



Corporate Responsibility

Report 2017



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About this report

Cairn Energy PLC is an independent, UK-based oil and gas exploration and production company.

Cairn has explored, discovered, developed and produced oil and gas in a variety of locations throughout the world with more than 20 years' experience. Cairn is listed on the London Stock Exchange with its headquarters in Edinburgh and offices in London, Norway, Senegal and Mexico.



OUR STRATEGY

Cairn's strategy is to deliver value for stakeholders from a balanced portfolio of exploration, development and production assets. Exploration activity is principally in frontier and emerging basins where the greatest value potential exists. Cairn is currently focused on generating cash flow from its North Sea assets, developing its Senegal resource base, progressing its North Sea exploration assets and continuing to replenish its exploration portfolio.

More information regarding our operations is available on our website at www.cairnenergy.com/operations/.

THIS REPORT

This report comprises Cairn's full Corporate Responsibility (CR) report 2017. It covers our approach and performance from 1 January 2017 to 31 December 2017, and includes our assets and activities over which we have operational control. We exclude data where we are not controlling operations, but consider risks associated with our partners' position and their control of such activities.

ASSURANCE

We have commissioned third-party assurance by RPS of the integrity of greenhouse gas (GHG) emissions data, as indicated in the RPS assurance statement given on page 81 in the About this report section.



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CEO Statement

Corporate Responsibility is at the heart of Cairn's business. We aim to deliver value from our assets and people for the benefit of all our stakeholders in a responsible manner.

Code of Ethics

Our new Code of Ethics can now be downloaded here www.cairnenergy.com/media/2150/group-code-of-ethics.pdf.

Modern Slavery Statement

You can read our Modern Slavery Statement www.cairnenergy.com/services/modern-slavery-statement/.



We underlined the importance of working responsibly in 2017 with the publication of our new Code of Ethics, which brings together our Business Principles and Code of Business Ethics in a single published format for the first time. This further improves our established Corporate Responsibility Management System and helps build on our strong track record.

Wherever we work, we apply international industry standards of good practice. We continue to be committed to the Extractive Industries Transparency Initiative (EITI), the UN Global Compact and more recently we have begun integrating the UN Sustainable Development Goals into impact benefit planning.

During 2017, we once again undertook a review of the issues that were material to our business. Following discussions with stakeholders, both internal and external, as well as our own risk management process, we identified the following material issues:

- Economics and funding
- Contractors and supply chain
- Ethics, ABC (anti-bribery and corruption) and transparency
- Social and economic benefits
- Human rights
- Major accident prevention and safety
- Security
- Climate change, emissions and discharges
- Biodiversity

These guide us in setting our Corporate Responsibility objectives each year, which form part of our Key Performance Indicators. We recognise that we are accountable to our stakeholders for our progress against these objectives; hence our continued focus and our commitment to delivering against them.

We have also produced a Modern Slavery Statement this year for the first time. While we are not obliged to do so at this time, we recognise stakeholder expectation and the need to demonstrate our commitment to zero tolerance, prevention in our supply chain and transparency. We have also set up training on how to detect potential instances and improved our procedures to help prevent modern slavery within our supply chain.

As we continue to deliver success across our business, we are working to bring lasting and positive social and economic benefit to our stakeholders. Senegal is a clear example where we believe that a successful oil and gas industry could generate significant social and economic benefit for the country. This can support country development, improve infrastructure, drive inward investment and assist in reducing reliance on solid fuels while providing affordable energy.

SIMON THOMSON,
Chief Executive

“

We must always remember that in delivering any commercially attractive project it is important that we maintain our high standards to protect people and the environment and deliver our commitment to always working responsibly.”

SIMON THOMSON, Chief Executive

2017 snapshot

Business

Production: providing near-term production and future development options. UK and Norway, Kraken and Catcher fields: ~25,000 barrels of oil equivalent per day 2P reserves (as at 31.12.17)

New area of activity: Mexico



Society

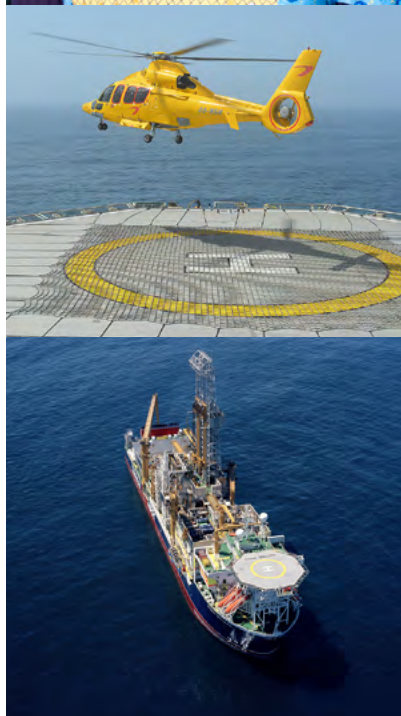
Leveraging partnerships to deliver social investment in host countries

Collaboration with governments and industry to promote participation of host countries in the oil and gas industry

People

Zero Lost Time Incidents in 2017

Updated Group People Policy



Environment

Decrease in the number and volume of chemical and hydrocarbons reaching the environment (one spill totalling ~34 litres in 2017 vs four spills totalling ~167 litres in 2016)

Minimisation of waste to landfill (76% decrease in waste sent to landfill in Senegal in 2017 vs 2016)

Frameworks and standards

OUR CULTURE

We can only deliver value for all stakeholders by operating in a safe, secure and environmentally and socially responsible way. We manage our business activities in line with our core values of building respect, nurturing relationships and acting responsibly (the 3Rs).

Building respect:

We act with respect for people, the communities, the environment, human rights and the law.

Nurturing relationships:

We act honestly, transparently and with integrity to develop strong and lasting relationships with our stakeholders.

Acting responsibly:

We behave fairly, ethically and are accountable for our actions. We believe in, and act on, our responsibility to care for people, society and the environment.



The behaviours we expect from our people are based on the 3Rs and are known as our High Performing Behaviours. They identify the behaviours we expect to see exhibited by our people in everything that we do, day to day. These behaviours are promoted throughout the organisation and ensure that everyone understands how they are expected to contribute to the success of the business. The behaviours are:

- be safe;
- be entrepreneurial;
- be focused;
- be a leader;
- be collaborative;
- be open; and
- be empowered.

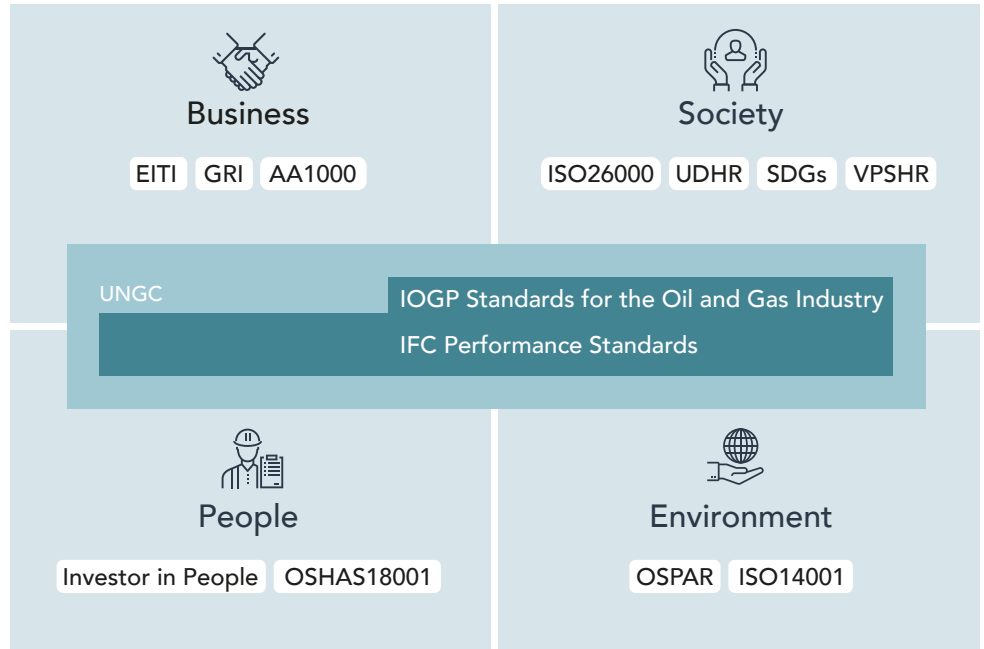
To further ensure that these behaviours are adopted by our people and embedded in our culture, all individuals in the organisation are measured on their performance against each of these behaviours. This is done as part of an employee's annual performance review and objective setting for the following year.



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All the standards we measure ourselves against

Our culture of working responsibly and our Corporate Responsibility Management System (CRMS) is also built upon global frameworks and standards. They inform how we deliver strategy. These frameworks and standards are part of valuable, global initiatives that promote responsible corporate behaviour and working practices.



Cairn is a signatory to the United Nations Global Compact (UNGC), an initiative for businesses committed to aligning their strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. We have integrated the principles into our internal policies and the Cairn Code of Ethics. We have made significant efforts to ensure these are applied in a meaningful manner in our operations, in engagement of our partners, contractors and stakeholders, and in the way we conduct our business. We report against these principles as set out in the UNGC index. See <https://www.cairnenergy.com/media/2202/data-index.pdf>.

We are also committed to working to the International Finance Corporation (IFC)¹ Performance Standards on Social and Environmental Sustainability and the International Association of Oil & Gas Producers (IOGP) standards and good practice guidance. We have integrated the requirements of these standards within our CRMS.

We joined the Extractive Industries Transparency Initiative (EITI) in September 2013. The EITI requires companies to publish what they pay to governments, and for governments to publish what they receive from companies. See [Payments to governments](#).

We report our Corporate Responsibility (CR) information in accordance with the Global Reporting Initiative (GRI) Standards (Core option) and AccountAbility's AA1000 Accountability Principles Standard (AA1000 APS). This ensures that we engage with internal and external stakeholders, identify and assess our most important CR issues, and address and respond to them in a structured way. See our [GRI Index](#) on our website.



¹ The IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries.

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The UN Sustainable Development Goals (SDGs) set out 17 prioritised areas, including ending poverty, ensuring access to energy, protection of ecosystems, addressing climate change and working responsibly practices. We recognise a responsibility to look at our activities to identify where both our business adds value for society and where we may need to mitigate for potential negative impacts across environmental, social and governance (ESG) related issues. In Senegal, we have developed an Impact Benefit Plan that concentrates on seven of the SDGs where we feel we can have the most impact. See [Society and communities](#).

We support the principles contained within the Universal Declaration of Human Rights (UDHR) through an approach guided by and aligned with the Guiding Principles on Business and Human Rights. Our Human Rights Policy is integrated into our Corporate Social Responsibility (CSR) Policy, and our Corporate Responsibility Standard Operating Procedures clarify requirements across the business.

We have established security procedures that address the steps to be taken to mitigate security risks in our operations. These also seek to ensure that standards of operations, equipment and training of personnel meet the requirements of the Voluntary Principles on Security and Human Rights (VPSHR) and reflect the requirements of key UN human rights guidelines.

We have maintained accreditation to the Investors in People (IIP) People Management Standard. Accreditation requires an assessment by an external expert that includes employee interviews and observation.

Our Corporate Responsibility Management System (CRMS) has been developed to recognise the requirements of OHSAS18001, an internationally applied standard for occupational health and safety management systems; ISO26000 guidance on how businesses and organisations can operate in a socially responsible way; ISO14001, which maps out a framework that an organisation can follow to set up an effective environmental management system; and OSPAR, a mechanism that protects and conserves ecosystems and biodiversity through management of human activities, guided by an ecosystem approach.

Every two years, our CRMS is subject to external verification that the system fulfils the requirements as specified in the UK Department of Business Energy and Industrial Strategy (BEIS) guidance and OSPAR 2003/5. The last verification took place in May 2016. We will reverify our CRMS against OSPAR 2003/5 in 2018.

COMPLIANCE

We will always comply with regulations set by our host countries. Where host country regulations for the oil and gas industry are undeveloped, we use our CRMS, which is based on IOGP and UK good practice.



Creating value

BUSINESS MODEL

Cairn's business model is to create, add and realise value for stakeholders through the exploration, development and production of oil and gas within a self-funding business model. Exploration offers material value potential to stakeholders, and production provides the cash flow to sustain exploration and development.



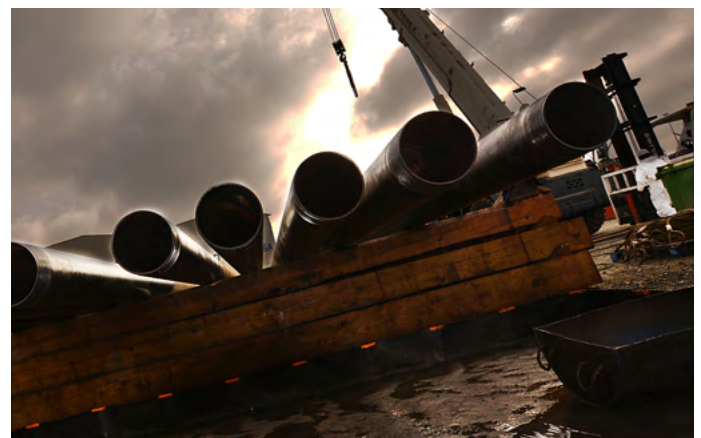
Strategic objectives

Our strategy is to deliver value for stakeholders from a balanced portfolio of exploration, development and production assets. Annual Key Performance Indicators (KPIs) identify the Company's strategic objectives and how they can be met, enabling the Company to measure its delivery of strategy. The 'Maintain licence to operate' KPI measures the Company's ability to work responsibly and means delivering value in a safe, secure, and environmentally and socially responsible manner.

Understanding our key issues and managing risks

Working responsibly means identifying and managing issues that are material not only to the Company but also to stakeholders. By understanding and managing risks, we provide greater protection to our people, society, communities and the environment. Effective management of risk is critical to our CR performance. Cairn's Group Risk Management Committee is responsible for satisfying itself that an effective risk management and internal control system has been developed.

Our most significant risks, and how they are being managed, are regularly reviewed and recorded in a risk register. Stakeholder feedback and the risk register are the two primary sources of information considered when determining our material issues.



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Working together and with others

We train teams to help them understand how to embed CR into our activities, and support is also provided from a group of CR specialists who work alongside project teams to ensure that potential CR impacts are considered in project design and construction, and during operations.

We also work with others, such as our joint venture partners, industry organisations and non-governmental organisations (NGOs) to leverage experience, expertise and resources. For example, we are members of the International Association of Oil & Gas Producers (IOGP), keeping us in touch with the latest industry good practices; participate in the Extractive Industries Transparency Initiative (EITI) multi-stakeholder group in Senegal, promoting transparency throughout the extractives sector; and work with NGOs to deliver effective and sustainable social investments.

Bringing value

We have long had a set of business principles that frame the way we work to bring value. Our Code of Ethics identifies these principles.

Cairn's Business Principles



Our CR Policies and our Code of Ethics must be applied not only by employees but also by all other parties that work on the Company's behalf, including contractors and suppliers. We also seek to work with partners with similar values. They are integrated into our systems and processes, of which the key ones include the CR Management System (CRMS), the Cairn Operating Standards, the Group Risk Management Procedure, People Management Manual, and the Internal Control and Assurance Framework.

You can find our Code of Ethics and our Corporate Responsibility Policies on our website at www.cairnenergy.com/working-responsibly/policies.

Our CR performance is linked to remuneration for employees. Our CR Objectives are linked to our material issues, and performance against these determines staff end-of-year bonuses.

The Board has ultimate responsibility for ensuring this culture of working responsibly exists within the organisation and our assurance processes help the Board to ensure this. We have three levels of application and assurance within the organisation: firstly, our values, policies and Code of Ethics and our processes and systems with which all employees are required to comply; secondly, internal oversight of their application by key committees such as our Senior Leadership Team (SLT), which includes our Chief Executive, Chief Financial Officer and Chief Operating Officer; and thirdly, internal and external assurance audits and opinions.

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Key issue identification

WORKING RESPONSIBLY WITH STAKEHOLDERS

As one of Europe's leading independent oil and gas companies, we recognise the importance of working in the interests of all our stakeholders. As such, we are committed to transparently reporting our activities and performance on Corporate Responsibility (CR).



Strategic objectives

Cairn's strategic objectives are developed by the Board and these set our direction for any given year against the background of our long-term Company strategy. We continue to review, understand and mitigate the risks to our business at both a strategic and tactical level while demonstrating our commitment to our CR policies and principles.

Transparent and responsible working helps us protect our people, the communities and the environment in which we work. In doing so, we secure further opportunities to deliver value to our stakeholders. This is part of our 'licence to operate'.

The significance of our stakeholders' position on CR matters in relation to our business continued to be a focus in 2017, both in the Company KPIs and in our specific CR Objectives for the year, which we again grouped under these four themes: Business relationships; Society and communities; People; and Environment.

The four themes consist of 15 key issues, as shown below, and are used to help determine our CR Objectives for a given year under the licence to operate strategic objective. In 2017, the CR Objectives formed 17% of our overall performance KPIs.

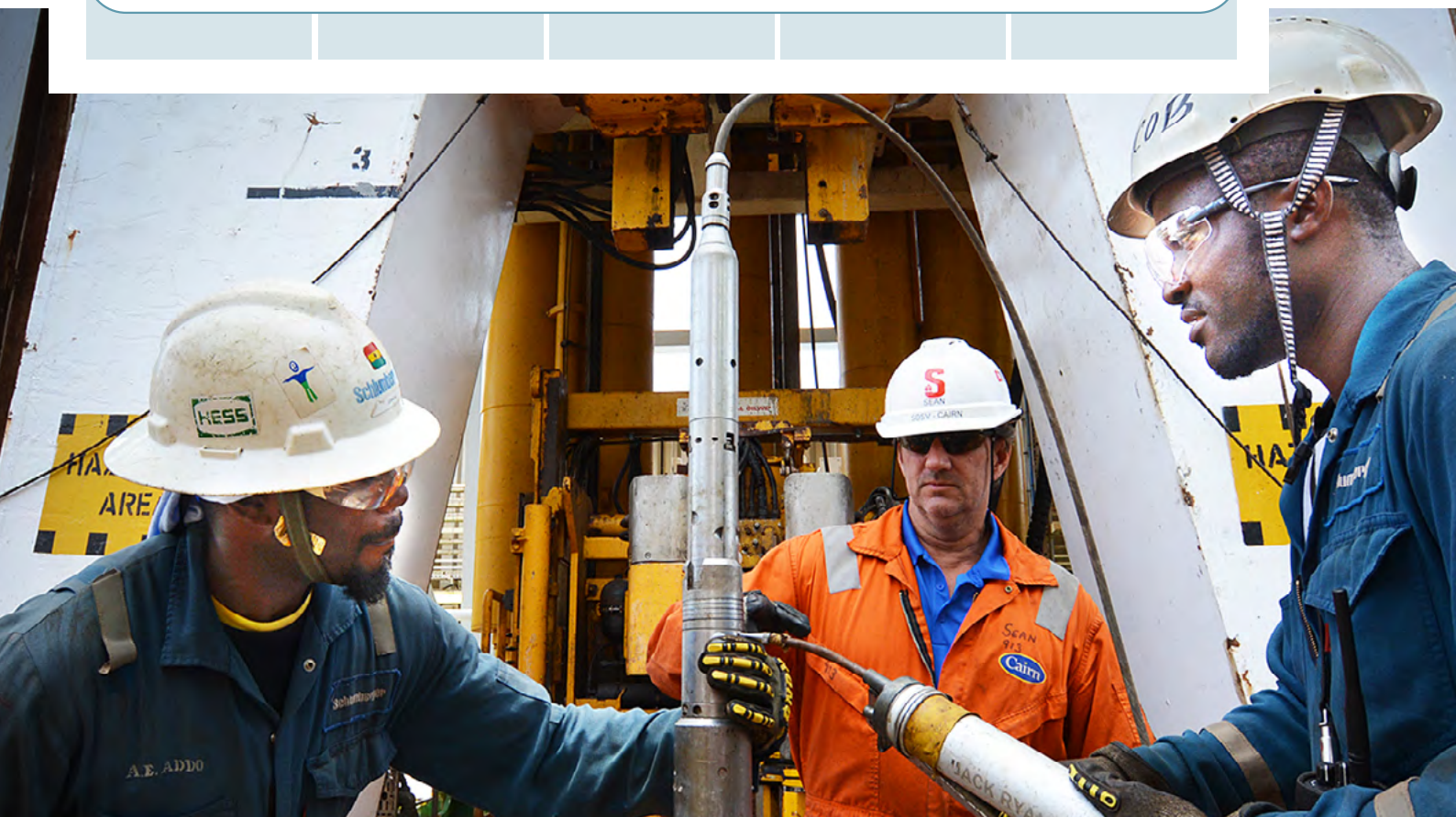
The emphasis of the CR Objectives is strongly influenced by those issues considered material arising from our materiality assessment, described on page 15. Proposed CR Objectives are reviewed and approved by the Board and tracked through the year by the Board and the Management Team.

STAKEHOLDER ENGAGEMENT IN 2017

Our material issues

Our stakeholder engagement model follows the principles of Materiality, Inclusivity and Responsiveness as defined in AccountAbility’s AA1000 Accountability Principles Standard (AA1000 APS). AccountAbility is a global organisation providing solutions to challenges in CR and sustainable development. This ensures that we engage with internal and external stakeholders, identify and assess our most important CR issues, and address and respond to them in a structured way.

