximately US$1.3bn.

The Treaty proceedings formally commenced in January 2016 following agreement between the Company and the Republic of India on the appointment of a panel of three international arbitrators under the terms of the Treaty. The Company's statement of claim was submitted to the arbitral tribunal in June 2016 and the Republic of India submitted its statement of defence in February 2017. A period of further submissions and document production has been ongoing. In September 2017 the arbitral tribunal confirmed the schedule for the remainder of the arbitration, with final hearings being in August 2018 and the tribunal's ruling issued expeditiously thereafter. Based on detailed legal advice, the Company is confident that it will be successful in this arbitration, and accordingly, no provision has been made for any of the tax or penalties assessed by the IITD.

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.