Stakeholder engagement for materiality



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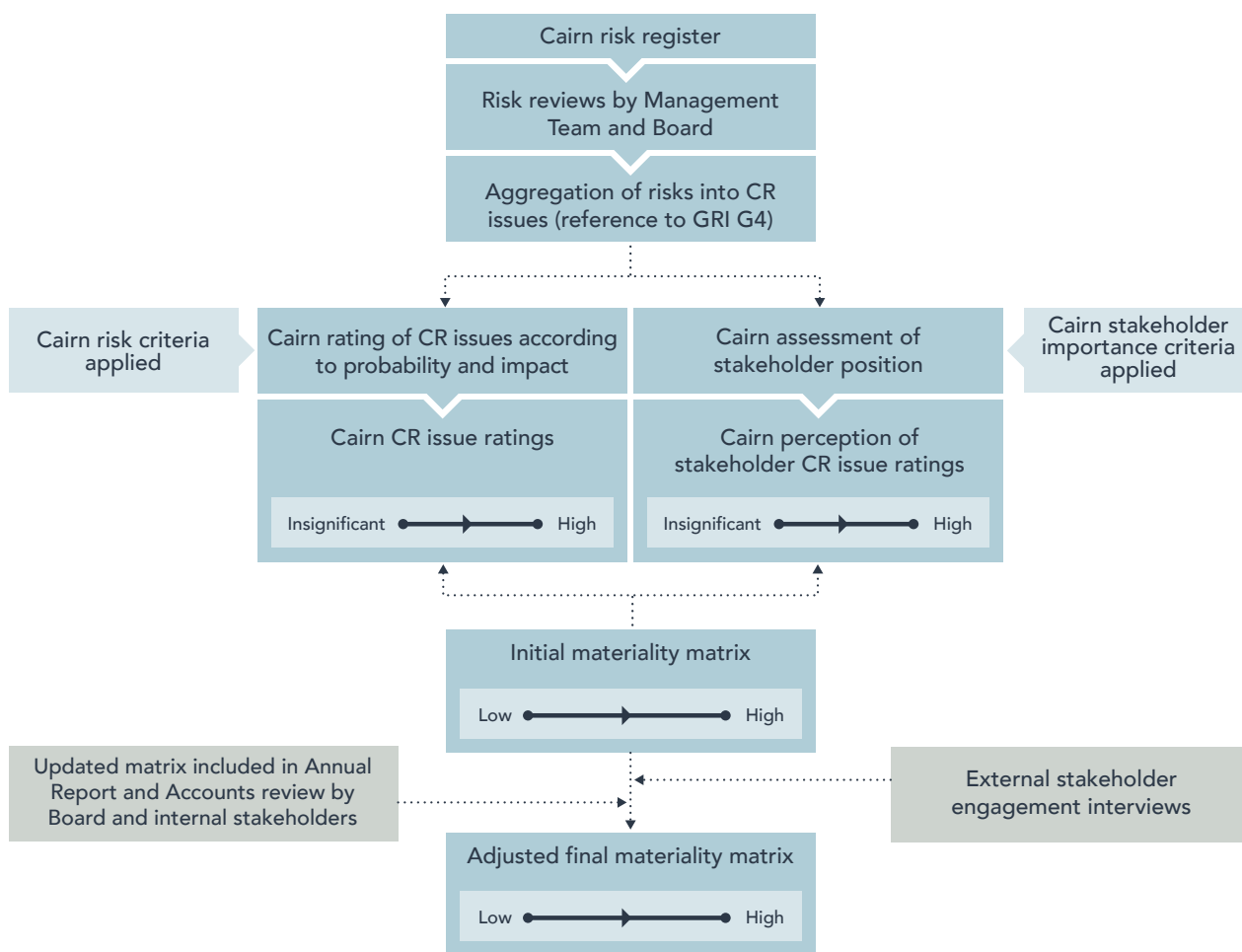
In 2017, we have again assessed our material issues, based on both the Group risk registers and their importance to stakeholders, using defined criteria for 15 specific issues. The issue areas are derived from IOGP¹, UN Sustainable Development Goals and GRI² international reporting requirements. Each of these 15 issues has linked sub-issues, each of which was ranked to indicate its level of importance to Cairn and to stakeholders (high, significant, medium, low, insignificant). Material issues identified influence the CR Objectives for any given year and these form the main part of the licence to operate KPI, linked to both Company and personal performance assessments and remuneration.

This year, as in 2015, we engaged with a representative group of stakeholders to gain feedback on our assessment of material issues.

This group included: an investor; two business partners/peers; a major international contracting company; an NGO representing community interests; employees selected from our UK and Norway (UKN), Senegal and International regional assets; one government and regulator representative; one industry association; an academic institution; and an environmental NGO.

The feedback from these stakeholders was used to quality assure the stakeholder position of issues placed on our materiality matrix. Where comments from stakeholders sufficiently reinforced one another indicating a change in position, we adjusted the issue position on the matrix. The process is outlined in the graphic below.

Materiality analysis and methodology



¹ International Association of Oil & Gas Producers (IOGP) (www.iogp.org/).

² Global Reporting Initiative (GRI) (www.globalreporting.org/pages/default.aspx).

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Stakeholder engagement through the year

We invest considerable time engaging with stakeholders through the year. This ranges from explaining our position and performance to analysts, investors and shareholders to presenting at conferences and participating in industry bodies on good practice. We engage with stakeholders as part of our impact assessments and our management plans. Stakeholder engagement also includes responding to concerned parties on specific issues. The variety of topics is wide and in 2017 included Company strategy, financial position, human rights, modern slavery and climate change.

Example: Our Senegal General Manager gave one of the keynote speeches at the MSGBC (Mauritania-Senegal-Gambia-Bissau-Conarky) Summit in Dakar in November, for which we were one of the headline sponsors. The summit was attended by the Energy Minister of Senegal and around 250 delegates from several West African nations and the international oil industry.

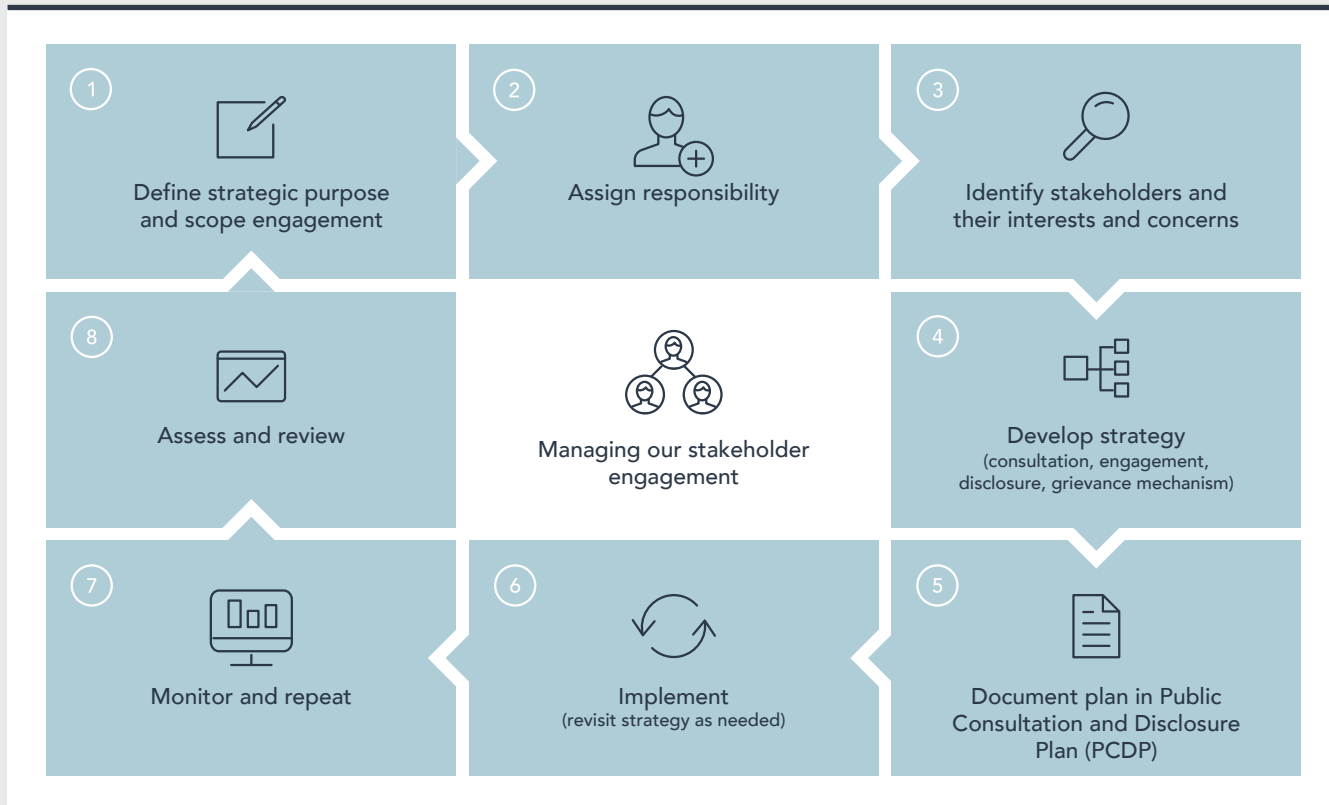
Stakeholder engagement in our projects

New and existing projects are subject to specific procedures to ensure we understand and engage stakeholders in a positive way. This helps us understand issues and risks, enabling effective communications through the project and oil and gas lifecycle. To do this we develop Public Consultation and Disclosure Plans (PCDPs) that are updated regularly to ensure changes to the project and stakeholder expectation and sentiment are taken into account.

PCDPs identify stakeholder concerns and issues, the materiality of issues and the associated risks to the business. This enables us to identify actions to mitigate those risks, which forms part of the PCDP. Stakeholder engagement plans are bespoke to each project (see graphic below).

Example: As part of our new country entrance process for Mexico 2017, we performed a review of stakeholders to assist in developing a stakeholder PCDP during 2018.

Stakeholder engagement in our projects



OUR ACTIVITIES IN SENEGAL

For our activities in Senegal we have maintained a PCDP since country entry in 2013 that we have kept up to date during our subsequent exploration and appraisal drilling programmes. We have also shared this with our joint venture partner in order to develop a joint approach to engaging stakeholders as part of the potential development of the field. We hold regular meetings to discuss progress and review the outcome of any engagement activities.



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MATERIALITY ASSESSMENT RESULTS 2017

Our materiality results appear in the graphic below and a summary of each theme and issue area is given in the accompanying table.

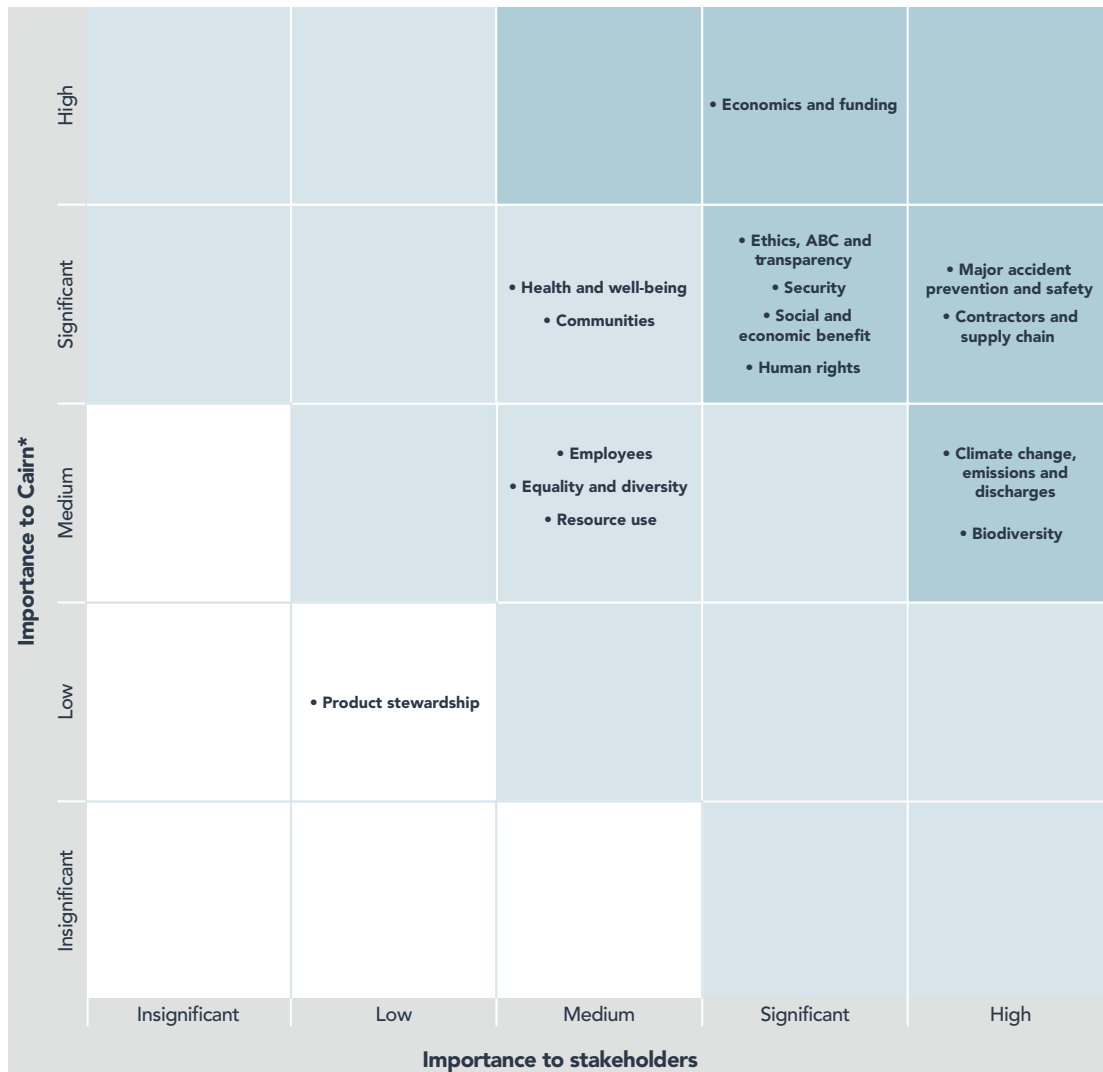
We identified nine issues of high or significant importance to both Cairn and stakeholders that were considered material.

Our graphic shows the position of our 15 issues. These issues are analysed in detail in this report.

Our materiality matrix

Key:





■ High materiality ■ Medium materiality □ Low materiality



*The Importance to Cairn reflects on assessment of risk to the company, combining both the potential impact of risks connected with the issue and the likelihood of it occurring.

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The 15 potentially material issues are listed below, grouped into four themes:

Materiality significance key: H High M Medium L Low					
<p>Business relationships </p> <hr/> <p>Economics and funding H</p> <ul style="list-style-type: none"> - Funding - Investment - Reserves valuations and capital expenditures <hr/> <p>Contractors and supply chain H</p> <ul style="list-style-type: none"> - Culture and leadership - Selection - Competency, training and education <hr/> <p>Ethics, ABC and transparency H</p> <ul style="list-style-type: none"> - Principles, policies, CRMS - Risk and material issues - Strategy and operations - Accountability and responsibility - Advocacy and lobbying - Cairn ABC practices - Contractors and suppliers - Government and authorities - Whistleblowing - Communications - Remuneration - Tax and payments to government - Fines and prosecutions - Non-operated joint ventures and international investments 	<p>Society and communities </p> <hr/> <p>Social and economic benefit H</p> <ul style="list-style-type: none"> - Shared value - Benefit and impacts to communicate - Local content - Social investment - Government relations <hr/> <p>Human rights H</p> <ul style="list-style-type: none"> - Working conditions/T&Cs - Freedom of association - Modern slavery/security - Complicity - Grievance - Non-discrimination <hr/> <p>Communities M</p> <ul style="list-style-type: none"> - Local community - Stakeholders - Indigenous peoples - Local labour - Community health - Cultural heritage - Displacement 	<p>People </p> <hr/> <p>Major accident prevention and safety H</p> <ul style="list-style-type: none"> - Asset integrity - Major accident prevention - Major oil spill prevention - Workplace safety <hr/> <p>Security H</p> <ul style="list-style-type: none"> - Office - Personnel - Local assets - Travel - Cyber security <hr/> <p>Health and well-being M</p> <ul style="list-style-type: none"> - Workplace health - Infectious diseases - Well-being and health support <hr/> <p>Employees M</p> <ul style="list-style-type: none"> - Culture and leadership - Selection - Succession - Workforce planning <hr/> <p>Equality and diversity M</p> <ul style="list-style-type: none"> - Anti-discrimination - Equal pay - Equal opportunities and diversity 	<p>Environment </p> <hr/> <p>Climate change, emissions and discharges H</p> <ul style="list-style-type: none"> - Energy use and alternative sources - GHGs - Other emissions - Flaring and venting - Strategic carbon risk - Discharge/disposals to water and land - Spills - Reuse, recycling and waste management - Stranded assets <hr/> <p>Biodiversity H</p> <ul style="list-style-type: none"> - ESIA, environmental surveys and ecosystem services - Biodiversity action plans <hr/> <p>Resource use M</p> <ul style="list-style-type: none"> - Water abstraction and use - Local resources - Materials <hr/> <p>Product stewardship L</p> <ul style="list-style-type: none"> - Oil and gas sales and impacts 		

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The movement of issues as a result of testing with the stakeholder group is summarised in the table below.

Issue area	Explanation of Cairn assessment	Stakeholder feedback	Cairn response and movement	Change following feedback
Economics and funding	The economic environment remained challenging in 2017 despite some recovery of the oil price. This remains an important area for our investors and the supply chain in particular. This also includes the change in funding position of some investing institutions on hydrocarbon projects and their strategic position on climate change.	The issue was raised by several stakeholders. They generally agreed this was classified correctly. Some considered different sub-classifications should be presented.	Classification unchanged. Aggregation of issues occurs to keep the assessment focused. Economics and funding-related topics are expanded in the Annual Report. The issue remains material.	None
Contractors and supply chain	Cairn relies heavily on contractors and suppliers for services for operations and supporting our projects. Their adherence to good industry practice and our requirements is important to deliver CR performance. This protects our licence to operate and reputation.	Most stakeholders agreed that the classification was correct with one believing it too high and one too low. One indicated that contractor challenges are a higher risk in some locations than others.	Cairn agrees that some locations present greater challenges than others. On the balance of comments we concluded that the classification should be unchanged. The issue remains material.	None
Ethics, ABC and transparency	Cairn reduced the assessment of importance to stakeholders for this issue slightly from 2016 on the basis of increased visibility of our actions on the Code of Ethics, remuneration and transparency. However, we still consider it a significant risk to the business. Consequently, we left our risk assessment as significant.	Only one stakeholder group considered that the issue should remain as high importance to stakeholders.	On balance, it was considered that the issue had been correctly classified. The issue remains material.	None
Social and economic benefit	We considered this issue to present significant risks to the Company given our areas of operation, and its importance to stakeholders likewise remained significant.	No comments from stakeholders.	Classification unchanged. The issue remains material.	None
Human rights	We considered this issue to present significant risks to the Company given our areas of operation, and its importance to stakeholders likewise remained significant.	No comments from stakeholders.	Classification unchanged. The issue remains material.	None
Communities	Our risk assessment is that the communities in which we work are significant to Cairn, although the perceived importance to stakeholders is medium, based on routine engagement.	A single stakeholder commented that the issue should be classified in the material issue area.	Classification unchanged. The issue is not material but we report on it in our CR report and on our website.	None
Preventing major accidents and safety	The Cairn risk assessment considers major accidents to be low-likelihood, high-impact events, and safety issues, though more frequent, generally have a lower impact. Nevertheless, the industry continues to be scrutinised closely on this issue and is of high importance to stakeholders.	No comments from stakeholders.	Classification unchanged. The issue remains material.	None

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Issue area	Explanation of Cairn assessment	Stakeholder feedback	Cairn response and movement	Change following feedback	
Health and well-being	Health and well-being risks to personnel remain an ongoing risk classified as significant to Cairn but of medium importance to stakeholders.	No comments from stakeholders.	Classification unchanged. The issue is not material but we report on it in our CR report and on our website.	None	
Security	We raised the importance of Security to stakeholders from medium to significant given the increased number of high-profile events in 2017. Our own risk assessment considers security a significant risk.	No comments from stakeholders.	This means the classification rises from medium to high overall and therefore the issue is considered material.	Increased	
Employees	Our assessment of risk of this issue to Cairn reduced in 2017 following a number of risk management actions. This gave a decline to medium importance. Our perception was that stakeholder importance was also medium.	This was the most commonly discussed item, with six stakeholder groups indicating they believe we should not decrease the significance of this item. The reasons included external perception and reputation, and some groups also highlighted issues associated with security and contractors.	Overall, we understand the concern around perception. We believe our risks have decreased given improvement of internal controls and reduced likelihood and some concerns expressed are dealt with in other issues such as Security and Contractors and supply chain. Nevertheless, we acknowledge the concern among stakeholders and have increased the importance to stakeholders accordingly. Although the overall classification of the issue remains medium and therefore not material, we discuss this issue in the Annual Report and on our website.	Increased	
Equality and diversity	The risk assessment at the end of 2017 suggested this issue was unchanged from last year, as was the importance to stakeholders.	Only one comment was received and the stakeholder regarded it as 'the hot topic'.	Although we have left this item unchanged, we recognise it is likely to grow in significance in the coming years. Consequently, we will include CR Objectives on this for 2018. The issue is not considered material but we report on it in our CR report and on our website.	None	
Climate change, emissions and discharges	We consider the risks from climate change to our business to remain medium and clearly this is an important topic for a number of stakeholders, including investors, communities and the environment. See also Economics and funding regarding investor position.	Two commented that this item should be linked with Biodiversity and have an equal classification.	We have separated Biodiversity in order to allow us to examine biodiversity in more detail as not all impacts are linked to climate change. This takes better account of local sensitivities. However, we acknowledge the link with climate change and we feel it is covered by that issue. Overall the issue is unchanged and remains material.	None	
Biodiversity	We raised our risk classification of Biodiversity (low to medium) given our progress towards development in Senegal and new acreage in Mexico. The stakeholder assessment was considered significant.	Almost all stakeholders considered this of high importance; one considered it the top issue. See also Climate change comments.	We have raised the importance of biodiversity for stakeholders to the highest level. This together with our own risk assessment increases the significance of this issue to high and therefore is material. A section appears in the Annual Report, CR report and on our website.	Increased	

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Issue area	Explanation of Cairn assessment	Stakeholder feedback	Cairn response and movement	Change following feedback	
Resource use	Our risk classification and stakeholder classification for this issue were considered unchanged since the previous year.	No comments from stakeholders.	Classification unchanged. The issue is not material but we report on it in our CR report and on our website.	None	
Product stewardship	We raised our risk assessment of Product stewardship from insignificant (no production in 2016) to low given we have some non-operated production. We left stakeholder importance as insignificant.	This was the second most debated issue among our consulted stakeholders. Comments were varied, including reference to connected economic and funding issues and the increased possibility of environmental impact.	We agree that the concern should rise for stakeholders, on account of increased production, handling and transparency of trading. The risks linked to economics and funding and environmental impact are covered in those issue areas. The issue is not material but we report on it in our CR report and on our website.	Increased	
Other comments	The majority of stakeholders considered our approach to material issue assessment in line with others and saw it as good practice to reach out to stakeholders. Other comments included that it is positive that the CR issues are integrated with business risks, and that it is very consistent with advanced risk management practices. Only one stakeholder would have liked a different approach with greater emphasis on 'likelihood' and 'severity', which would have affected the way in which issues were plotted. Greater emphasis on the risk management system and links to remuneration and internal KPIs was flagged by the same stakeholder.				

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Economics and funding

STRATEGIC OBJECTIVES

- Deliver exploration and appraisal success
- Portfolio management
- Deliver a sustainable business
- Maintain licence to operate
- Deliver operational excellence



PRINCIPAL RISKS

- Kraken and Catcher operational and project performance
- Delay in Senegal development plan
- Securing new venture opportunities
- Volatile oil and gas prices
- Inability to secure or repatriate value from Indian investments
- Reliance on joint venture operators for asset performance
- Health, safety, environment and security



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HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

Strengthen link between Corporate Responsibility Management System (CRMS) and business risk management

We reviewed our CR policies and introduced a Corporate Major Accident Prevention Policy (CMAPP).

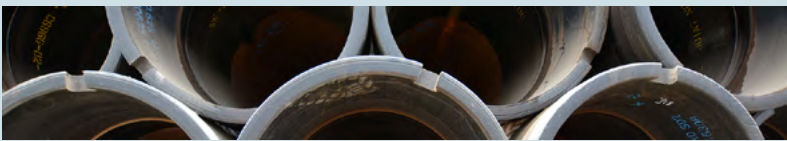
We integrated our Code of Business Ethics with our Business Principles for a new Code of Ethics (the Code); this was published for the first time.

We presented to the Board how the CRMS and the Cairn Operating Standards (COS) work together to manage risk.

Annual CRMS audit

Our annual internal audit programme looked at the application of the CRMS with only two minor findings.

We discussed with the Board how CR issue management is assured and audited.



Enhance CR content of Investment Proposals (IPs) and support new ventures

All our IPs were reviewed and signed off by department heads.

We increased our scrutiny of modern slavery and climate change issues and included these issues in our IPs.

We implemented a checklist of CR issues for use in IP preparation.

We supported our new ventures team successfully during our new country entry into Mexico.



Improve CR risk register

We revised our risk register process and improved quarterly CR risk updates.

We further integrated the CR risk register with other business risks for regular review by the Management Team and the Board.

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Economic contribution

Our positive contribution

Cairn has a commitment to making a positive contribution, wherever we operate, by delivering tangible benefit to our stakeholders, including:






- host governments, which grant us our permits and licences to operate;
- host societies and communities that give us our social licence to operate; and
- employees, contractors and suppliers, who provide the expertise and resources that we need to carry out our activities and create value.

How we distribute value

We distribute value through:

- payments to governments, including taxes, duties and other payments;
- payments to promote social and community development in our host countries;
- payments to our contractors and suppliers;
- payments to our employees; and
- payments to those who provide us with capital.

Total value generated and distributed by Cairn business in 2017 split by:

Beneficiary	Economic value distribution	Value (Group) US\$
 Governments	Taxes, fees, etc	\$36.1m¹
 Communities	Social investment	\$238,769
 Contractors and suppliers	Capital spend	\$592.7m²
 Employees	Staff costs	\$39.7m³
 Investors	Dividends, interest, bank charges, repayments, etc ⁴	\$7.9m⁴

1 Refunds from governments, in 2017, were US\$37.6 million.

2 Net share across the Group.

3 Excludes share-based payment charges which are non-cash.

4 In 2017, no dividends were paid. Cairn realises value by progressing development assets through to production and/or realising value through asset sales, and either reinvesting the proceeds into the business, to fund exploration and development activity or returning cash to shareholders. Finance costs included those associated with drawing on the Exploration Finance Facility (EFF) in Norway and charges associated with maintaining the Group's reserve based lending facility. In 2017, the Group's exploration business remained fully funded.

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Increasing standards in a challenging business environment

In 2017, we recognised that the increasing pressure on our industry to improve standards of operation within the challenging business environment continued. Our industry faces an ongoing increase in the standards we must apply while continuing to focus on cost efficiency. Volatile oil price continues to be one of our principal risks, which means the business remains focused on efficient capital allocation across the portfolio. It is important that cost reductions do not compromise our commitment to working responsibly.

The level of detail required regarding the CR standards we use and performance we achieve continues to rise in requests from analysts, shareholders and funding institutions. This includes our reporting and transparency requirements (see [Ethics, ABC and transparency](#)). In order to maintain our licence to operate, we must apply latest good practice in the way we do business.

We track and participate in industry bodies such as the International Association of Oil & Gas Producers (IOGP). This enables us to ensure we are aware of the latest developments in good practice and translate them into our CRMS for application at a corporate level and locally in our projects. During 2017, we initiated actions to further integrate our CRMS into our day-to-day business activities. This included a more concise Code of Ethics (the Code), which integrated our previous Code and our longstanding Business Principles. We published this wider Code externally for the first time in December (see www.cairnenergy.com/media/2150/group-code-of-ethics.pdf).

Our risk management system was modified during the year. This included ensuring routine department and asset risk reviews were held on a quarterly basis prior to the aggregated risk register being reviewed by the Management Team. In December, our Board held its detailed review of the risk and developed strategies to realise value for shareholders and stakeholders from our portfolio.

In September, the Board requested a review of how our business management system integrates the CRMS within projects and how it links with the Cairn Operating Standards (COS). This was presented in October. The Board was satisfied that the CRMS was fit for purpose and that appropriate controls were in place to protect our licence to operate.

Ernst & Young also conducted an internal audit of our CRMS that resulted in two findings: one medium rated, to improve the management of potential CR risks that fall outside the Project Delivery Process; and one low rated, to improve reporting of progress of our CR Objectives. Actions were set in place to address these findings.

CRMS standards and improvements in our projects

During our Senegal drilling programme in 2017, we improved our management of CR risks and managed to reduce costs compared to previous campaigns. This was achieved not only from effective rig and equipment selection in late 2016, but also with strong consistent CR leadership from our management and our contractors during the campaign. Our operational safe systems of work was improved in Senegal by holding monthly contractor meetings in Dakar see ([Contractors and supply chain](#)).

Development planning in Senegal commenced with our partners in January and continued throughout the year. While seeking to maximise value from the project for the joint venture and Government of Senegal by managing

development costs, it is important nevertheless to maintain our high CR standards. Increasingly, providers of capital want to ensure that the highest CR standards are adhered to. Cairn is committed to observing high CR standards across all our activities, including International Finance Corporation (IFC) requirements, good industry practice, and all international and national legislation.

In October 2017, we introduced the Corporate Major Accident Prevention Policy (CMAPP), which strengthens our commitment to avoiding major accidents and mitigating major accident risks. This complements our other corporate policies, which were updated at the same time. Although our standard operating procedures within the CRMS already contained these requirements, the CMAPP gives more visible commitments as required under the EU Offshore Safety Directive. It is a pre-requisite for operating in the UK Continental Shelf (UKCS). This is necessary as part of our planning preparations for drilling an exploration well in the Ekland block during 2018. It helps clarify our commitment and standards for the selection of a cost-effective drilling rig, which will need to comply with the UK Offshore Installations (Offshore Safety Directive) (Safety Case etc) Regulations 2015.

Our CRMS will be re-audited in 2018 to re-verify the environmental component against the requirements of the OSPAR recommendation 2003/5, also a requirement in the UKCS and in Ireland. In addition, we will review the CRMS against the latest health and safety management systems standard, ISO45001, which replaces OHSAS18001 and is due to be released during 2018.

CRMS improvements in obtaining new opportunities

International investment in new opportunities is a significant part of our activities, both where we may become operator or joint venture partner. To protect our investment, we continue to assess CR risks as part of our evaluation of a new relationship or a new location. Although some opportunities may be financially attractive, we may judge them to represent an unacceptable risk due to associated ethical, safety or environmental concerns.

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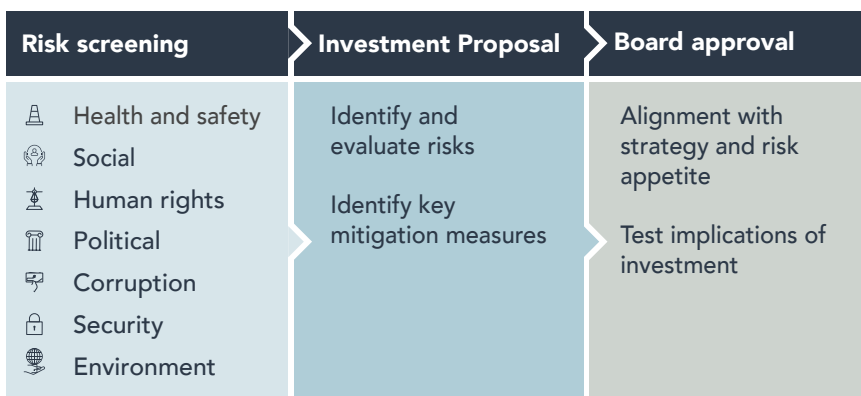
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Evaluation process for new ventures

Before entry into a new venture, we undertake a due diligence process to ensure we have confidence in the integrity and CR track record of the partners involved and have a clear understanding of the CR risks associated with the locations of interest. Through our CRMS, we rigorously assess new venture opportunities. This consists of a phased process of evaluation using our Cairn Operating Standards (COS) (see [Project Delivery Process](#)) to understand all aspects of risk associated with a new venture. From a CR perspective, we screen risks in relation to the CRMS requirements and CR issues arising from the type of deal (e.g. new country entry, licence application, existing asset acquisition or company deal).

As part of this process, we develop Investment Proposals (IPs) that identify and evaluate the risks associated with the investment; these risks include any CR-related concerns. All significant new venture projects require Board approval and are considered by the Board relative to strategy and risk appetite. All IPs developed in 2017 included appropriate assessment of CR considerations.

Due diligence process for new ventures



Our new ventures team successfully secured attractive acreage in Mexico against strong competition. This required us to demonstrate conformance with the health and safety management system (OHSAS18001) and environmental management system specifications (ISO14001). Our existing OSPAR environmental management verification was sufficient to demonstrate environmental management arrangements. A separate external health and safety audit was conducted to demonstrate that our health and safety systems met the required standard. No adverse findings were made following this audit.

The IP prepared for the Board approval of entry into Mexico included detailed assessment of multiple risks including anti-bribery and corruption (ABC), security and environmental risks (see [Ethics, ABC and transparency](#), [Security](#), and [Environment](#)). As a condition of signing the Production Sharing Contract (PSC), we were required to determine a block environmental baseline position and social impacts in order to understand pre-existing liabilities. Preparation from this work was well advanced at the year end.

We strengthened the assessment of risks within our IPs during 2017 to include a standardised approach to the evaluation of modern slavery and climate change risks. We will continue our efforts to identify and secure further opportunities and maintain our licence to operate in 2018.

Investors continue to scrutinise not only our financial position but also our commitments on CR. In 2017, we reviewed the position taken by key investors on climate change to understand related risks to our business. Although our own assessment of climate change risk to the business remains the same as in 2016, we noted the change in position of some investing institutions in relation to investing in hydrocarbon projects. Despite this, we consider our funding position to remain robust. In the short to medium-term – taking into account government policies, existing legislation, expected energy demand, and oil and gas project timescales – ongoing exploration, appraisal and development will continue to be supported and viable in our areas of interest. Our Kraken and Catcher non-operated developments remain fully funded. In the near term, the marginal cost of carbon is not seen as a significant issue, although it may play a part as these assets age and production declines, precipitating a marginally earlier decision to cease production. We do not foresee funding or carbon cost as impacting shareholder value overall in our mature area portfolio at the end of 2017. We will continue to assess the risks associated with access to debt markets and funding. See also [Climate change, emissions and discharges](#).

This and our materiality review were used in shaping our CR Objectives for 2018. Our commitment to working responsibly is undiminished, and we aim to maintain and demonstrate a strong track record to continue to secure investment and opportunities across our target areas.

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OPERATIONAL HIGHLIGHTS IN OUR REGIONS

Our Senegal region

In the Senegal region in September 2017, we completed the phase three appraisal and drilling programme, maintaining our implementation of the CRMS requirements within the project without any non-compliances. We achieved substantial cost savings without compromising our standards, with delivery times and operational costs well below estimates. This was due to availability and selection of high-quality contractors at a competitive price and also an ongoing engagement of contractors as part of operational processes. At a local level, we continued to track changes in regulations and standards, including the Senegal Petroleum Code proposals and their implication for operation and cost. In addition, we are working with our partners on the development project in Senegal to ensure cost-effective implementation while maintaining good industry practice and strong relationships with regulators and local communities.



Our International region

Our International region acquired acreage in Mexico following the handover from our new ventures team. There are substantial challenges from the CR perspective, not least from natural phenomena such as earthquakes, as seen in September. Successful bids made on block 9 as operator and block 7 as joint venturer relied on demonstration of a sound CR approach. At the end of 2017, works to demonstrate our position in relation to Mexican regulatory requirements were well under way and we will continue to seek efficient operations as we progress our plans, applying our CRMS.

Our UK and Norway region

Our UK development assets in our UK and Norway region (UKN) came onstream in 2017. Kraken delivered its first oil in June and Catcher in December. This was achieved while making good cost savings and meeting the latest requirements, in particular, under the UK Offshore Installations (Offshore Safety Directive) (Safety Case etc) Regulations 2015 (Safety Case regulations). Production is increasing and Cairn continues to monitor and engage the operators on production and CR performance matters.

Cairn's UKN region also continued to participate in a wide variety of non-operated assets. In Norway, we continued to fulfil our 'see to' responsibilities under the Norwegian regulatory requirements and participated as a non-operating partner in a number of licences along with applications for further acreage in the UKN sectors. Progress towards commercial development of Nova continues while maintaining our CR position. Planning is under way for drilling a well on Ekland in 2018 under the UK regulatory framework. We will apply UK regulatory requirements including implementation of our CMAPP, and re-verification of our CRMS against OSPAR recommendation 2003/5, which was last conducted in 2016. In addition, we are continuing to monitor developments in geopolitical blocks such as the EU by our involvement in international trade bodies and understanding the implications arising from Brexit.

OUR CR OBJECTIVES 2018

Implement CMAPP within the business.

Review the CRMS against the new health and safety standard ISO45001 that is due to replace OHSAS18001.

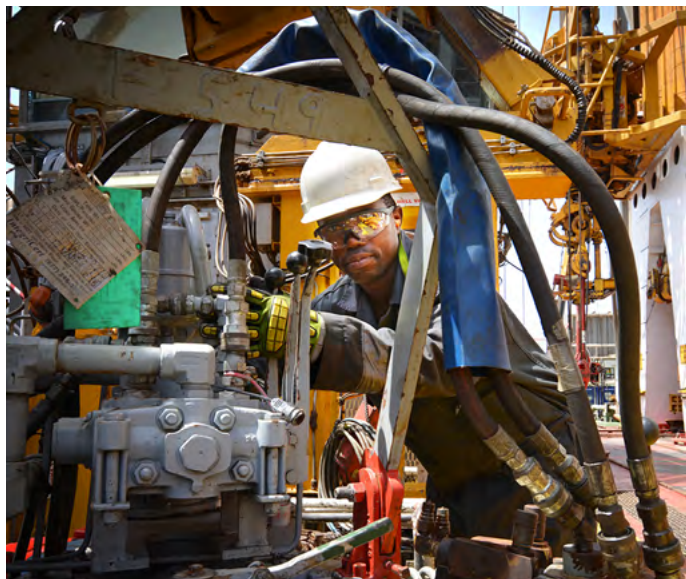
Re-verify the CRMS against the requirements of OSPAR recommendation 2003/5.

Contractors and supply chain

STRATEGIC OBJECTIVES

Maintain licence to operate

Deliver operational excellence



PRINCIPAL RISKS

Health, safety, environment and security

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

Run contractor workshops in Senegal with themes including Life Saving Rules (LSR) and the Modern Slavery Act (MSA)

Contractor workshops were implemented through the Senegal drilling campaign on a monthly basis.

Contractors were engaged on LSR, human rights, MSA and a variety of health, safety and environment (HSE) topics.

Support other programmes planned across the Group

Contractor selection support commenced for future programmes in the UK, Senegal and Mexico.

Contractor input was made to our joint venture partners.

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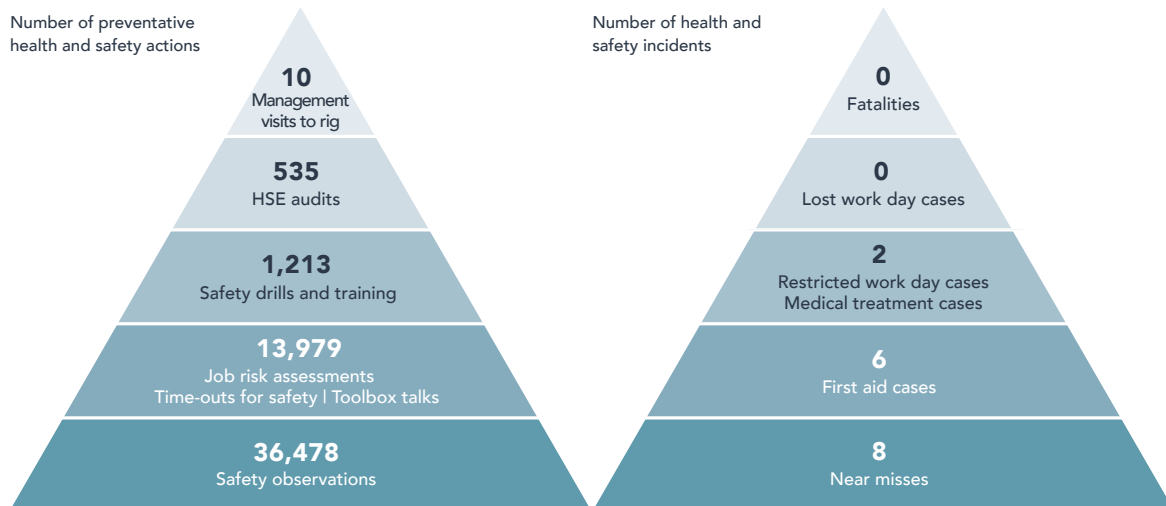
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Quality contracting services

As a predominantly exploration and appraisal-led operator, we continued to rely very heavily on the use of contractors to provide significant elements of our operational capability. All our contractors are selected on the basis of service capability, application of suitable standards and cost. This is assessed through the tendering processes, pre-activity readiness assessment and engagement, and subsequent monitoring during our operations. For the most part, these contractors are international service companies; however, we continue to promote and give preference to the use of local services wherever we can, provided our high CR standards are met.

In 2017, we again used an international drilling rig contractor with aviation and vessel contractors for the Senegal phase three exploration and appraisal programme. Local contractors from our 2016 programme in Senegal, used for our shore-base support services, were re-engaged for the 2017 campaign to build on the previous success and provide continuity of support. This proved successful, with the shore-base personnel showing a high level of professionalism, delivering the programme in a safe and environmentally responsible manner.

Health and safety triangles, Senegal operations, December 2016 – September 2017



Our stakeholders continue to have a significant interest in opportunities for local contracting services and we anticipate that this interest will grow as we approach development in Senegal. We are conscious that the degree of potential local involvement depends on available skills and where we are in the oil and gas lifecycle. Where locations have limited experience in oil and gas activities, it is important to capacity build. Therefore, as we progress in Senegal, we continue to do so through partnership with local organisations and academic institutions. See [Case study](#).

CASE STUDY: PROMOTING LOCAL PARTICIPATION IN OIL AND GAS ACTIVITIES IN SENEGAL

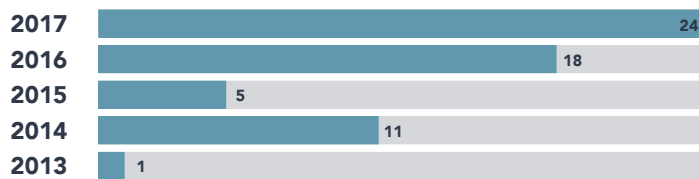


Through our exploration and appraisal activities offshore Senegal, we have been promoting the participation of local businesses and workers within our activities. While there were few local businesses with direct oil and gas expertise when we started working in Senegal in 2013, we have steadily worked with local businesses to promote participation in our office, exploration and appraisal activities. This includes participation of local enterprises through mentoring and supervision, training on waste management, HSE, oil spill response and safe lifting operations, as well as support through our social investment activities, specifically to support local waste management facilities. See [Environment](#).



As we move towards a potential development phase offshore Senegal, the joint venture is looking to optimise opportunities for local enterprises to participate in the country's new oil and gas sector, through building on experience gained in the exploration and appraisal phase. The first step has been to establish reliable information on the current capacity of Senegal's suppliers to service the needs of any forthcoming development projects. To achieve this, the joint venture commissioned an Industrial Baseline Study to identify near-term opportunities to utilise local capacity and identify any critical gaps that will need to be addressed to further local participation in the oil and gas supply chain in future projects. With other industry peers and an implementing partner, we are now exploring potential mechanisms to improve access for local businesses to our and other industrial sector opportunities. We promote quality and responsible operating standards through enhanced capacity building at the same time. Recognising that local businesses will require qualified local personnel, the Senegalese Government is promoting a national institute for oil and gas training. Together with our joint venture partners and other companies involved in the oil and gas sector, we have been engaging with the government to support such training opportunities in Senegal. Through 2017, we continued a programme of English language training for institutional stakeholders and university students. See [Social and economic benefits](#).

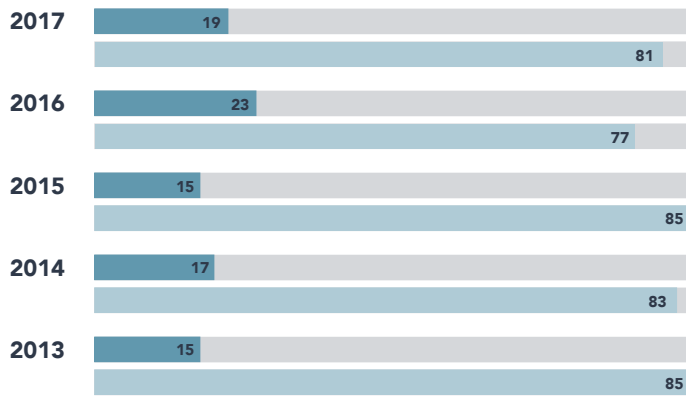
% of spending on local suppliers (Senegal)



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In 2017, we had a total organisational workforce of 236, of which 76% were direct employees and 24% were consultants employed on fixed-term contracts. We also had material contracts with over 20 organisations representing approximately 360 contractor personnel. Services and equipment used in exploration and development came from various locations and suppliers around the world. On this basis, approximately 60% of our workforce was contractors representing 63% of our hours worked. See [Major accident prevention and safety](#).

Total national and non-national contractors (%)



Key

- National (%)
- Non-national (%)



Contracting in new licences

In 2017, we acquired new acreage in Mexico and secured operatorship of the Ekland block in the UK from the previous operator. Planning is key to ensuring we select contractors who share and implement the principles and standards we support.

Following successful acquisition of block 9 in Mexico, as operator we selected contractors to help us understand potential liabilities and risks associated with acquiring the asset, both in respect of the social impact and environmental baseline conditions. This is required as part of compliance with Mexican regulations on taking over from a previous operator. We identified an experienced contractor, which ensured our requirements were understood and allowed us to develop a cost-effective approach to delivering environmental surveys. This meant partnering with other operators in a similar position to use a single vessel to undertake the surveys over multiple blocks.

For the UK Ekland block, planning and selection of contractors commenced in anticipation of an exploration well in Q2/3 2018. We will follow our contracting procedures that are aligned with our Code of Ethics and CRMS requirements, ensuring a streamlined approach.

CR issues for our contractors

It is important that our contractors share our focus and culture on all aspects of HSE and CR to maintain our licence to operate. Experience, competence and demonstrating good performance are some of the key issues when it comes to choosing the right people to supply the provisions, equipment and services needed to help run our business. Cairn applies a rigorous selection process in choosing contractors, which is embedded in Cairn's Contractor Management Procedures and which includes assessing contractors' competency levels in HSE and related management systems.

During an offshore drilling campaign, a number of activities are undertaken that may pose significant HSE risks. These crucial processes include, but are not limited to, the rig, marine vessels, helicopters and supply base operations. In Senegal, during the phase three appraisal and drilling programme in 2017, we reinstated a strong programme of monthly workshops for sharing experiences, good practice, incident information and lessons learned.

Our robust anti-bribery and corruption (ABC) policies are of growing importance as we start to operate in new areas of the world. Our contractors are assessed to ensure they apply compatible standards and that control and reporting mechanisms are clear. We have a zero-tolerance approach to bribery and corruption and modern slavery (see [Ethics, ABC and transparency](#) and [Human rights](#)) and conduct risk-based

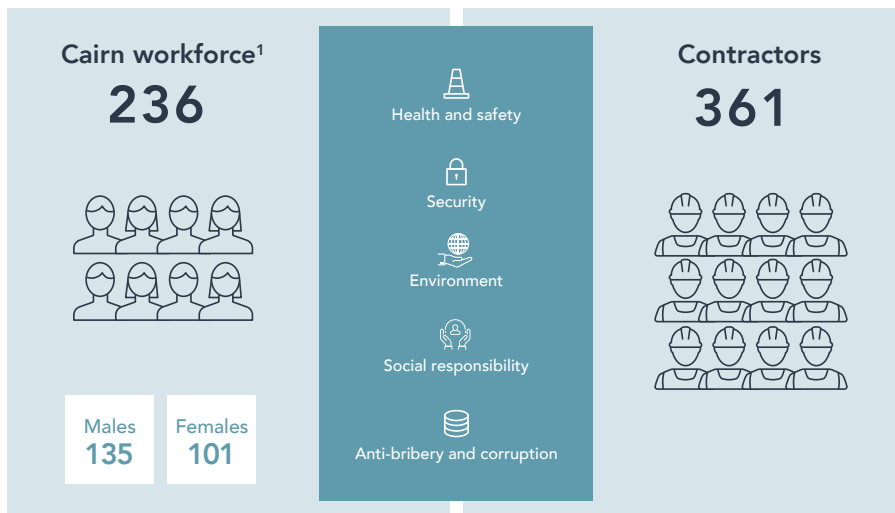
due diligence on contractors, as detailed in our ABC and human rights procedures.

We anticipated falling under the provision of the UK Modern Slavery Act (MSA) in 2017, although the qualification criteria were not met by the close of the year. Our preparation to comply with the MSA continued with the requirements mainly affecting our supply chain and contractors in terms of measures to ensure forced labour does not occur within our operations. Consequently, we conducted an initial training of contractors and an audit of one of our key local contractors in Senegal. Further actions have been identified and included in our CR Objectives for 2018. See [Human rights](#).

Employees and contractors

People who work for Cairn, whether employees or contractors, are united by our shared ambitions and priorities

¹ This includes Cairn employees and other time-writing personnel who have been contracted for more than three months to an organisational position.



OUR CR OBJECTIVES 2018

Ensure Cairn Life Saving Rules and drilling lessons learned are implemented in the Ekland drilling campaign.

Develop integrated contractor audit plan.

Ethics, ABC (anti-bribery and corruption) and transparency

STRATEGIC OBJECTIVES

- Maintain licence to operate
- Deliver a sustainable business



PRINCIPAL RISKS

- Health, safety, environment and security
- Fraud, bribery and corruption
- Political and fiscal uncertainties
- Access to debt markets

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

- We integrated our Business Principles into the new Code of Ethics (the Code).
- The new Code was published for the first time.
- We delivered targeted training on ABC in 'high risk' countries.
- The ABC content of our due diligence process was revised.
- We revised the gifts and hospitality register.

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MEASURING PERFORMANCE

Zero incidents of non-compliance with the Code

Zero employee dismissals for non-compliance with the Code

The Code

Since inception, Cairn has maintained a strong stand on ethical matters, which is the key to delivering value and maintaining our licence to operate. Back in 2004, we established our HSE Guiding Principles, which have been updated annually ever since. The HSE Guiding Principles evolved into our Corporate Responsibility Business Principles in 2006, introducing our core values of Respect, Relationships and Responsibility, the 3Rs. The principles were further enhanced in 2010 with the establishment of Cairn’s 10 Business Principles.

In 2017, we have combined our Business Principles with the Code of Business Ethics to produce an integrated Group Code of Ethics (the Code). This retains our 3Rs and Business Principles and combines them with our ethical position. It also better aligns them to our four Corporate Responsibility themes – Business relationships; Society and communities; People; and Environment – against which we report. In order to improve transparency, the Code is published in full and is now available on our website (www.cairnenergy.com/media/2150/group-code-of-ethics.pdf) for the first time.

The Board’s audit committee remains responsible for appointing an internal auditor to regularly conduct internal audits of Cairn’s compliance with the Code. All levels of management at Cairn, including executive and non-executive directors, regional directors, general managers and heads of departments, are responsible for ensuring consistent application of the Code. Personnel must abide by the Code and promote its use in all business activities, and all employees are required to sign up to the Code as part of their employment conditions.

Our position on ethical matters continues to grow in importance, with interest from investors, funding institutions and a wide variety of stakeholders. Poor performance in this area could precipitate inability to access opportunities and funding (see also [Economics and funding](#)), loss of reputation and impacts on people and communities.

Anti-bribery and corruption (ABC)

We continued to improve our ABC management system in 2017, including a review and upgrade of our gift and hospitality register along with a revision of our due diligence procedures. In addition, we targeted further training for staff working on projects in ‘high risk’ countries, which was rolled out in December.

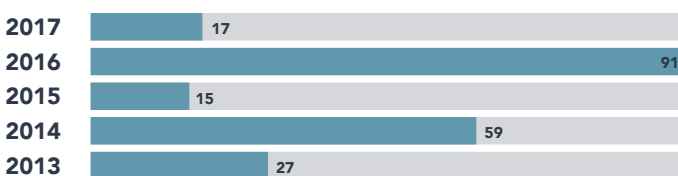
Employees are encouraged to report any incident they believe may compromise our Code of Ethics. They can do this in a number of ways, including using a confidential phone line or speaking directly to their regional director. Where appropriate, the procedures can

also facilitate an independent investigation of any matters raised. The Group’s whistleblowing procedure was also highlighted for use in the event of suspected issues relating to modern slavery.

Cairn is registered with the whistleblowing charity Public Concern at Work, which offers staff an alternative way of reporting an issue if they are not comfortable using internal procedures.

There were no reported incidents raised through the whistleblowing procedure in 2017.

Employees trained in Cairn’s anti-corruption policies and procedures (%)



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Ethical issues and our assets

Our ability to do business relies on developing trust with our stakeholders, including investors, governments, business partners, suppliers and broader society. This means we work in an ethical and transparent way.

During 2017, we maintained our efforts to track emerging ethical issues of importance to us and society in general. Particular attention has been paid to the requirements of the Modern Slavery Act (MSA) that we anticipated would be applicable to Cairn in 2017. This is discussed in our section on [Human rights](#). We also tracked requirements under the Equality Act, although we do not fall under the current provisions. See [Equality and diversity](#).

During 2017, our assets included a 20% non-operated interest in Boujdour Maritime block in offshore Western Sahara. Western Sahara has been classified as a 'Non-Self-Governing Territory' by the United Nations since 1961. Both Morocco and the Saharawi Arab Democratic Republic claim Western Sahara as their sovereign territory. Following withdrawal of the operating partner, Cairn decided not to continue to pursue this opportunity and subsequently also relinquished this block at the year end. We continued to fulfil our commitment by completing the 3D seismic programme initiated in 2017.

We hold a wide portfolio of operated and non-operated assets in Norway, some of which are in the Barents Sea. There is some stakeholder debate around exploration in the Barents Sea, mainly in relation to potential environmental impacts, especially in Arctic waters, and climate change (see [Climate change, emissions and discharges](#)). Our assets are in parts of the Barents Sea that have ice-free operating conditions similar to drilling on the Norwegian shelf. Norwegian health, safety and environment (HSE) requirements are among the highest in the world, and with our track record of high standards of well design and offshore operations, we believe activities in the Barents Sea can be delivered in accordance with them.

MEASURING PERFORMANCE

Employees trained in Cairn's anti-corruption policies and procedures: 17%

Transparency

We continued to engage in and report on our business activities in a transparent and open manner in 2017. As in previous years, we have been proactive in engaging with investors and shareholders through investor roadshows and regular and routine market updates. We maintain an investor area on our website that provides relevant up-to-date information (see www.cairnenergy.com/investors/). In addition, in 2017 we published the Group Tax Strategy on our website. We also worked with potential investors in Senegal to demonstrate our position on working responsibly across our operations and our commitment that our partners should do the same.

We responded to multiple requests for information from investor analysts, shareholder representatives and other concerned stakeholders regularly, always endeavouring to answer as transparently as possible as part of our day-to-day activities. The Board remains fully briefed on engagement programmes and inbound requests. Our investor relations database is continuously updated in order to manage the communication process effectively.

In 2017, we also reviewed the position of some of our shareholders on material issues such as climate change, given the rising profile of this as a business and investor issue (see [Economics and funding](#) and [Climate change, emissions and discharges](#)). This was used to understand potential engagement requirements and to inform our reporting processes.



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Transparent reporting

As a listed public company, we continue to report annually in line with UK regulations. We completed responses to all queries associated with our Annual Report and Accounts 2016. We also closed out final requests from the Financial Reporting Council (FRC) received in Q1 2017 arising from the ClientEarth referral regarding the reporting of climate change risk. As part of our material issue identification, in 2017 we initiated a stakeholder engagement that is discussed in [Working responsibly with stakeholders](#).

We are committed to responsible and transparent reporting and have been recognised for the quality of our work in this area. In 2017, we were shortlisted for the Best Use of Digital Communications award, which recognised the investor, strategic and reporting content of our company website that we re-launched in May. In the analysis of FTSE 250 Corporate Trends 2017 by PwC, Cairn was one of the few companies specifically commended for integration of information in the front end of accounts.

We apply global standards to ensure our reporting is of the highest quality, including reporting against the Global Reporting Initiative (GRI)¹ Sustainability Reporting Standards at Core level. We follow the content principles of materiality, stakeholder inclusiveness, sustainability context and completeness; and its quality principles of balance, comparability, accuracy, timeliness, clarity and reliability. See www.cairnenergy.com/working-responsibly.

Payments to governments

Cairn supports transparency in revenue payments from the natural resources extractive industry and how they are used, and the transparency of tax contributions and other payments to governments by oil and gas companies. Cairn reports payments to governments annually, which are published in our Annual Report and Accounts. This is in compliance with European Union (EU) legislation and as part of our voluntary commitment to the Extractive Industries Transparency Initiative (EITI), which we joined in September 2013. The EITI requires companies to publish what they pay to governments, and for governments to publish what they receive from companies. Under EITI regulations, payments are then validated and reconciled by an independent administrator appointed by a multi-stakeholder group. Norway, Senegal and the UK have all joined the EITI. Mexico was approved to join the EITI as a member in October 2017. We are actively participating in EITI working groups in Senegal and look at the requirements in Mexico as part of our forthcoming increase in activities.

As in previous years, we have disclosed our payments to governments. These disclosures include both payments to governments included in our EITI reporting, such as corporate income tax, licence fees and withholding tax suffered, and additional payments made including VAT, payroll taxes and social security costs. We also reported on payments to governments under the EU Accounting Directive on a country-by-country basis for the second time in 2017.

As Cairn operates in various territories with diverse tax obligations and requirements, we are committed to ensuring that in every territory we comply fully with local tax rules and regulations. Cairn's Tax Policy does not permit any artificial tax planning and, in managing its tax affairs, the Group must align any planning with genuine commercial activity.

Payments required to be disclosed under the EU Accounting Directive are aligned to those required to be disclosed under UK EITI and comprise the following:

- production entitlements;
- taxes levied on income, production or profits (excluding VAT, personal income tax or sales tax);
- royalties;
- dividends; and
- signature, discovery and production bonuses.

As at 31 December 2017, Cairn held 5% of Vedanta Limited following the merger of Cairn India Limited (CIL). The retroactive tax claim made by the Indian Tax Department continued during the year and is due for an arbitration decision in August 2018. See Investment in India www.cairnenergy.com/investors/investment-in-india/.

KPIs

Payments to governments:
US\$36.1 million²

¹ GRI is an international independent organisation that helps businesses, governments and other organisations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights and corruption.

² Refunds from governments, in 2017, were US\$37.6 million.

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Participation in public policy development and lobbying

The governments of the countries where we operate are key stakeholders due to the significance to our business of legislation, regulation and the awarding of new licences. Each asset within the business is responsible for engaging with our host governments and this is considered within each asset's Public Consultation and Disclosure Plan (see [Stakeholder engagement in our projects](#)) and carried out in accordance with our Code of Ethics. Cairn does not engage in party politics or make donations to political parties, candidates or lobbyists.

Cairn's participation in public policy development and lobbying is usually carried out through relevant industry bodies such as the International Association of Oil & Gas Producers (IOGP) or regional industry groups such as Oil & Gas UK, the Association of British Independent Oil Exploration Companies (BRINDEX), the Irish Offshore Operators' Association (IOOA) and the Norwegian Oil & Gas Association (OLF).

Remuneration

Remuneration, and in particular executive pay, remains an issue of interest among our shareholders and wider society. Following review of the pay arrangements across the organisation in 2016 and early 2017, the new remuneration framework regarding short-term and long-term performance and reward was approved at the AGM on 19 May 2017.

The new arrangements were rolled out in 2017 and presentations were made to personnel on Share Incentive and Long-Term Incentive Plans.

Full details of the policy are set out in our [2017 Annual Report](#).

OUR CR OBJECTIVES 2018

Ensure the Code is rolled out to all new and existing personnel.

Conduct ABC risk assessment for Mexico operations.



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PRINCIPAL RISKS

Health, safety, environment and security

Delay in Senegal development plan

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

Our Impact Benefit Plan for Senegal was updated, matching it more clearly to the UN Sustainable Development Goals (SDGs).

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Managing social risks

We have recognised for some time that the effective management of social risks is critical to sound project development.

We assess potential social risks for all new major projects. These include all new ventures, new country entries, exploration seismic and drilling operations and projects requiring Investment Proposals (IPs). Where challenging issues such as land acquisition, resettlement, water use, human rights, security and potential or perceived impacts on livelihoods are involved, we consult

extensively with key stakeholders. This engagement helps us to identify and assess potential social impacts and utilise local knowledge in the formulation of plans to manage these impacts. Through this open process, we look to maximise shared economic and social benefits, and to forge strong ties with communities, government, business partners, investors and our workforce to lay the foundations for long-lasting relationships.

Managing social risks








Delivering social and economic benefit

Our strategy continues to be delivery of value for our stakeholders through the oil and gas lifecycle by generating social and economic benefit through our activities. Our stakeholders are diverse and there are many ways in which we can deliver value for them, both economic and social.



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Social and economic benefit

Beneficiaries	Value distribution mechanisms	Link to Cairn's risks	Economic value (US\$)
 Governments	Payments to governments Promoting international governance frameworks	Political and fiscal uncertainties Fraud/bribery and corruption	\$36.1 million Payments to governments ¹
 Communities	Contributing to affordable energy and economic development to local populations	Impact on community and local livelihoods	\$238,769 Social investment
 Contractors and suppliers	Expenditure with contractors and suppliers, including locally and internationally based companies Local capacity building	Health, safety, environment and security and corporate social responsibility	\$592.7 million Capital spend ²
 Employees	Salaries to our workforce, including local employees	Staff retention and recruitment	\$39.7 million Staff costs ³
 Investors	Dividends to shareholders, interest, investment and repayments for investors	Access to internal and external funding	\$7.9 million Finance costs and dividends ⁴

¹ Refunds from governments, in 2017, were US\$37.6 million.

² Net share across the Group.

³ Excludes share-based payment charges, which are non-cash.

⁴ In 2017, no dividends were paid. Cairn realises value by progressing development assets through to production and/or realising value through asset sales, and either reinvesting the proceeds into the business, to fund exploration and development activity, or returning cash to shareholders. Finance costs included those associated with drawing on the Exploration Finance Facility (EFF) in Norway and charges associated with maintaining the Group's Reserve Based Lending facility. In 2017, the Group's exploration business remained fully funded.

UN Sustainable Development Goals

Whilst economic and social policy is the remit of government, Cairn recognises that it has a role in adding value to society. In 2015, world leaders committed to the UN Sustainable Development Goals (SDGs), which set out targets across 17 prioritised areas ranging from ending poverty and ensuring access to energy to protection of ecosystems, addressing climate change and decent work.









Although not all the SDGs are relevant to Cairn, there are expectations on companies to look across the value chain to where both positive and negative impacts can occur and to identify next steps based upon this.

We are now assessing our activities for contributions we can make to the UN SDGs to develop our plans to minimise the impacts and maximise the benefits of our activities to host countries.

IN SENEGAL







We have developed an Impact Benefit Plan that concentrates on seven of the 17 SDGs where we can have the most impact.

Social and economic benefit

Sustainable Development Goal	Definition	How we are contributing in Senegal	Impact measurement
 <p>3 GOOD HEALTH AND WELL-BEING</p>	 <p>Ensure healthy lives and promote wellbeing for all at all ages</p>	<p>Through our social investment activities with The Hunger Project (THP)* for clean water and sanitation, nutrition, maternal health and community health.</p>	<p>8 rural community development centres being supported to self-reliance through our partnership with THP.</p>
 <p>4 QUALITY EDUCATION</p>	 <p>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</p>	<p>To help current and future Senegalese workforce to develop skills to enhance their ability to find work in the developing oil industry and other sectors, through:</p> <ul style="list-style-type: none"> • support of English language training; and • working with government and other oil and gas companies on educational support. 	<p>29 students receiving English language training.</p>
 <p>5 GENDER EQUALITY</p>	 <p>Achieve gender equality and empower all women and girls</p>	<p>Through our social investment activities with THP for women's empowerment in rural and coastal communities by:</p> <ul style="list-style-type: none"> • enabling greater access to finance; • mobilising and organising women-led groups; and • building skills and entrepreneurship. 	<p>Over 700 women participating in THP training activities in fishing communities through our partnership with THP.</p>
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	 <p>Ensure access to affordable, reliable, sustainable and modern energy for all</p>	<p>Through our contribution to affordable energy for Senegal through the discovery, appraisal and delivery of oil and gas to meet energy demands.</p>	<p>75K–125K barrels of oil per day targeted for phased development.</p>

¹ The Hunger Project is a global, non-profit, strategic organisation committed to the sustainable end of world hunger. Its mission is to end hunger and poverty by pioneering sustainable, grassroots, women-centred strategies and advocating their widespread adoption in countries throughout the world.

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Sustainable Development Goal	Definition	How we are contributing in Senegal	Impact measurement
 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	<p>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p> 	<p>Through:</p> <ul style="list-style-type: none"> • payments to our contractors and suppliers, including locally and internationally based companies; • payments to our local employees; • payments to government, including licence fees, taxes, duties and training allowances; and • application of our Policies and Principles and respect for human rights in our own operations and through our suppliers. 	<p>Total national contractors 18%.</p> <p>Total non-national contractors 82%.</p> <p>Total proportion of spending on local suppliers 24%.</p>
 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	<p>Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation</p> 	<p>Through:</p> <ul style="list-style-type: none"> • provision of training and mentoring for suppliers on best industry practices; • developing a recycling business through our social investment programme; • upgrading of existing infrastructure at the supply base; and • working with other oil companies on promoting access to local suppliers to oil and gas contracts. 	<p>72 contractors in Senegal receiving training/mentoring from Cairn.</p>
 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	<p>Build effective, accountable and inclusive institutions at all levels</p> 	<p>Through:</p> <ul style="list-style-type: none"> • upholding high standards of governance, ethics, transparency and anti-corruption through our commitment to the UN Global Compact and working with the EITI multi-stakeholder group in Senegal; and • Provision of English language and oil industry awareness training to institutional stakeholders. 	<p>38 institutional stakeholders participating in English language courses and assisting in building good practice.</p>

OUR CR OBJECTIVES 2018

Review developments to integrate UN SDGs into Company strategy.

Review social investment criteria and guidance.

Communities

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

We have launched a pilot community development programme among fishing communities in Senegal with The Hunger Project (THP).



The people who may be impacted by our operations are one of our most important stakeholder groups, and we are keen to give them the opportunity to have their say about our activities.

We engage with local communities on issues including employment, community development, safeguarding the environment and livelihoods, using methods such as consultation meetings as part of Environmental and Social Impact Assessments (ESIAs), media briefings and public meetings.

Our operated and non-operated assets are principally based offshore. As such, the potential for our activities to impact negatively on local communities is limited.

However, we recognise the potential for our activities to limit the ability of local fishermen to exploit the waters in which we work, through the short-term (typically one to two months) exclusion of fishing vessels from the waters, some 500m around our drilling rigs. We work with local fishermen to minimise disruption through communication of our day-to-day and forward operations, and implement a mechanism whereby they are able to provide us with feedback. In addition, and as part of the development of our Impact Benefit Plan in Senegal, we have been working with THP to engage with and identify specific challenges facing fishermen along coastal areas closest to our operations.

OUR CR OBJECTIVES 2018

Review social investment criteria and guidelines.

SUPPORTING MOBILISATION OF FISHING COMMUNITIES IN YENNE, SENEGAL

Based on decades of experience, The Hunger Project (THP) – via integrated programmes that combine confidence building with tools and training – has empowered communities to positively take the lead in their own development. Ultimately, communities are able to take the necessary steps to end their own hunger and poverty using an established and successful model known as the epicentre strategy.

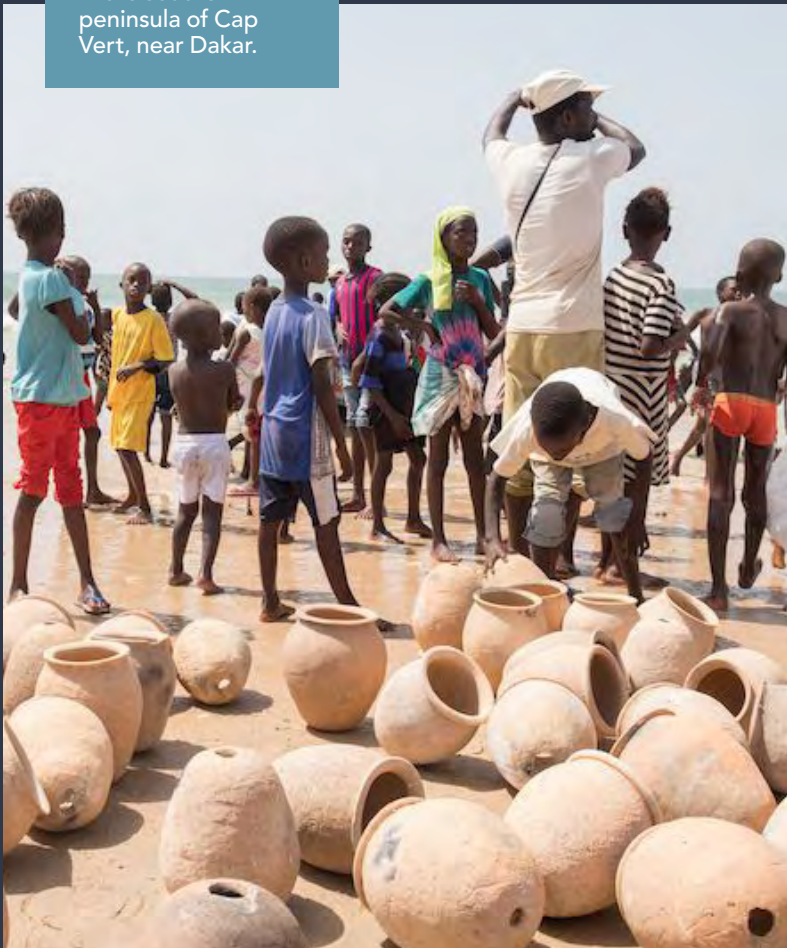
There are four broad phases through which epicentre communities progress: Mobilisation, Construction, Programme Implementation and Transition to Self-Reliance. In the last phase, communities are able to fund their own activities and no longer require external financial investment.

Over time, epicentres follow an integrated plan that includes the development of social infrastructure, by developing elected committees, and physical infrastructure, in the form of the epicentre building. This new infrastructure supports sustainable synergy among programmes in health, nutrition, education, adult literacy, empowerment of women, improved farming and food storage methods, income generation, water and sanitation, and microfinance.

In 2015, Cairn carried out a 3D seismic survey in its nearer shore licence areas. A seismic survey interprets seismic energy to assess the composition, fluid content, extent and geometry of rocks in the subsurface. Through the ESIA and operational activities, we had significant interaction with artisanal fishermen from the coastal areas of Senegal. Subsequently, Cairn asked THP to carry out an exploratory mission to better understand the challenges faced by these communities to assess how oil and gas activities may impact them or be perceived to impact them. The study identified vulnerable fishing communities managing threats to their artisanal way of life, fishing stocks and food security.

22,450

The project will support approximately 22,450 people from across seven coastal fishing villages, based in the southern peninsula of Cap Vert, near Dakar.



Considering the potential significance of these communities to ongoing and potential future oil and gas activities, Cairn asked THP to consider whether its epicentre strategy could be transposed to a coastal community. It was agreed that a pilot programme could be developed, and in April 2017 Cairn signed a third Memorandum of Agreement with THP. The aim of this 30-month programme is to support seven fishing village communities around Yenne, south of Dakar. It seeks to develop strong leadership skills and build capacity by providing knowledge and training, particularly for women and girls. The programme training and capacity building cover health and nutrition, education, hygiene, environment, and microfinance and credit opportunities.

Ultimately, the proposed project aims to catalyse community-led development among the seven communities by identifying leaders to enable advocacy for their own community needs. This strategy will contribute to the economic and social development of the community, via the key components as identified by the fishing communities themselves.

The project will support approximately 22,450 people from across seven coastal fishing villages, based in the southern peninsula of Cap Vert, near Dakar.

Image: The launch of octopus pots – a project in Senegal to increase the stocks of high value octopus. Octopus pots have been donated to the community committee who will manage their distribution and replacement for future years.

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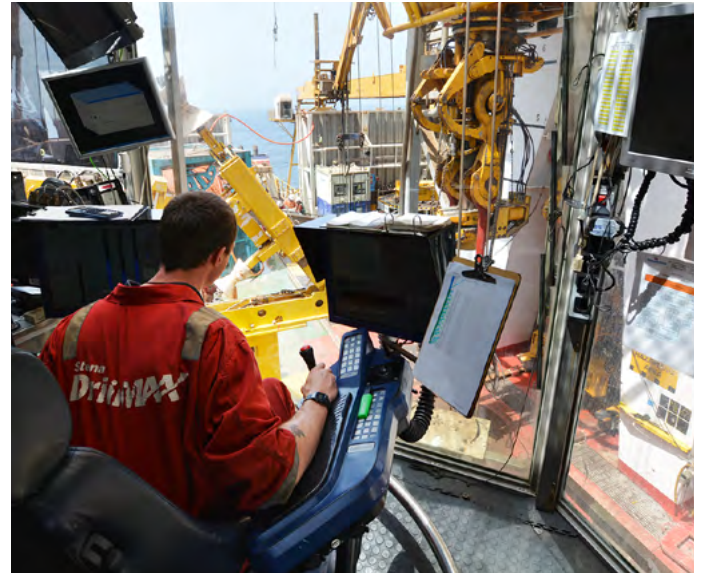
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Human rights

STRATEGIC OBJECTIVES

Maintain licence to operate



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Health, safety, environment and security

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

We evaluated potential modern slavery risks in our supply chain and in our investment planning.

We developed a mechanism to assess modern slavery issues during contractor selection.

We developed training packs on human rights and modern slavery that were rolled out to our staff and key contractors in Senegal.

We commenced auditing of our key contractors in Senegal on modern slavery issues.

A statement as required by the Modern Slavery Act was developed and posted on our website.

Improvements to our contract terms and conditions were identified by our internal audit programme.

Our People Management Manual was revised and released.

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Our approach

Respecting human rights is part of our commitment to delivering value for all stakeholders. We are committed to respecting human rights in all our activities and this commitment is embedded in our Code of Ethics and includes our support for the United Nations Universal Declaration of Human Rights (UDHR).

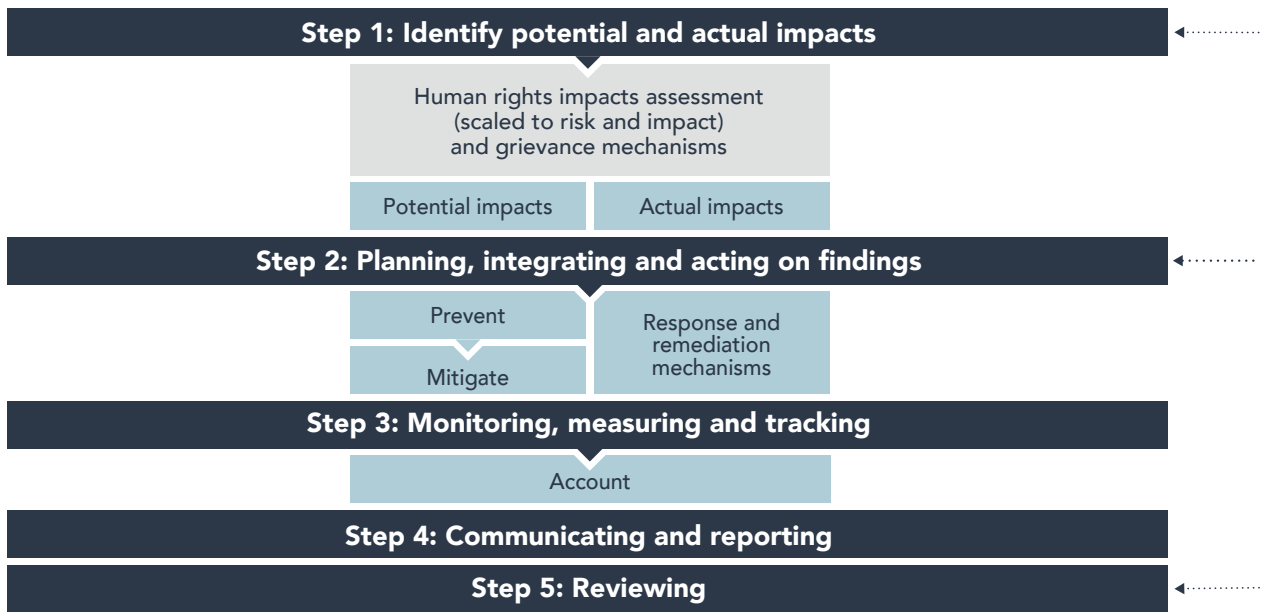
In order to ensure respect for human rights in all our activities, we have a human rights position that is integrated into our Corporate Social Responsibility (CSR) Policy. It requires us to respect and support internationally recognised human rights standards; identify, assess and manage human rights risks; and ensure that appropriate mechanisms are in place for those affected by our operations to raise and address grievances.

Our Corporate Responsibility Standard Operating Procedures and Human Rights Guidelines clarify what needs to be done, and detail the tools available to support implementation of our policy across the business.

Over the years we have implemented a 'rights aware' approach, which means identifying potential human rights issues in our activities, assessing if we have influence over the issues and defining appropriate action to be taken by the business.

Our Human Rights Handbook contains guidance for managers on assessing human rights issues. This helps to ensure that human rights is one of the CR risks considered at key stages of every project, and is reflected in our Project Delivery Process (PDP) (see [Major accident prevention and safety](#)). We use a five-step approach to identify and assess human rights issues in our sphere of influence.

Identifying and assessing human rights issues in our sphere of influence



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Human rights control and influence



Company

Ensuring the human rights of employees are respected

Partners/Contractors

Using influence or management controls to make sure partners/contractors/suppliers are not engaged in human rights abuses such as child labour, forced labour and modern slavery

Community

Ensuring the Company does not have a negative impact or legacy in the communities where projects/sites are located

Society

Using influence to develop policy that supports and rewards responsible behaviour

Cairn's reducing ability to control and influence



Before entering a new country as an operator, we apply human rights screening as part of our comprehensive due diligence process. Before operating activities, we assess human rights impacts as part of an Environmental and Social Impact Assessment (ESIA) or, where necessary, we undertake a Human Rights Impact Assessment (HRIA). If, following these assessments, any potential human rights issues are identified, we consider the most effective way to manage them through engagement with potentially affected communities. When considering a non-operated joint venture, we identify and check any human rights issues and establish any risks requiring management by the operator before proceeding.

Protecting people in our supply chain

Our new Code of Ethics and CSR Policy uphold our longstanding support for the UN's UDHR. Human rights are particularly important to some of our key stakeholders, including our employees and the communities in which we operate.

Following the introduction of the UK Modern Slavery Act in 2016, we identified the likelihood of falling within the provisions of the Act in 2017 as turnover increased. As a consequence, we set CR Objectives in 2017 to improve our position regarding these requirements, including building on our understanding gained in 2016. This involved attending a briefing session at the Institute of Directors, Scotland, to gain further knowledge and proof our approach. Despite production commencing in both Kraken and Catcher at the end of 2017, our turnover did not reach the threshold specified in the Act. However, we progressed as planned, as we will fall under the provision of the Act in 2018.

In general terms, the approach developed followed a similar track to that used in our ABC management system. Primary actions conducted were to carry out a risk assessment covering all countries where we

operate, including potential vulnerabilities to modern slavery within the supply chain. We tend to use specialist international contractors with well-developed employment practices. However, they may have a subcontracting chain using agencies and other sources with unclear practices, particularly in locations with less strict or weaker human rights regulations and especially for less skilled tasks. Our influence diminishes the further we travel along the supply chain (see graphic above) but we will continue to press our contractors to apply good practice.

We also use local suppliers directly and it is important to ensure they understand our requirements on human rights, implement zero tolerance towards any form of modern slavery behaviour and protect the rights of their workforce. A summary of our actions on modern slavery in 2017 appears on page 46.

Our Modern Slavery Statement appears on our website at www.cairnenergy.com/services/modern-slavery-statement/.

We have not identified any significant risk of forced or compulsory labour in our supply chain in 2017.

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OUR KEY ACTIONS ON MODERN SLAVERY IN 2017

Two training packages were developed. The first was a general human rights and modern slavery pack rolled out to our employees; the second a more focused session that was presented to our key Senegal contractors at the July contractor workshop in Dakar.

Our procedure for the Selection of Services Providers was revised to incorporate assessment for modern slavery during the selection process. This followed a similar approach to that applied for ABC assessment.

Our assessment of human rights as part of due diligence processes, including country entry, now comprises a review of key indicators under international classification indices.

An internal audit made recommendations for improving our contracting arrangements.

The standard terms and conditions within our contracts were modified to specify zero tolerance of modern slavery and likewise requirements of sub-contracting parties, and we strengthened our right to audit.

We developed a Modern Slavery Statement as part of our 2017 reporting, which is available on our website.

We identified some irregularities in terms of employment of personnel working for our key contractor in Senegal that was addressed with them. A modern slavery assessment of the contractor was conducted subsequently.

Preparations are in hand for an integrated assessment of potential contractors that we may use in 2018 for drilling the UK Continental Shelf (UKCS), possible Senegal drilling and development activities, as well as to support contractors in Mexico.

Our Whistleblowing Policy has been extended to cover modern slavery issues. The mechanisms for reporting and the general Human Resources Group Whistleblowing Policy are supported by training.

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Protecting our employees

In July 2017, our People Management Manual was released following a comprehensive review. It contains our Group People Policy and all employee-related policies and procedures. This manual includes our requirements for personnel employment, such as: general employment terms; recruitment and selection; diversity; health and well-being; work-life balance; training and deployment; employee relations; rewards and benefits; facilities management; and other policies such as whistleblowing (see [People, safety and security](#)). We expect our contractors to treat their employees in the same way with a clear mechanism in place. We respect the rights of freedom of association and collective bargaining. We have identified the specific risks and requirements around unions in certain locations such as Mexico.

We continue to consult our workforce on organisational and performance issues on a regular basis and through a variety of means. We respect those contract employees who work with us and their membership of unions.

Protecting communities

Our position on human rights in the communities where we operate continues to be an important element of what we do. This means applying our Corporate Responsibility Management System (CRMS) that includes the International Finance Corporation (IFC) Performance Standard 5¹. As in 2016, our activities remained largely offshore with limited potential impact from our shore-base activities in Senegal, and no physical displacement occurred as our shore-base is within the curtilage of Dakar port. The same is likely to apply to any potential activities in Senegal for 2018 and in the UKCS Ekland well. Moreover, in 2017 we looked at locations for shore-base activities in Mexico, and these too will have limited impact.

We built on our programmes to protect and enhance support for local communities, and we achieved substantial progress in our initiative with fishing communities in Senegal who may have been subject to limited impact from our offshore activities. The work, which is ongoing with NGO THP, is captured in our Impact Benefit Plan for Senegal and is further discussed under [Social and economic benefits](#).

The requirements and tools to support implementation of our Human Rights Policy across the business are laid down in our CRMS and Human Rights Guidelines. This includes continued commitment to a 'rights aware approach', which means identifying potential human rights issues in our activities, assessing if we have influence over the issues and defining appropriate action. This applies across the lifecycle of the business.

We have not identified any interaction between our operations and indigenous peoples in 2017.



¹ IFC Environmental and Social Performance Standard 5 – Land Acquisition and Involuntary Resettlement. 1 January 2012

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MEASURING PERFORMANCE

Operations that have been subject to human rights reviews or impact assessments: 100%

Employees trained on human rights policies and procedures: 47%

Addressing grievances

Grievances where they do occur are taken very seriously, whether arising from employees or associated with a project in the communities where we operate. Complaints and grievances are reported to the Management Team and the Board when they arise, investigated and actions identified.

Our Group whistleblowing procedure is contained within the People Management Manual and has been in place since 2009. It details responsibilities within the Company, the safeguards in place, mechanisms for raising concerns and the investigation process.

Separate grievance mechanisms in operating locations are provided in local languages and published to allow communities access. Some locations may also have specific external mechanisms for reporting concerns, such as, Public Concern at Work (www.pcaw.org.uk/individual-advice/guidance) in the UK, or hotlines for specific issues, such as the Gangmaster Licensing and Labour Authority and UK Slavery Helpline.

OUR CR OBJECTIVES 2018

Include Modern Slavery Act requirements in all contract terms and conditions.

Define a human rights and modern slavery audit programme for 2018.

Enhance due diligence for human rights and modern slavery risks in new venture evaluations.



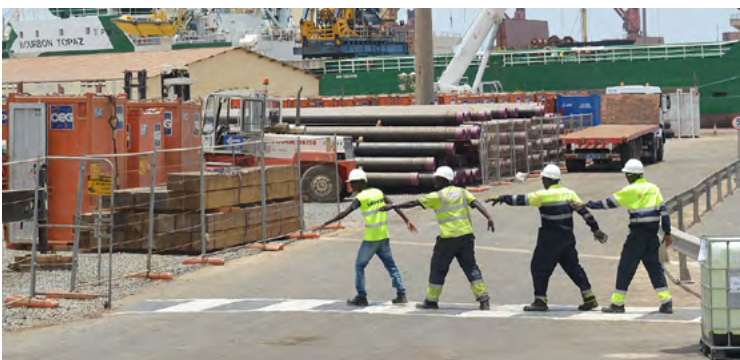
People, Safety and Security



Major accident prevention and safety

STRATEGIC OBJECTIVES

Maintain licence to operate



HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

Our crisis and emergency team were fully trained to support our operations, and exercises were performed quarterly.

We developed a Corporate Major Accident Prevention Policy (CMAPP).

We implemented a series of successful safety campaigns.

No Lost Time Injuries (LTIs).

No Restricted Work Day Cases (RWDCs).

Two Medical Treatment Cases (MTCs).

A single spill to sea of 34 litres of hydraulic oil.

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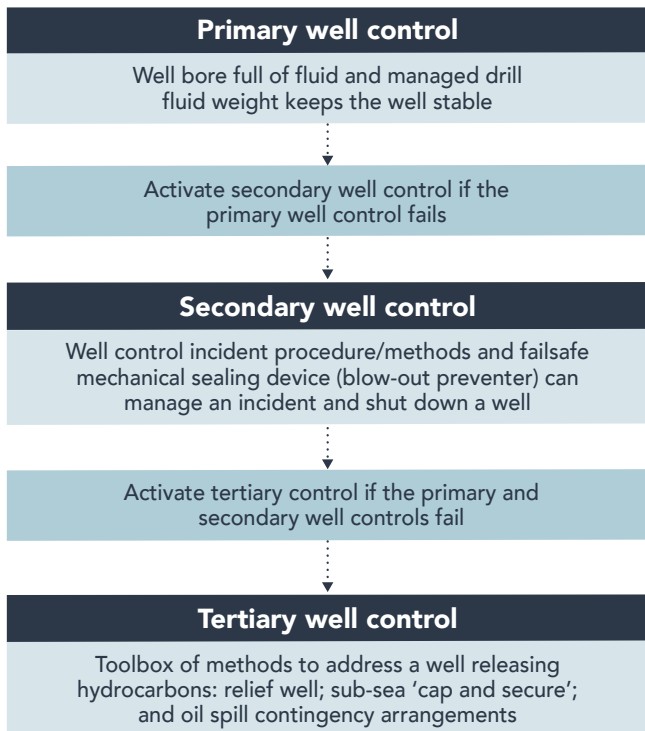
Prevention of major accidents

Cairn's reputation for responsible exploration is underpinned by a rigorous approach to well design and well control. All our wells are engineered to the highest industry standards and are designed to comply fully with the requirements of the Cairn Well Engineering and Construction System (WECMS) standards and Corporate Responsibility Management System (CRMS). Safe drilling and prevention of major accidents is dependent on the development and implementation of multiple safety barriers, which are designed into our programmes and verified by a series of rigorous internal and external assurance processes.

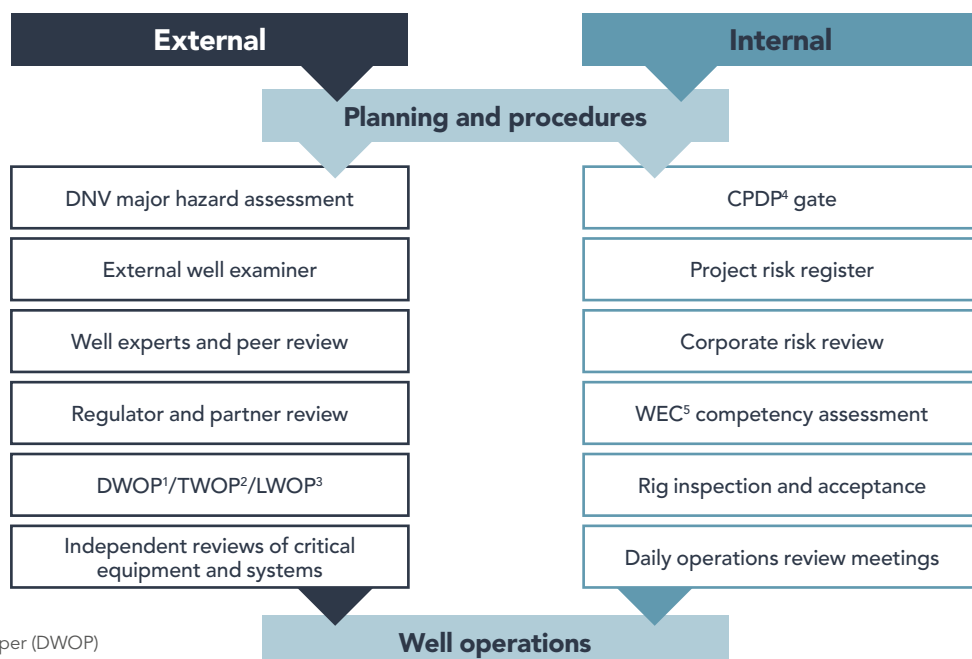
- Design** – our wells are designed and assured to a level that exceeds requirements for the expected characteristics of the geological formations to be encountered. We apply our well design standards to ensure the appropriate materials are used and installation methods conform to recognised good industry standards. We also select drilling fluids to maintain well integrity and minimise impact on the environment.
- Primary well control** – we apply a dual barrier approach during drilling activities. This involves control measures designed to maintain fluids in the wellbore, including drilling-hole pressure evaluation and management, kick detection, kick tolerance management, fluid management, cementing practices, blow-out preventer (BOP) system testing and assurance. Testing of a BOP system is rigorous and conducted routinely on a defined schedule to ensure it remains functional. In the event of unsuccessful tests, we make safe the well and cease drilling until the problem is found and resolved, which can result in substantial lost time and cost. Despite this, we do not recommence drilling until completion of any required remedial work and, if necessary, specialist support to assure the BOP system is fully functional.
- Secondary well control** – this includes measures to prevent wellbore fluids escaping from the well, using a BOP. The BOP, which is usually installed on the wellhead at the seabed, is made up of a series of hydraulically operated rams and can be operated in an emergency from the rig or via the backup remotely operated vehicle (ROV) onboard a standby vessel that remains with the rig. The BOP is rated for pressures significantly in excess of those expected to be encountered in the exploration well.
- Tertiary well control** – these measures provide a third line of defence when formations cannot be controlled by primary and secondary measures, and cover well control options such as drilling of a relief well and use of a capping device.

Our well engineering and well control and assurance processes are shown below.

Well engineering



Extensive assurance controls



¹ Drill Well on Paper (DWOP)
² Test Well on Paper (TWOP)
³ Logging Well on Paper (LWOP)
⁴ Cairn Project Delivery Process (CPDP)
⁵ Well Engineering and Construction (WEC)

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Operated assets

Our operated and non-operated activities continued without major incident in 2017. This is attributable to a number of factors, but in no small part to ensuring preventative measures are integrated into the projects during the planning and operational phases. In our operations in Senegal, we applied our Well Engineering and Construction Management System (WECMS), including: well engineering and construction standards; well design, barrier and casing standards; well control manual; and management of change standard.

For the Senegal phase three drilling programme, the rig was selected and accepted in late 2016 using defined criteria to meet the WECMS and CRMS major hazard prevention requirements and those of the national regulations. These specific engineering and management control barriers were set in place as part of the planning process under the Project Delivery Process (PDP), which is a requirement of the Cairn Operating Standards (COS). This included acceptance and readiness assessments, operational contractor bridging procedures, regular contractor engagement (see [Contractors and supply chain](#)) and ongoing monitoring and assurance.

Our well design, planning and inspection procedures are applied wherever we operate in conjunction with existing legislation. Planning commenced in September 2017 for our UK Ekland well due to be drilled in 2018 on this basis, employing the same rigorous approach and in accordance with UK regulations. As part of our commitment to high standards of prevention, we also developed a Corporate Major Accident Prevention Policy (CMAPP) in 2017 to conform to the requirements of the Offshore Installations (Offshore Safety Directive) (Safety Case etc) Regulations 2015. These commitments reinforce the existing requirements set out in our WECMS, CRMS and COS (see [Economics and funding](#)).

Non-operated assets

In our UK Continental Shelf (UKCS) non-operated asset Kraken, first oil production commenced in June following successful commissioning and receipt of all approvals. This included fulfilling all major accident hazard prevention requirements of the enhanced Safety Case regulations for offshore installations. Similarly, the Catcher Floating Production Storage and Offloading vessel (FPSO) arrived in the UK during October following approval of its Safety Case in July, with production commencing in December 2017. The importance of developing robust Safety Cases is underlined by the need to ensure major accident Safety and Environmental Critical Elements (SECEs) of the equipment are identified, properly assessed, maintained and controlled.

We continued to support our operating partners in the UK, providing challenges and lessons learned to assist in meeting our commitments to prevention of major accidents. In our Norway non-operated activities, we continued to manage our 'see to' duties, which require the licensee to supervise the operator in a systematic manner and our management system in Norway is designed to help us do so.

Project Delivery Process

Our Project Delivery Process (PDP) is the well-established method defined in the Cairn Operating Standards (COS) that ensures we understand and can control risks at key stages in our projects. During the oil and gas lifecycle, the PDP helps us maintain focus on what is important to the Company and apply good practice through the application of local and international standards.

We also use the Cairn PDP to manage CR issues and apply these standards for all operated projects under our control. Specific project types (e.g. seismic, drilling) must meet defined criteria at designated 'stage gates'. Each stage gate has defined actions and deliverables, which must be available and signed off by a 'gatekeeper' who is independent of the project. In this way, project integrity and performance are reviewed throughout the process and, where they deviate from standards, corrective actions are identified and implemented.

Our PDP

→ Why	→ How	→ Ready	→ Finished	→ Learn
Identify	Assess	Define	Execute	Evaluate
Why are we doing this project?	How could we do this project?	Are we Ready to sanction the work?	Have we Finished all we needed to do?	What do we Learn and achieve?

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Continuous improvement of crisis and emergency response capability

At the beginning of 2017, our Crisis and Emergency Response Team (CERT) based in Edinburgh and our Dakar-based Incident Management Team (IMT) were briefed fully on Senegal activities and their duties in the event of a major accident or incident. We tested their combined readiness in our set-piece Q1 and Q2 exercises. In addition, we ran weekly desktop briefings and exercises to continue to broaden exposure to operational drilling scenarios. We also refreshed oil spill training for our shore-base team and our Emergency Response and Rescue Vessels (ERRVs) crews during the campaign.

Over recent years, and 2017 was no exception, we have continued to train and reinforce responsibilities of our CERT staff over a wider range of crisis and emergency response scenarios in order to expand their experience. In 2017, our training and exercise plan set out exercises and planned training for the year. In addition to those exercises for Senegal, our other quarterly exercises examined our capability to support our personnel in the event of specific security situations (Q3) and during a business continuity event (Q4). We will continue to test a wide range of scenarios as part of our 2018 plan, taking into account activities planned in Senegal, the UK and Mexico.

High-impact, low-probability events

We are always prepared for the very low possibility of a high-impact event, and have robust plans in place to manage potential incidents. In advance of our Senegal drilling activities in 2017, we revised our Emergency Response Plan (ERP) to integrate with our contractors, and align and improve the Oil Spill Contingency Plan (OSCP). As part of our management of change process and in preparation for our 2017 campaign, we again revised the ERP and OSCP to ensure different rigs and vessel capabilities were taken into account. This information was also shared with the regulators in Senegal.

Oil spill risk continues to be of high concern to stakeholders, and we remain committed to applying the IPIECA–IOGP Joint Industry Practice¹. We remain an associate member of Oil Spill Response Limited (OSRL) with a number of supporting memberships. We were also a West Africa Central Africa Aerial Surveillance and Dispersant Spraying service (WACAF) member during our Senegal campaign in 2017 (see www.oilspillresponseproject.org/). We continued to improve our oil spill preparedness in relation to: OSCP; equipment logistical arrangements and deployment planning; and identification of capabilities to support contractors.

We continued to invest heavily in other OSRL memberships to gain access to specialist equipment managed by them during 2017 and this will continue in 2018. These memberships allow access to a toolbox of different response equipment and techniques, including mechanical containment and surface dispersant application systems, sub-sea systems, and aerial surveillance and dispersant spraying capability. Specialist sub-sea equipment includes the Sub-sea Incident Response Toolkit (SIRT), which enables debris clearance and application of dispersant at or near any well releasing hydrocarbons, and also improves mixing and efficiency of treatment and dispersal. This improves spilled oil amenability to biodegradation. We also have access to a Global Dispersant Stockpile, which consists of substantial amounts of commonly used dispersants that can be drawn on should our supplies run out.

Membership of the Capping Stack System (CSS) allows access to well-capping stacks situated at four strategic locations worldwide. These can be deployed to shut-in a well and prevent oil from escaping into the sea, at which point sub-sea dispersant is no longer needed. We continue to plan for relief well drilling as an option to address a major event. The nature of the response depends on numerous factors relating to logistics and effectiveness.



¹ The IPIECA–IOGP Oil Spill Response JIP (OSR–JIP) was set up to implement learning opportunities in respect of oil spill preparedness and response following the April 2010 well control incident in the Gulf of Mexico. As part of this effort, the OSR–JIP has produced more than 20 good practice guides. IPIECA is the global oil and gas industry association for environmental and social issues.

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Future planning

In 2018, we will be working as an operator in the UKCS for the first time in several years. To do so, we are planning to ensure we conform to the UK regulatory requirements for the Ekland campaign. Our CERT will remain in place, and IMT duties for the UK will be provided by a very experienced service provider commonly used to support other UK-based operators. In advance, we will ensure all roles and responsibilities are clear, including crisis and emergency approvals and readiness assessment, and will undertake a pre-drilling exercise.

In the UK, we are required to develop an Oil Pollution Emergency Plan (OPEP) defining our overall onshore-based response, and in the case of the selected rig, a Temporary Operations Oil Pollution Emergency Plan (TOOPEP). We will maintain all relevant OSRL memberships and associated insurances required for operations in the UK.

Mexico emergency support providers will be assessed during 2018 or early 2019 as part of planning for wells on our operated block.

MEASURING PERFORMANCE

Spills in 2017 – one spill (34 litres) of hydraulic oil released at 1,000m depth from a burst hose on a remotely operated vehicle.

Occupational safety

Our Senior Leadership Team (SLT) and Management Team (MT) are responsible for embedding the CR approach and procedures across the Group with overall accountability remaining with the Board. Applying these procedures in our operations falls to the MT. To do so, we have set in place a safe system of work that employees and contractors must take responsibility for following closely. Regional directors are responsible, at an operational level, for ensuring that operations adhere to our health, safety and environment (HSE) standards and procedures; that all risks are managed to As Low As Reasonably Practicable (ALARP) levels; and that plans are in place to manage these risks. We have a robust incident management process that ensures incidents are recorded and investigated as required and that lessons are learned. The most senior personnel oversee assurance of the implementation of these standards, and performance updates are reported to the Board.

The importance given to CR performance is also recognised in Cairn's Remuneration Policy. The remuneration committee assigned a 17% weighting in the Group's 2017 Key Performance Indicators (KPIs). In 2018, the CR element of the KPIs will be 15% to match previous years. Performance against the Group's KPIs is an important criterion for assessing the annual discretionary bonus and individual performance.

Management of occupational day-to-day safety hazards uses a number of mechanisms to promote the implementation and effectiveness of working procedures. This includes management visits, audits, permit to work, toolbox talks, safety drills and training, all of which are monitored through our leading safety indicators in our projects. The lagging data below shows no Lost Time Injuries (LTIs) during 2017, although we experienced two Medical Treatment Cases (MTCs). These were a hand injury during pump repair in February and a finger pinch injury in August, both on our rig in Senegal. Investigations were completed and findings were reported to the Board, with lessons learned shared with contractors and emphasised during contractor monthly meetings. Our supply base operations again performed well, reaching one year without an LTI in April and, with continued commitment to managing occupation safety risks, surpassed 500 days without an LTI by the end of August.



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During 2017, we worked hard to apply our Safe System of Work (SSW) at our operational base in Senegal along with continued engagement with our contractors in our operational activities. The shore-base SSW was linked to a series of safety campaigns that included, among others: dropped objects; quayside safety; fire prevention and fire-fighting; manual handling; and 'pinch points'. This built on previous themes of: team working; lifting operations; tubular handling; traffic management; and authority to stop work. We also ensured our Life Saving Rules, based on those developed by the IOGP, were clearly understood and promoted during the campaign. Our overall lagging indicators are given right.

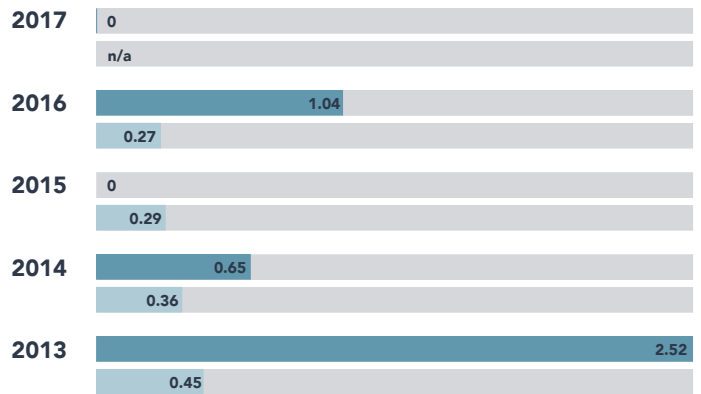
Routine contractor engagement meetings were held which allowed all issues to be fully aired, solutions discussed and lessons learned shared. See [Contractors and supply chain](#).

See also [Health and well-being](#); [Security](#); [Equality and diversity](#); and [Employees](#).

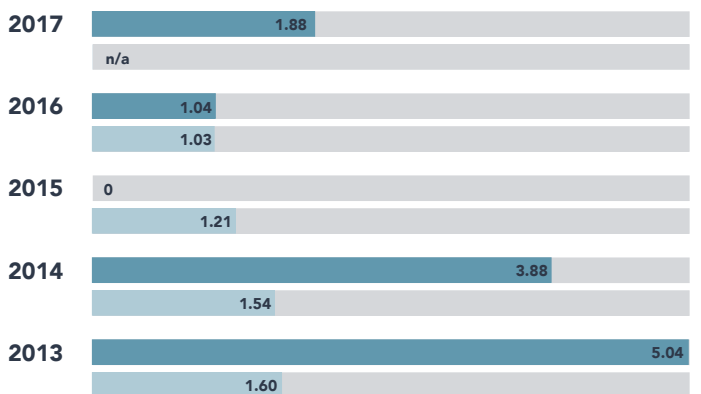
Note: IOGP is the International Association of Oil & Gas Producers. We have included overall IOGP benchmark figures (average of onshore and offshore for employees and contractors). IOGP benchmark figures are not yet available for 2017.

Note: Cairn TRIR and LTIF statistics can be higher than the IOGP benchmark after only one incident, or a small number of incidents, because our exploration activities often last for only a short time period, so there are relatively few hours worked compared with ongoing production and other long-term operations.

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



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



Key

- Cairn total
- IOGP benchmark

OUR CR OBJECTIVES 2018

- Implement requirements of the CMAPP to conform to UK requirements.
- Ensure Crisis and Emergency Response Team and Incident Management Team's readiness, and maintain function and capabilities, including quarterly exercises.
- Update all emergency and oil spill plans to meet operational activities.
- Roll out our Safe System of Work in our directly controlled shore bases.

Health and well-being

STRATEGIC OBJECTIVES

Maintain licence to operate



PRINCIPAL RISKS

Health, safety, environment and security

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

We developed pandemic guidance in support of our Business Continuity Plan and trained our Crisis and Emergency Response Team (CERT).

We launched a health and traveller advice area on our intranet.

We revised the Senegal asset health assessment.

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International health challenges

As in 2016, health issues continue to represent a challenge to Cairn and we support our staff who are exposed to health risks associated with the business. For our own personnel, the main threat remains the potential for exposure to infectious diseases that may be encountered in the locations in which we have assets or during travel to prospective business locations. Although the risks from Ebola and Zika overall appear to have receded, we continue our vigilance regarding developing epidemics and pandemics.

In 2017, we improved our business continuity planning by introducing pandemic guidance and we trained our CERT on its application. Endemic diseases remain prevalent in certain locations, such as malaria in Senegal, and we have well-established mechanisms to minimise the risk of exposure. Our interest and subsequent successful bid for Mexican acreage prompted us to look at health risks during the investment phase prior to country visits, recognising the potential exposures to Zika and Dengue viruses. Although altitude sickness is

possible, of greater concern is the potential for natural disasters such as hurricanes and earthquakes. The 7.1 magnitude earthquake and tragic consequences experienced in central Mexico in September re-emphasised the need to ensure our staff know how to react in an event, and basic training was provided to key personnel.

We also improved our advice to travellers by launching our Traveller Health and Security intranet site. This provides travellers with wide-ranging advice, including: basic travel health; natural disasters; security alerts; female traveller security; and specific country briefings. Furthermore, we revised the Senegal health assessment and ensured we had all contracts in place to support our operations. For 2018, we will improve the content further and incorporate new asset locations such as Mexico once further local assessments are conducted.

Exposure to chemical and other biological agents

We have limited direct exposure to potentially hazardous chemicals and wastes. However, our CRMS specific requirements for chemical and waste management are to not only protect the environment, but also to avoid exposure and associated health issues. This includes the selection of least damaging materials where possible, provision of suitable storage and handling facilities, work risk assessment, handling procedures, and provision of suitable personal protective equipment as necessary.

Our contractors are expected to have compatible arrangements in place to prevent health impact to their workforce, including acute and chronic exposure prevention. For example, where our exploration activities anticipate potentially harmful gases such as hydrogen sulphide, appropriate detection and protection arrangements are required and emergency drills must be put in place. We also require our contractors and other facilities to provide a suitable water supply and wastewater disposal facilities to ensure prevention of infection and illness from water-borne or other pathogens.



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Well-being

Staff wellness continued to play an important role throughout 2017. One of our largest ongoing requirements is ergonomic assessments for all our staff and contractors in our offices. While the majority of staff had the correct ergonomic set-up, we were able to ascertain where modifications were needed and make seating and desk adjustments where necessary. We continue to offer optional annual health assessments for all members of staff. This benefit has seen a high degree of usage since its initial roll-out in 2015 and has proved to be a well-received employee benefit.

We also undertook several health and well-being awareness initiatives over the course of the year. These included 'Lunch and Learn' sessions on the benefits of healthy nutrition, outdoor exercise and yoga. Many staff also take part in sponsored sporting and fitness challenges, and Cairn provides both encouragement and financial support through our charities committee. See www.cairnenergy.com/working-responsibly/charitable-giving.

OUR CR OBJECTIVES 2018

Improve our Traveller Health and Security intranet.

Develop health support programmes in Mexico.



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Security

STRATEGIC OBJECTIVES

Maintain licence to operate



PRINCIPAL RISKS

Health, safety, environment and security

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

We trained our senior managers and CERT on high-impact security scenarios, including an emergency exercise.

We continued to improve our support for those in-country and travelling on business.

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Security landscape

The worldwide security environment continues to be dynamic, and Cairn recognises the need to adapt and innovate in order to mitigate identified and emerging threats and provide a duty of care to our people, assets, investments, reputation and data. There have been a number of well-publicised security incidents during 2017 and the general security threat level in the UK rose to its highest level for a period. Such incidents continue to represent a risk to our personnel and business, demonstrating that they are of global concern irrespective of specific country issues. It is clear that our focus must not be directed at locations with known or high risks of threat to the person alone but must also take into account the more wide-scale threat to all our personnel.

During 2017, we continued to improve the support and advice given at an organisational level and to individuals against this challenging security situation. It involved tracking changes in threats across our current locations and providing advice as necessary to all staff. We use targeted online training packages designed with the business traveller in mind and carry out robust, bespoke risk assessments for individual non-routine travel to countries with a medium risk or above. We continue to subscribe to specialist tools and support to allow us to evaluate threats to personnel and our assets, and assess risks on a routine basis so that appropriate training, mitigation and advice can be provided. This also includes advice posted on our Traveller Health and Security intranet traveller support area. See [Health and well-being](#).

Total security incidents (number)

2017	1 ¹
2016	0
2015	0
2014	1
2013	0

¹ Break-in at staff apartment.

New country entry

In addition to monitoring the security situation in our existing locations, we look at threats in potential new business locations and countries of interest as part of our due diligence process and new country entry requirements.

For example, as part of our evaluation of the Mexico opportunity, we reviewed the security information thoroughly to identify the key risks we could expect and be required to mitigate. Country visits and our new country entry procedure require us to deepen our understanding of security risks as a matter of course. Our initial security works were completed in Mexico during 2017 in terms of offices and other locations we may use for operational purposes. We also developed location-specific procedures, which are designed to mature and evolve with the current circumstances, to allow us to support our personnel both locally and from our head office.

In Mexico, the earthquake in September 2017 tragically resulted in a significant number of fatalities and widespread damage in Mexico City and elsewhere outside the capital. Vulnerable personnel, either in-country or visiting, were provided with earthquake briefings to ensure they were aware of how to react in the event of a major seismic event. In 2018, we will continue to develop our presence in Mexico and support personnel, including development of security and business continuity arrangements.

We continue to have a large number of personnel travelling on a daily basis and consequently we have implemented and improved a number of mechanisms to assess the before travel risks they may face, including health, safety and security. A travel information area has been placed on our intranet and this is available to all staff. We support our people during their trip and in certain instances specific travel security and management plans are set in place to address heightened concerns.



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Location threats

Operations in Senegal continued to be supported by a local security consultancy, which provides assistance in the event of an emergency or serious threat, as well as by our specialist support in head office. We continued to assess all operational areas, including the UK and Senegal, for emerging threats during 2017. Where intelligence was received, we took a precautionary approach and acted upon advice quickly, notifying all personnel potentially affected. Such advice received from embassies, civil authorities and our support contractors allowed us to check security arrangements rapidly. Low-level crime advice was provided and extra security measures were also implemented in Senegal during 2017 following the targeting of some accommodation.

Cyber security

This year also saw examples of cyber attacks on organisations and software across the globe; in some cases, with significant impacts on the businesses involved. Although we experienced no cyber security breach from the malware incidents this year, and despite our cyber security plan being in place, we reviewed arrangements to ensure there were no residual issues or gaps as part of lessons learned from these incidents. Specifically, our Information Systems department acted swiftly in response to the breaking news of the worldwide cyber attack (Wannacry ransomware) and, although our cyber security was not breached, it quickly imposed extra countermeasures to safeguard our IT infrastructure.

Cairn previously identified increasing convergence between physical and cyber security management. Our internal Security Governance Forum (SGF) continued to communicate threats, strategies and security improvement plans and ensure a holistic and collaborative approach to security management throughout the Cairn Group.

We continue to monitor developments in this area and participate in active industry bodies to ensure we are aware of potential threats and measures to prevent security breaches and risks that would result from data loss.

OUR CR OBJECTIVES 2018

Develop security and business continuity plans for our Mexico operation.

Streamline our security guidance documentation.

Review current cyber security systems and follow industry good practice to mitigate risks.



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Employees

STRATEGIC OBJECTIVES
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PRINCIPAL RISKS
 Staff recruitment and retention

At Cairn, we believe that our people provide the foundation for our success and we are committed to providing the best possible employee experience. This includes: providing a safe, collaborative, positive work environment; recognition of employee contributions; the provision of opportunities for growth and development; and access to the right systems and support to facilitate the delivery of our strategy and annual work programme. Our people initiatives are centred around the need to provide a direct link to the achievement of business results and are underpinned by our High Performing Behaviours and values of Respect, Relationships and Responsibility (the 3Rs).

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

We rolled out the new People Management Policy and People Management Manual.

We ran Management Bootcamps and assessed performance.

We performed a Managing Talent audit and set an action plan in place to address issues.

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Equipping our people with the right processes and skills to deliver

People Management Policy refresh

One of our key projects during 2017 was the refresh and redesign of our People Management Policy. Key to this was the development and roll-out of a new Group People Policy, which sets out our overarching people principles covering staff in all of Cairn's Group offices.

Our People Management Manual contains the individual people policies and procedures that underpin our Group People Policy and defines how we deliver to the principles and standards to which we are committed.

To support the Group People Policy, we also reviewed and refreshed our individual people policies, for staff across our regional locations. As well as refreshing the existing policies to reflect updates in employment legislation and/or business practice, one of the key aims of the project was to create a single, harmonised framework where policies were applicable to all employees of the Cairn Group wherever they might live or work in the world. While local legislation will prevail, overall, the refreshed policies are designed to ensure that employees have a consistent employment experience. Our aim was to ensure a clear, open and transparent approach to people management within Cairn, as well as equitable and consistent application and compliance with appropriate employment legislation. The policies also support and encourage consistent and good employment practices that help inform and guide day-to-day decisions that impact our people.

Management Bootcamp

At Cairn, we believe good people management is the key to a high performance culture and to being a high performing organisation. We have high expectations of our people managers' skills in supporting and motivating teams to deliver optimum results within Cairn's behavioural standards.

In 2015, we commissioned a tailored personal development programme targeted at our people managers to support individual and teams' success – the Management Bootcamp. This programme was designed to deliver on our commitment to developing our people managers, specifically through providing them with the practical tools they need to successfully deliver Cairn's business objectives through their teams.

We continued to deliver against this commitment throughout 2017, with our focus on:

- continuing with the delivery of phase 1 of the programme to people managers across the business; and
- evaluation of the programme and the impact on those who have participated so far.

By the end of the 2017, over 70% of our people managers had participated in the programme, increasing to over 90% by the end of Q1 2018.

70%

By the end of the 2017, over 70% of our people managers had participated in the Bootcamp, increasing to over 90% by the end of Q1 2018.

In terms of evaluation, participants remain enthusiastic and keen to attend. The post-attendance feedback continues to be very positive:

"Was the most useful programme I've ever attended."

"Very thought-provoking and enjoyable in an informal and relaxed setting."

"Great two days, allowing much needed time to reflect on my management style and how I can develop in this regard."

"Very positive. Fresh ideas to think about performance/behaviours and how to develop the team more."

"Some new approaches to existing themes. Well-presented and engaging."

"Very good refresher of good management practices."

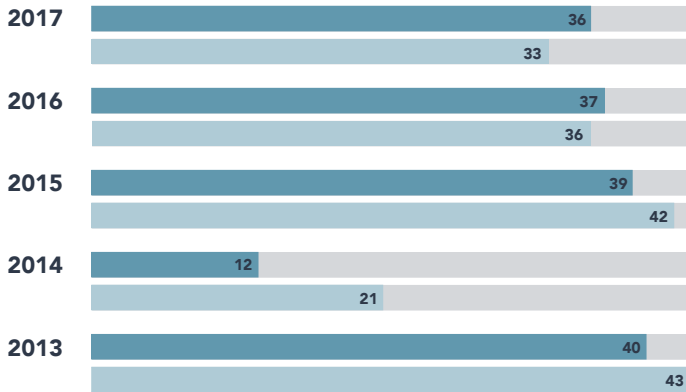
While this feedback is encouraging in itself, we also wanted to evaluate and understand the return on investment from the programme and to identify development areas to include in potential future phases. To do this, we sought evidence of its impact from a selection of the participating managers as well as a sample of staff across the business who report to them.

Results from both sample groups was overwhelmingly positive. In the survey of participating managers, 100% of participants agreed that the programme had been valuable to them in terms of developing their management and leadership skills. Similarly, they all agreed that they had been able to apply the key learnings from the programme in their role.

In the survey of staff reporting to participating managers, the results showed that respondents consistently agreed that their managers were able to build effective interpersonal relationships, work collaboratively, communicate effectively, manage conflict, coach and develop their team, promote a one team culture, create an environment where people are empowered and motivated, and provide appropriate recognition and feedback.

Given the success of the programme, we are committed to progressing to a second phase of the Management Bootcamp during 2018.

Total management and non-management training (average hours per employee)



Key

- Management grade employees
- Non-management grade employees

Assessing our effectiveness

Managing Talent audit

In June 2017, our internal auditors conducted a Managing Talent audit. The objective was to assess the effectiveness of the processes in place within Cairn to identify current and future key talent requirements and to recruit and/or develop existing talent to meet those requirements. The review also considered processes in place to engage, support and incentivise the current workforce to maximise talent retention, including the effectiveness of knowledge management processes.

The review highlighted a number of positive observations, namely in the areas of identifying talent requirements, geoscience technical competency and skills development, alignment of incentives with performance, management and leadership development, and staff engagement.

In addition, there were some recommended areas for improvement in relation to the approach to talent management. Fortunately, these did not include any unexpected outcomes and there was no high-risk exposure to the business. Of the risks identified, one has already been fully mitigated and others are currently being progressed.



OUR CR OBJECTIVES 2018

Design and review a talent management programme.

Design and implement a management development programme.

Design and implement a career pathways programme.

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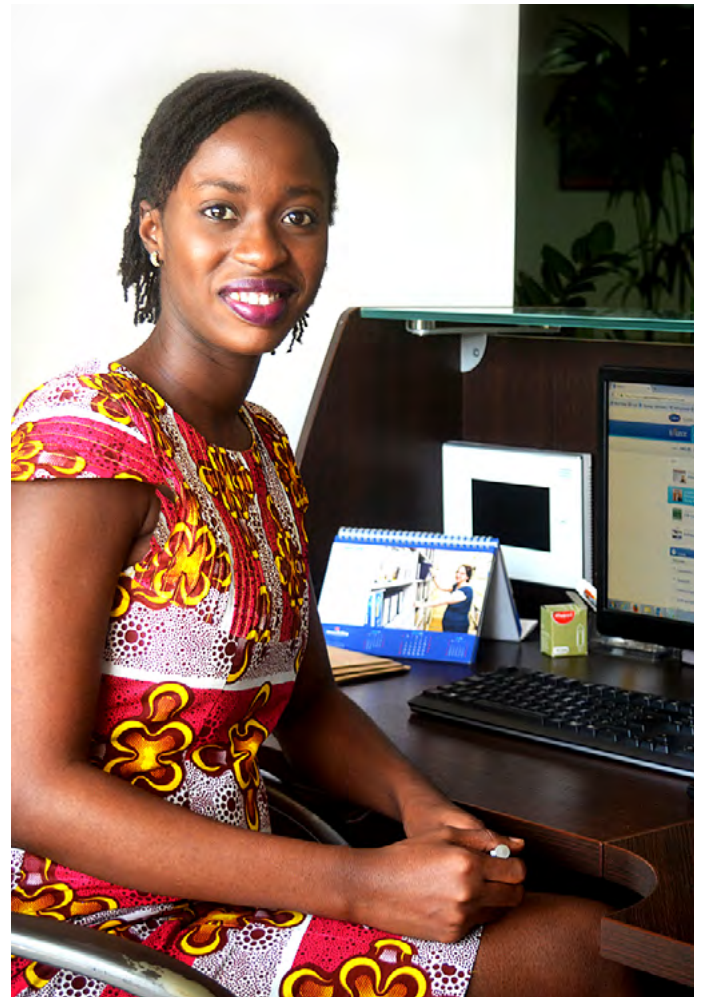
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Equality and diversity

STRATEGIC OBJECTIVES

Maintain licence to operate



PRINCIPAL RISKS

Staff recruitment and retention

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

We confirmed the Group status under the UK Equality Act.

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Our approach to equality and diversity extends consistently to all our staff across the Cairn Group.

At year-end 2017:

- 48% of Cairn staff were women

- 13% of Cairn staff worked part time

- 100% of employees returned to work following parental/adoption leave

- 17 different nationalities were employed at Cairn

- 3% of the workforce had a disability

- Average age at Cairn was 46

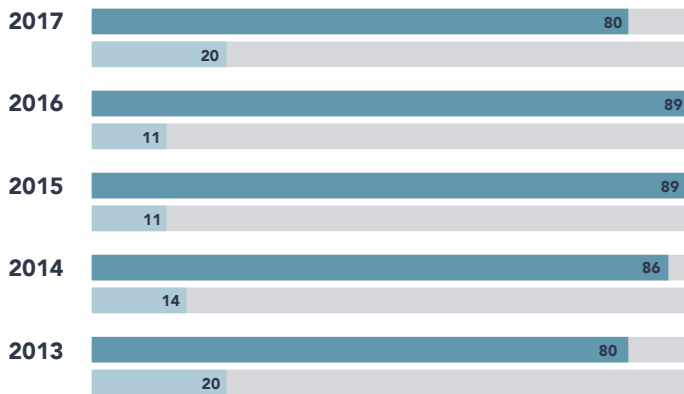
- 30% of management roles were held by women

- 2 of the 10 members of the Board were female (20%)

We are committed to equality and diversity. We understand the importance of a diverse workforce in broadening our skill base, bringing different approaches, perspectives and ideas, challenging norms and encouraging creativity. All of these support the business in delivering its strategy.

Our People Management Policy covers our approach to equality and diversity and how this is implemented in recruitment and selection, training and development, and remuneration and benefits. We also have policies on disability, religion and belief, and the treatment of those employed on a part-time basis. We collect data on the gender, nationality and disability of our appointed staff through our voluntary Equal Opportunities Form.

Board member gender (%)



Key

- Male
- Female

Our approach to equality and diversity extends consistently to all our staff across the Cairn Group.

OUR CR OBJECTIVES 2018

Work with educational groups to encourage more females into science, technology, engineering and mathematics (STEM) subjects.

Identify mechanisms to encourage diversity through our recruitment process.

Implement an employee engagement strategy on equality and diversity.

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Environment

Climate change, emissions and discharges

STRATEGIC OBJECTIVES

Maintain licence to operate

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

We completed our annual review of COP21 and COP22 related risks for the business, including a review of the position taken by key investors and peers.

Our phase three Senegal exploration and appraisal programme reduced landfill waste substantially.

PRINCIPAL RISKS

Health, safety, environment and security

Kraken and Catcher operational and project performance

Access to debt markets



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Climate change risk and reporting

We recognise the potential risk represented by climate change as global energy transitions to a less carbon-intensive economy. This includes issues such as the potential for future restriction of funding, shareholder position and stranded assets. We also recognise that balancing the need for energy and reducing greenhouse gas (GHG) emissions will require efficient use of energy and the full utilisation of both conventional and innovative sources of energy into the foreseeable future, particularly if energy is to remain affordable and accessible in developed and developing countries. Other global factors remain important in relation to our industry, including growing demand for energy and provision of energy security in individual countries.

The International Energy Agency (IEA) World Energy Outlook 2017 indicates that between 2015 and 2040 world energy consumption is likely to increase by 28%. The majority of this increase is likely to occur in non-OECD (Organisation for Economic Co-operation and Development) countries, with an estimated increase of 41%. Despite volatility in oil and gas prices giving rise to uncertainties (see [Economics and funding](#)), the analysis concludes that the end-use demand does not vary. It states that except for coal, all fuel sources are projected to increase over that period, with renewables showing the fastest growth. It further indicates that petroleum and liquid hydrocarbons remain the largest source with gas as the fastest growing fossil fuel. Despite this, it projects a fall in carbon intensity due to the decline in the use of coal, although this may be impacted by population growth.

In 2016, the IEA special report analysed a number of transition scenarios to a low carbon economy. The most challenging of these (IEA 450) restricts global temperature rise to 2°C. In this instance, nearly 60% of the power generated in 2040 is projected to come from renewables, almost half of this from wind and solar photovoltaics. Even in this scenario, IEA considers there to be 'no reason to assume widespread stranding of upstream oil assets, as long as governments give clear signals of their intent and pursue consistent policies to that end'. IEA goes on to indicate that 'Investment in developing new upstream projects is an important component of a least-cost transition, as the decline in output from existing fields is much larger than the anticipated fall in demand'.

Our oil and gas exploration and production activities are carbon intensive, and our approach to climate change continues to include:

- GHG measuring and reporting;
- further consideration of climate change risks and opportunities associated with all our projects;
- promoting efficient use of energy in our activities and, wherever possible, including efficient and timely completion of projects;
- integrating climate change considerations and potential costs into investment decisions;
- stakeholder engagement – for example, through participating in industry associations, on mitigation and adaptation to climate change measures; and
- contribution to local programmes that address environmental and social impacts within our sphere of control and reasonable influence.

We continued to monitor and assess developments in relation to climate change in 2017 and will do so on an ongoing basis. This included understanding the position taken by significant contributors such as the USA and China as well as those countries in which we have activities. We conducted a review that looked at our risks in context of the position taken by our key investors and peer companies in order to benchmark our position (see also [Economics and funding](#)). The review was discussed with members of the Board and shared with other senior personnel. This included announcement by some financial institutions to cease investing in oil and gas projects. We also continued to monitor developments in relation to Nationally Determined Contribution (NDC)¹ reports and their implementation for all locations in our portfolio. Potential strategic issues include emissions control restrictions (e.g. trading and permitting, levies), potential for stranded assets, securing access to finance, licence to operate, and adaptation by countries and communities (e.g. due to rising sea levels or change in environmental conditions affecting communities) to the impact from climate changes.

We completed responses to the Financial Reporting Council (FRC) questions on our reporting of climate change risk in early 2017. We also tracked and commented on climate change reporting proposals arising from recommendations to the G20 Finance Ministers from the Task Force on Climate-related Financial Disclosures (TCFD), which was formed in response to the COP21 Climate Change agreement. These recommendations covered governance, strategy, risk management, and metrics and targets. We took on board comments from others regarding TCFD recommendations, such as the FRC, analysts such as IHS Markit, and the oil and gas industry organisation for environmental and social issues, IPIECA. Cairn will continue to monitor requirements in this area as they develop.



¹ Countries across the globe adopted a historic international climate agreement at the UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP21) in Paris in December 2015. In anticipation of this moment, countries publicly outlined what post-2020 climate actions they intended to take under the new international agreement, known as their Intended Nationally Determined Contributions (INDCs). These became NDCs on signature. The climate actions communicated in these NDCs largely determine whether the world achieves the long-term goals of the Paris Agreement: to hold the increase in global average temperature to well below 2°C, to pursue efforts to limit the increase to 1.5°C and to achieve net zero emissions in the second half of the 21st century.

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Overall, the risk profile of climate change within the business and materiality assessment have left this issue unchanged since 2016; however, we remain conscious of the potential for this risk to increase associated with access to debt markets and funding (see [Economics and funding](#)). We looked at risks overall and in new country entry situations, including specific risk reviews in our Investment Proposal summaries to the Board.

With our partners, we started to consider climate change issues that may arise for development in Senegal. This includes requirements in particular in relation to gas management and funding.

In 2018, our focus will maintain our efforts to track and understand risks and development on climate change, and we will perform a portfolio ‘resilience’ review.

The UK and Norway

In areas where the oil and gas industry is considered mature, such as in the UK and Norway, there is clear legislation around climate change, including EU Emissions Trading Scheme Regulations¹, with ongoing emission reduction targets by individual countries and collectively by the EU. Through our membership of the IOGP, we follow the developments within the EU and the engagement processes in Brussels. As such, the climate change risks pertaining to our assets in the UK and Norway, which include our non-operated development projects Kraken and Catcher, are well understood but changes will result from the next round of the scheme. This is under discussion and may be impacted by Brexit. Future exploration in the UK and Norway appears to be secure against the background of UK and Norwegian reduction commitments and the cost of carbon. A short-term challenge is the volatility of oil and gas prices, although this is unlikely to affect demand overall and some recovery has occurred late in 2017. See [Economics and funding](#).

Access to funding is not seen as an issue currently, given government policies and known legislation and timescales for the sector. Our Kraken and Catcher non-operated developments are fully funded and production has commenced. In the short term, the marginal cost of carbon is also not seen as a significant issue, although it may play a part as assets age and production declines, precipitating a marginally earlier decision to cease production. We do not foresee funding or carbon cost as impacting shareholder value overall in our mature area portfolio and at the end of 2017.

Similarly, the likelihood of stranded assets due to climate change in mature areas is not regarded as an issue. There continues to be considerable promotion of exploration and production in mature areas due to the benefits, including economic and social, and recognition that the transition will take some decades. In the short to medium term, asset risks such as proximity to infrastructure and size of discovery, outweigh most other risks to project viability and delivery of shareholder value. Longer-term climate change is also likely to drive innovation and improvement in equipment, including during the design and selection stages of projects to remove and optimise emissions. For example, long-term innovation may take the form of low emissions technology and carbon capture. We do not use an internal cost of carbon on the basis that it is not material to our projects at this time but we continue to factor costs into our due diligence and investment proposal processes as necessary; it is an area we continue to monitor to ensure we understand trends and implications.

Given that much of the UK’s health, safety and environment (HSE) related legislation is based on EU regulations and directives, including the area of climate change, the UK’s exit from the EU following the 2016 referendum is identified as a business risk. This may impact not only climate change issues but also other CR issues of interest, as the details of Brexit become clearer.

¹ The EU Emissions Trading Scheme Regulations require regulated activities such as many offshore installations to restrict emissions of carbon (as carbon dioxide and methane emissions, among others). This is achieved by allocation of allowances that must be maintained and surrendered in line with strict requirements of the regulations.

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Senegal and Mexico

Transition risks in developing locations are closely tied to the need for economic growth to provide local benefits, such as employment and social and economic development. Such countries tend to have much lower aspirations in terms of carbon reduction and will be dependent on investment funds. Market-based mechanisms also tend to play a less central role. Access to investment for companies is often linked with demonstrating a responsible position in terms of both environmental and social performance. Stranded assets are unlikely to be a significant issue in respect of climate change alone. There are likely to be other significant issues, such as the cost of delivery of a project in remote or poor infrastructure areas that will affect the overall value of the project.

At the end of 2017, our principal asset of this type remains the Senegal appraisal and exploration project. Plans for development are progressing and we remain confident that funding will be made available to ensure delivery. In part, this is due to the need for development in-country and affordable, reliable energy in Senegal, linked to its status as one of the United Nations Least Developed Countries.

As part of our assessment of risks prior to participation in the Mexico acreage bid round, we assessed the climate change risk and these were included in our investment proposal. This acknowledged the Nationally Determined Contribution (NDC) commitment to a 25% reduction in GHG emissions unconditionally by 2030 (from the 2013 level). Mechanisms to achieve this include carbon tax, energy reform, new standards and regulations. A market mechanism is also being contemplated.

Physical risks

Physical risks arising from climate change include the potential for extreme weather, sea-level rise, water scarcity and impacts on biodiversity. The likelihood of impact on Cairn business, as with other companies, is highly location and infrastructure specific. In terms of our infrastructure, as at the end of 2017, Cairn had no permanent installations with the exception of our leased Dakar shore base and non-operated interests in Catcher and Kraken FPSOs; consequently, almost all our activities involved mobile offshore equipment. No significant issues are anticipated at this time.

Local people in our areas of activity may be adversely affected by sea-level rise or degradation in fishing quality/quantity, availability of water or farming. These are social issues that are essentially in the government domain; however, Cairn has a long history of both social responsibility and social investment. For example, water supply issues in India in the location of our land operations were the subject of a major aquifer management programme developed by Cairn.



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Our GHG emissions

Greenhouse gases (GHGs) form a part of our operational environmental footprint. We monitor and manage the GHGs emitted during our activities and disclose them in accordance with industry requirements and standards. In 2017, we again updated the methods and factors used in the calculation of our GHG emissions, and corrections were made in line with best practice.

We disclose on an 'operational control' basis, which means we report emissions from those assets that are operated by us and not those controlled by our partners. With no operated production facilities in 2017, our direct GHG emissions occurred primarily from the combustion of fuel on the rig, vessels and aviation, and from flaring during testing, in relation to the completion of the third phase appraisal and exploration programme in Senegal.

Our GHG emissions over five years show that they are heavily related to the level of operational activity in any given period. Our emissions levels in absolute terms vary with the length of operations and operational requirements, which are often also influenced by safety considerations (e.g. vessel or rig selection to meet specific operational requirements). The emissions intensity is calculated per 1,000 hours worked, as this provides a direct relationship with our activity. Factors such as the nature of the work in hand (i.e. drilling or seismic survey), environmental conditions and distances between operations and logistic support bases have further significant influences on the intensity of GHG emissions. We strive to reduce the footprint of our activities by operating efficiently and quickly but not to the detriment of safety.

Our total and normalised GHG emissions increased in 2017 from 2016, the latter despite an increase in hours worked, largely due to the increase in flaring during the appraisal drilling process and drilling a total of five wells in the campaign. RPS was appointed to provide independent verification of GHG emissions reported in the [Annual Report and Accounts 2017](#) and this [CR report](#).

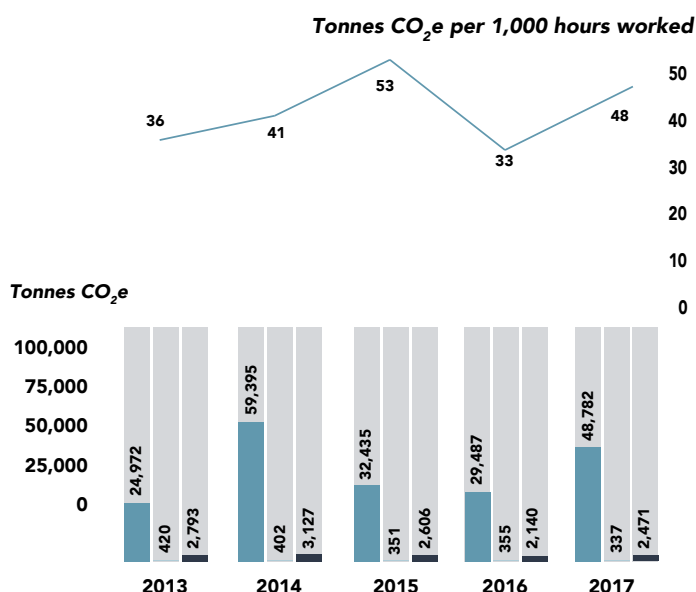
See our GHG Assurance Statement here www.cairnenergy.com/media/2237/cairn-ghg-verification-report-2017_final.pdf. See also Cairn Corporate Responsibility Report 2017 Data Appendix here www.cairnenergy.com/media/2202/data-index.pdf (which includes data and methodology notes).



Air emissions

Offshore, we contracted a rig that operated to the highest industry standards; however, there is restriction on availability of low sulphur diesel in Africa so sulphur emissions are higher than would be the case if low sulphur diesel were available. The implementation of a novel tank storage system on the drilling rig ensured we were able to flare hydrocarbons offline and did not have to flare any more hydrocarbon than was absolutely necessary to ensure that well test objectives were met safely and successfully. Consequently, our phase three exploration and appraisal programme in Senegal completed in September ahead of schedule for the wells drilled, with reduced emissions on a per well basis from those estimated during the assessment and planning process and submitted as part of our Environmental and Social Impact Assessment (ESIA).

Total and normalised GHG emissions (Scopes 1, 2 and 3)



Key

- Scope 1
- Scope 2 (location-based)
- Scope 3

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Emissions, discharges and wastes

For offshore activities, we carefully manage emissions to air and discharges into the sea. It remains difficult to set specific reduction targets when levels of activity vary from year to year, but we are committed to minimising our environmental impact from operations and to reporting fully and transparently on this matter.

The emissions, discharges and wastes associated with our phase three exploration and appraisal programme in Senegal were originally estimated and assessed in an addendum to our Sangomar Deep Offshore ESIA. During the tendering and contract evaluation process, care was taken to ensure that assets and contractors were selected that were in line with our philosophy of emissions and waste management reduction and elimination. Great effort was employed to ensure that emissions, discharges and waste were managed to minimise them where possible.



Water and wastewater

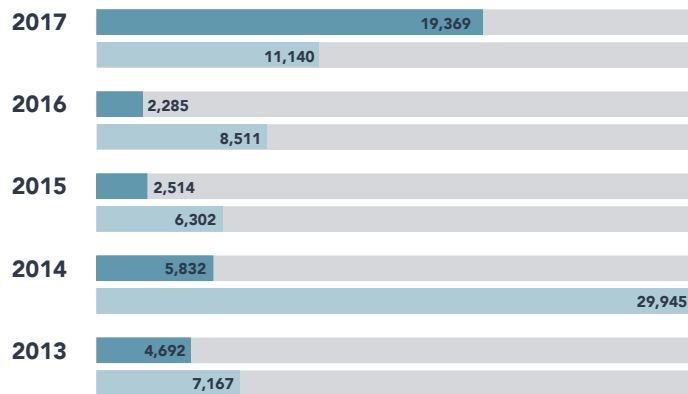
We use some freshwater in our offices, but the largest use of freshwater is in supporting offshore drilling operations. Over the course of the phase three campaign, freshwater was transferred from stand pipes in the Port of Dakar to our supply vessels. This water was used for the vessels themselves or transferred to the drilling rig for either domestic use in the accommodation areas or for the mixing of drilling muds where seawater could not be used. See [Resource use](#).

Wastewater generated from our offices was treated through the municipal sewage and wastewater process. Wastewater offshore from domestic use on the vessels and rigs was treated to the standards specified by the MARPOL International Convention for the Prevention of Pollution from Ships. Waste drilling fluids generated in the drilling operation were discharged to sea and met the OSPAR convention conditions following assessment in the ESIA and approval by the regulator.

Cairn uses the OSPAR Convention and associated guidance as a touchstone for the standards to apply for any discharges to the marine environment. We adopt the precautionary principle and apply best available technique assessments.

During the well test activities on the Stena DrillMAX, produced reservoir water was discharged to OSPAR standards that is treated to less than 30 parts per million oil in water before being released overboard. For sewage, organic kitchen waste, bilges and contaminated drainage water, we maintained compliance with MARPOL standards. Water that could not be treated to this standard was transported onshore for further treatment prior to controlled disposal. All drilling mud used and discharged during the campaign was water based, and the impact of this discharge was assessed and reported to the regulator as per our Environmental and Social Management Plan.

Total water withdrawal (m³)



Key

- Freshwater withdrawal
- Seawater withdrawal

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Waste

Our exploration activities generate different volumes and types of waste, including oil-contaminated wastes, chemical wastes, non-hazardous wastes from office and domestic operations, and clinical wastes from medical facilities offshore. Our management of wastes is in line with internationally accepted best practices and legal requirements, and duty of care standards remain our priority.

Shipboard wastes generated during offshore support operations (i.e. excluding drilling) are managed in accordance with MARPOL 73/78 requirements. Wastes that cannot be discharged at sea or incinerated offshore are segregated and transferred to shore for further treatment and disposal.

For all projects and programmes, we continue to ensure that:

- waste management options in-country are well understood prior to start-up of operations;
- local facilities and service providers have been audited and, where gaps are identified, plans are put in place to meet our requirements;
- Waste Management Plans are in place and informed by the findings from in-country reviews and audits;
- daily supervision of the waste management activities is set up for the duration of operations and a cradle-to-grave approach is followed through for each waste stream;
- hazardous wastes that cannot be treated locally are transferred to suitable treatment and disposal facilities outside country and in full compliance with international law, including the Basel Convention; and
- records of wastes and their treatment and disposal routes are maintained at all times.

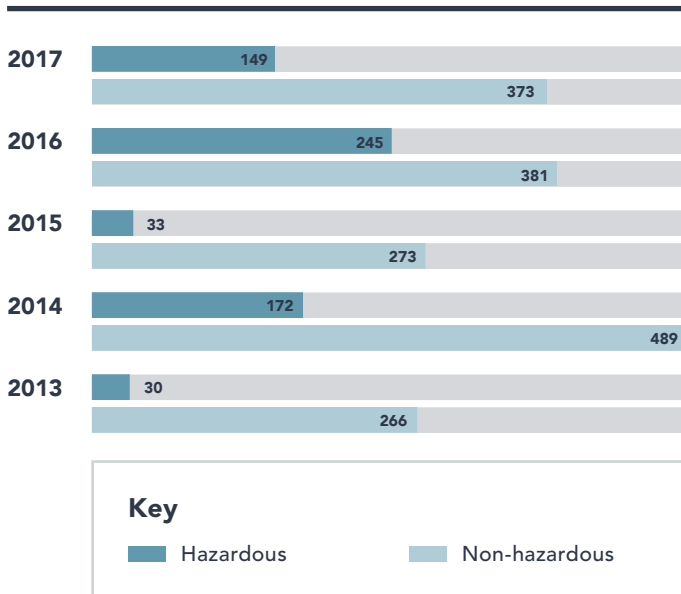
In Senegal, we again partnered with a specialist international waste management company to deliver good practices in full compliance with our Corporate Responsibility Management System (CRMS) and local requirements. At the end of the third phase of exploration and appraisal drilling, there were a number of waste streams – including fluorescent tubes, batteries and waste electrical equipment – that could not be disposed of in Senegal due to the absence of suitable waste management sites (see [Case study](#)). This waste has been safely and securely stored and will be transported under international legislation

(the Basel Convention) to Europe for safe destruction and disposal. In addition, all waste management facilities used in the course of the project were subject to a close-out audit.

We feel confident that we have a well developed and tested Waste Management Plan for operations in Senegal, and will ensure that this information is shared with our partners as we move towards field development.

We experienced a single minor spill of hydrocarbon in 2017, with a leak of 34 litres of hydraulic oil from an underwater remotely operated vehicle (ROV). This resulted in no discernible impact. This incident was included in our report to the Senegal regulators as part of our ongoing requirements.

Total hazardous and non-hazardous waste (tonnes)



Sound

The environmental impact of sound associated with our drilling activities is assessed in the ESIA undertaken for the work. For operations in Senegal, this was carried out for the 2014 operations and revisited for both phase two and three via the ESIA addendums.

The three areas of potential impact identified were sound from vessel movements, drillship operations and seismic while drilling (SWD) operations. SWD was identified as the most likely source to impact the marine environment.

In order to mitigate against the effect of sound generated from SWD, actions were implemented including use of marine mammal observers (MMOs), visual observations and soft-start and mitigation guns.

OUR CR OBJECTIVES 2018

Continue to assess climate change risks for the business, including reporting.

Develop a climate change resilience review of the portfolio.

CASE STUDY: WASTE MANAGEMENT IN SENEGAL

One of the success stories from our 2017 operations in Senegal has been the management of waste we have generated by our operations both onshore and offshore. Over three phases of drilling with different rig contractors have generated specific hazardous wastes that cannot be disposed of locally due to the absence of suitable arrangements to meet and exceed industry best practice. The approach that Cairn takes to waste management is detailed in our Business Principles (now the Code), specifically 'Behaving Responsibly towards the Environment' by preventing, or where that is not possible, minimising discharges to land, sea and air. Our CRMS has specific requirements on how waste is managed, including application of EU waste classification and management practices such as duty of care.

Senegal and Dakar specific challenges

There are a number of challenges specific to operating in Senegal that we have had to overcome to ensure robust application of our principles and procedures and to establish a robust and effective waste management chain. The Mbeubeuss landfill, a 175 hectare site in a suburb of Dakar, receives nearly 500,000 tonnes of waste per annum, including local hazardous wastes.

There is little or no control of wastes sent to the site and thousands of local people make a living reusing materials from the site. The site is a very hazardous environment with risk to health and the environment. Mbeubeuss is one of a number of similar landfills in Africa that have few recognisable management controls.

As a responsible operator, Cairn had to eliminate wherever possible any waste that may be disposed at the Mbeubeuss landfill and ensure that materials destined for it did not contribute to these health and environmental risks.

We also had to ensure that waste stored and transported prior to sorting, cleaning and disposal was controlled and secure in line with duty of care arrangements. Some materials, such as oil-filled items, had potential resale value, particularly items such as plastic and metal drums and containers.

These are classified as hazardous wastes given our intent to dispose of them. It was imperative that given the harmful nature of their original contents, these containers did not inadvertently get repurposed for

carrying water or food for human or animal consumption. In addition, seemingly benign waste such as wood and metal scrap also had to be tightly monitored to ensure it posed no harm through inappropriate reuse.

Working with partners

To this end, Cairn employed the services of Veolia ES Field Services Limited to develop a secure waste management area within the confines of our supply base and to work locally in Dakar to identify and build working relationships with existing waste management contractors and recycling facilities. In addition, we worked together to agree arrangements with a local cement kiln involved with waste to energy initiatives. Through Veolia and our local Cairn team, we identified contractors who could treat and dispose of the majority of the waste generated during our operational activities. Those specialised or hazardous wastes that could not be treated in Senegal included waste electrical equipment, some batteries and fluorescent tubes. These were safely and securely stored and arrangements were made to export them to dedicated treatment and disposal facilities in Europe in compliance with the Basel Convention.



Statistics

In 2017, Cairn and its partners generated nearly 414 tonnes of waste during operational activities in Senegal. Of this, 0.6%, or 2.5 tonnes, was sent to landfill and this consisted of domestic waste only. For comparison, the UK sends over 50% of municipal waste to landfill¹.

Of the rest, 16.3% was recovered or reused, 28.2% was recycled, 25.1% was treated wastewater, 20.8% was incinerated, 6.8% was stored pending treatment, 1.4% was composted and 0.8% was exported.

Wastes treated included domestic waste, filters, oily rags, plastic, metal scrap, wood, empty metal and plastic drums, wastewater, drilling waste, medical waste, waste electrical equipment and hazardous chemicals.

¹ www.gov.uk/government/uploads/system/uploads/attachment_data/file/593040/UK_statonwaste_statsnotice_Dec2016_FINALv2_2.pdf

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STRATEGIC OBJECTIVES

Maintain licence to operate



PRINCIPAL RISKS

Health, safety, environment and security

Kraken and Catcher operational and project performance

Access to debt markets

Global awareness of biodiversity has increased dramatically in recent years. As a result, there is more understanding of the many issues that threaten it. This places a greater onus on businesses like Cairn to recognise the impact that our activities may have on biodiversity, and to commit to protecting it in the regions in which we operate. We also recognise the potential for climate change to impact biodiversity and livelihoods in local communities.

HOW WE PERFORMED AGAINST OUR CR OBJECTIVES 2017

We commissioned and/or completed baseline environmental surveys for blocks in Senegal, Mexico and the UK as part of environmental impact assessments

We reviewed potentially sensitive areas as part of our new venture Investment Proposals

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Biodiversity framework and guidance

Oil and gas exploration and development activities have the potential to affect biodiversity both on land and in the marine environment. Our commitments and principles related to biodiversity are laid out in our Code of Ethics and our Environment Policy. For example, Cairn does not explore, develop or enter into joint ventures in UNESCO World Heritage sites. Moreover, we take a precautionary approach, believing that where there are threats of serious or irreversible damage, even where such damage is not scientifically certain, cost-effective damage-prevention measures should still be taken.

We take our responsibilities very seriously for all operations that may affect critical habitats, protected areas and/or the welfare of local communities relying on ecosystem services. We undertake extensive due diligence of potential biodiversity impacts, and engage with relevant technical specialists, government departments and NGOs, along with local stakeholders. Such dialogue helps us by guiding our subsequent mitigation activities.

Early assessment

Cairn assesses potential biodiversity impacts early on and at all stages of project development, from asset acquisition through to decommissioning. We assess direct impacts as well as the potential cumulative and indirect impacts of operations on biodiversity, and we consider these impacts in the wider context (i.e. beyond the immediate physical footprint of the asset). This entails an Environmental and Social Impact Assessment (ESIA) and includes consideration of the supply chain for primary products. Any project in which significant potential impacts to biodiversity are identified undergoes additional studies and a formal assessment. These are required to demonstrate how potential impacts will be managed effectively.

We develop asset and site-specific Environmental and Social Management Plans that integrate biodiversity. Cairn also develops Biodiversity Action Plans where there is a significant risk to biodiversity or a measurable benefit for targeted biodiversity conservation action. Cairn ensures appropriate resources and expertise to manage biodiversity risks and impacts, and commissions external specialists as necessary.

When identifying, assessing and managing biodiversity risks and impacts, we follow the requirements outlined in the International Finance Corporation’s (IFC) Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources), appropriate national legislation and other internationally accepted good industry practice.

Our biodiversity framework sets out a common approach, with processes and deliverables that apply to all Cairn’s business and operations. The framework is owned and governed by the highest level of management within Cairn, and implemented locally in accordance with our Cairn Project Delivery Process (PDP). See [Major accident prevention and safety](#).

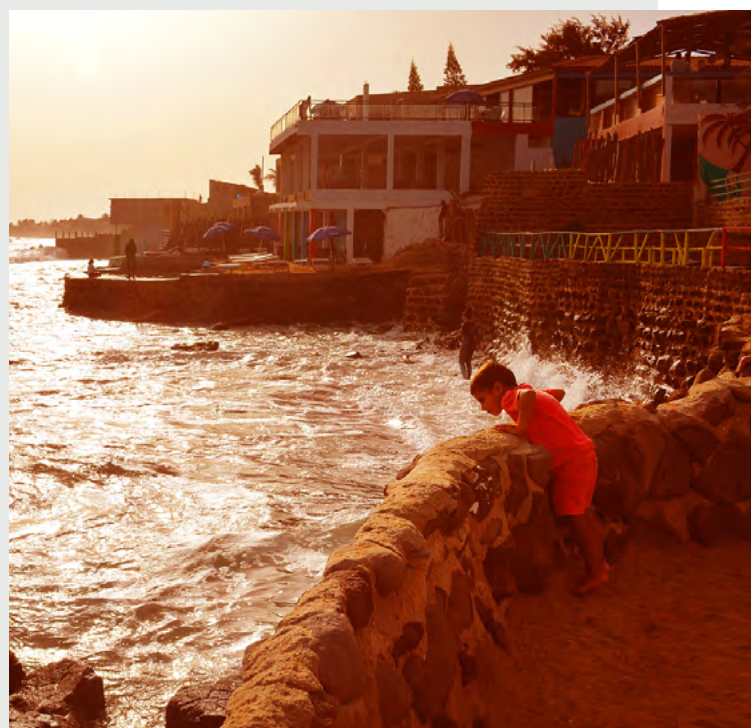
In 2016, the revised IPIECA-IOGP guidance on biodiversity was produced and this is being considered as part of the revision of our own guidance, which is ongoing. This includes Biodiversity and Ecosystem Services (BES) and is acknowledged by the UN Global Compact (UNGC) and by the International Union for the Conservation of Nature (IUCN) in their publications.

Senegal impact assessment

Phase three appraisal and exploration drilling was completed in Senegal in 2017. During planning for this phase, we again revisited our Sangomar Deep ESIA and developed a further addendum to take into account changed rig and other significant developments in this next phase. At the same time, we reported our phase two performance to the Senegal regulator, as agreed with them, without significant issue or incident.

Our consultation continued with key stakeholders, and the Senegal National Technical Committee (NTC) was convened in November 2016 to review the phase three ESIA addendum. Minor modifications were identified and we ensured the revised Environmental and Social Management Plan for phase three incorporated these required changes and improvements. The NTC also considered the Project Risk Study, the supporting dossier for classified installations and Plan of Internal Operations, which were also revised for the new programme.

Mitigation measures were implemented as part of the amended ESIA. We revised all associated operational documentation, including the Corporate Responsibility (CR) Plan, Waste Management Plan and base operating manual.



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Other impact assessment activities

In 2016, we commenced planning activities for potential drilling on our Rufisque and Sangomar offshore blocks. Rufisque block in particular has areas that present different environmental challenges, most notably the shallower water and proximity to the mainland. This gives potential for different environmental habitats and interaction with communities, not least local artisanal fishermen.

In 2017, we completed an environmental baseline survey of the areas of interest being considered for well locations in the Rufisque and Sangomar blocks. We subsequently commenced ESIA work in Edinburgh and Dakar. During 2017, we also commenced planning for benthic surveys¹ for projected operations in the UK (Ekland drilling in 2018) and Mexico (as part of the Production Sharing Contract commitment) using specialist local contractors. This information will be used to support environmental impact work going forward, and in the case of Mexico is required for delineation of impact by previous operators.

Investment Proposals also consider key biodiversity sites before submission to the Board for approval. This helps define risk, including the presence of sensitive sites and species well in advance of entry into a new licence or location.

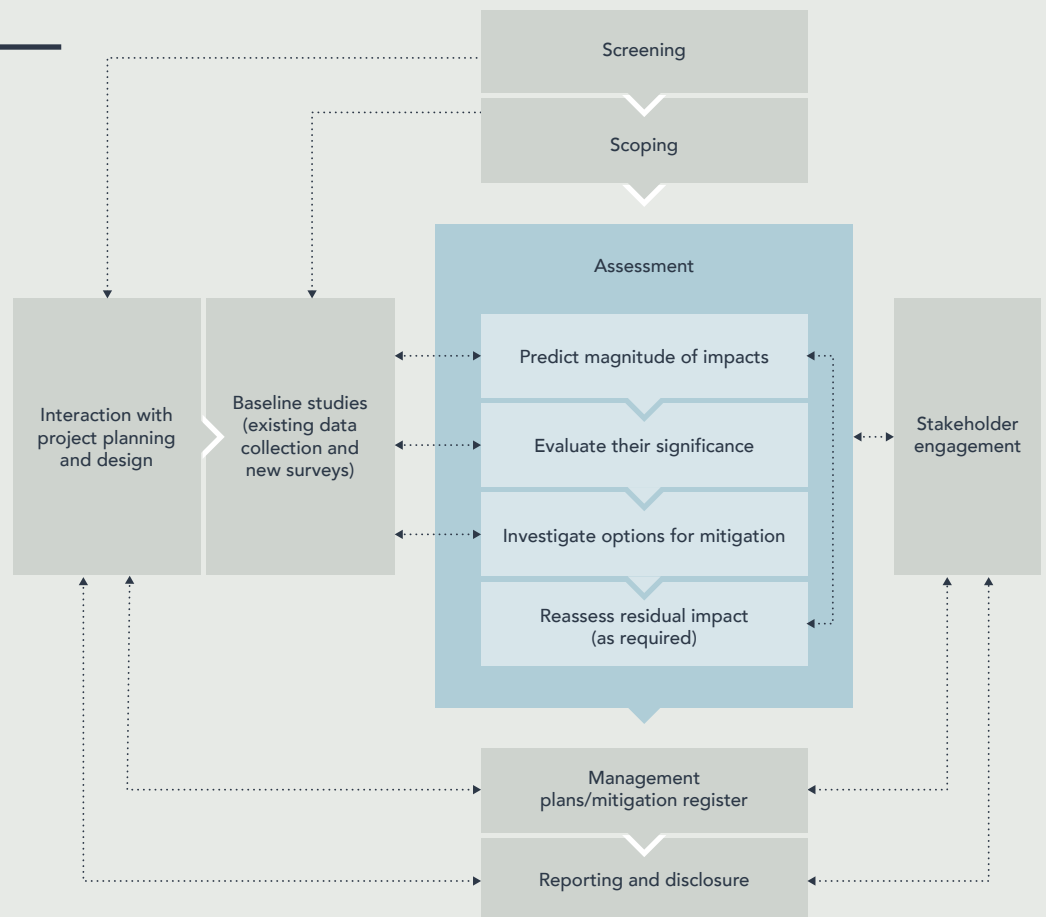
OUR CR OBJECTIVES 2018

Promote high standards of design and performance in our developments.

Complete environmental impact assessments for new operational programmes.

Revise our biodiversity guidelines.

Biodiversity framework



¹ These are surveys of seabed life to be used in impact assessment and identification of sensitive environmental habitats.

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Resource use

Cairn continues to be mindful of the resources we use in our activities. These mainly consist of energy, water, and solids and liquid consumables used in drilling activities. We also use local resources such as food and water for our personnel in-country.

Energy use

For our offshore activities, the majority of our energy sources are hydrocarbon fuels such as marine diesel. Where possible, Cairn gives preference to low sulphur diesel sources, although for our operations in Senegal low sulphur fuel options are not available. By contrast, the supplier is local and therefore economic benefits accrue locally, and the supplier used in the Dakar terminal operates a high-quality management system with good infrastructure. See [Climate change, emissions and discharges](#).

In mid-2017, due to increased turnover, we could have been subject to the requirements of the UK Energy Saving Opportunity Scheme Regulations. Consequently, a compliance review was conducted in early 2017 to address this. This review found no participation in the scheme was required at this time, but we will continue to monitor applicability in future years.

Total direct and indirect energy consumption (GJ)

2017	493,033
2016	333,446
2015	361,962
2014	857,795
2013	362,630

Water management

At Cairn, we appreciate that our business both impacts and depends on water resources close to our operations, while recognising that access to clean water by communities is a key human right and of importance to local communities and the environment. We have had a water resource strategy in place for some years, which covers:

- monitoring and assessing the need for freshwater abstraction and use, and potential impacts on freshwater resources of our operations;
- investigating ways to improve our freshwater management processes;
- identifying, evaluating and implementing improvement measures to reduce impacts on freshwater; and
- enhancing reporting of our freshwater resources management.

In our 2017 exploration and appraisal activities offshore, our use of freshwater is limited to offshore and onshore domestic use and in drilling fluid formulation. Given the level of our activities, there was limited local impact from those materials abstracted and used in our Senegal drilling activities. Dakar is a major West African port and a local focus of food importation. Cairn and our contractors source food locally, which adds to the local economy without adverse impact.



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Chemical management

Our business also requires the use of liquid and solid chemicals and some solids. Chemical formulation for drilling fluids for our exploration campaigns undergoes rigorous selection to ensure well safety and minimisation of impacts on the environment while maintaining well bore stability and reservoir pressure control.

We identify and assess the potential risks and impacts of chemicals as part of the Environmental and Social Impact Assessments (ESIAs) we carry out before starting new operations. We have a stringent approach to chemical selection and waste management. See [Climate change, emissions and discharges](#).

Cairn manages chemicals in accordance with the Oslo/Paris Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR). It is an internationally recognised mechanism, developed by 15 governments of the western coasts and catchments of Europe, together with the EU. In Senegal, we continue to track and support the development of harmonised chemical selection and disposal practices under the Abidjan Convention, which seeks to coordinate chemical and discharge management standards along the west coast of Africa. The convergence towards the OSPAR approach is welcomed by Cairn to implement good practice in the region.

Every chemical used in the Senegal exploration campaign was checked for its suitability for the drilling programme before submission for approval by the regulatory authority.

Product stewardship

2017 saw the culmination of our portfolio rebuild with the start-up of production of our non-operated assets Kraken and Catcher.

Although the primary focus of stewardship of product from these assets will remain with the operator, it is important to Cairn to ensure that any product over which we have an influence, share or may control is handled properly.

This means ensuring that high standards of management are maintained and the transfer of product between floating production, storage and offloading (FPSO) units and customers is conducted using appropriate and well-managed standards. In addition, trading of the product needs to be conducted transparently. Product handling and stewardship increased as an issue in 2017 due to the initiation of production; however, the management of them is controlled by our partners on a day-to-day basis. As a consequence, our activities relate to ensuring our partners act responsibly on management of the product. We are confident that our partners, as responsible operators, have this in their operations.

OUR CR OBJECTIVE 2018

Monitor requirements for the UK Energy Saving Opportunity Scheme

Approach

Business relationships

Society and communities

People, safety and security

Environment

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Reporting period

This report covers Cairn's global operations from 1 January to 31 December 2017.

Reporting standards

Cairn reports its 2017 Corporate Responsibility (CR) information in accordance with AccountAbility's AA1000 Accountability Principles Standard (AA1000 APS) founding principles of inclusivity, materiality and responsiveness. This ensures that we engage with internal and external stakeholders, identify and assess our most important CR issues, and address and respond to them in a structured way.

We also use the Global Reporting Initiative (GRI) Standards (Core option). We follow its content principles of materiality, stakeholder inclusiveness, sustainability context and completeness; and its quality principles of balance, comparability, accuracy, timeliness, clarity and reliability. Download our 2017 GRI Index here

www.cairnenergy.com/media/2203/gri-index.pdf.

Scope and boundaries

We report on an 'operational control' basis, which means that we report on those assets and activities over which we have operational control in terms of CR policies and practices during 2017, irrespective of the licensed operating party. We exclude data where we are not controlling operations, but consider risks associated with our partners' position and their control of such activities. In line with this, our 2017 CR information covers Cairn's head office in Edinburgh, other offices in the UK, Norway and Senegal, and field operations in Senegal.

The report excludes the performance of non-operated joint venture activities and the performance of Vedanta Limited (Cairn Energy has a ~5% shareholding and is not involved in management of activities).

Data and performance indicators

We measure our performance against set Key Performance Indicators (KPIs), which are aligned with the strategy and operational programme of the Company and revised annually. The KPIs in 2017 were set based on strategic business objectives and fell into the following categories:

- deliver exploration and appraisal success;
- portfolio management;
- deliver operational excellence;
- maintain licence to operate; and
- deliver a sustainable business.

Detailed CR objectives and KPIs are included under the 'Maintain licence to operate' objective, and CR KPIs amounted to 17% of the total indicator score of performance across the Group as a whole in 2017, with over two thirds of that total covering 'leading' indicators (proactive improvement activities, e.g. training) and the remaining covering 'lagging' indicators (reactive values, e.g. Lost Time Injury Frequency).

CR KPIs and a wide variety of data are collected over a range of topics within the areas of environment, health and safety, security, communities and employees. Data is used for monitoring and reporting purposes, and it is maintained in a specialist database. This database records data by geographical region, and defines the KPIs to be measured and the frequency in which data should be recorded. Data entry and approval are tracked within the database.

Our incident and accident data is recorded in a separate incident reporting system that stores all relevant details and also emails defined individuals, including senior managers, across the business to keep them informed of progress with the reporting, and triggers investigation and follow-up of an incident depending on its nature.

We use definitions set by the GRI and International Association of Oil & Gas Producers (IOGP) to provide comparable and credible data that can be benchmarked against our peers in the oil and gas sector.

Data is collected from our offices and from our field operations, which includes each individual rig, vessel, aviation company and shore base involved. The field operations data is usually provided by the contractors that Cairn takes on for the project (e.g. the rig, vessels, aviation). These contractors are informed about Cairn's KPI requirements in advance of the work as part of the contracting process and receive detailed instructions about the data needed. The instructions include definitions of the KPIs, instructions about reporting and methods (e.g. waste reporting with volume-to-mass conversion factors), and information on incident reporting. The data is collected from field operations on a monthly basis. Data is entered directly into our database via an online connection where possible and is otherwise submitted via excel spreadsheets. Data is queried through the database and via email communications between Cairn's head office and the data providers in their different locations.

We update our methodologies on a regular basis and any factors used are reviewed annually. For example, when improved methodologies are identified, there are developments in best practice or emission factors are updated.

Baseline data

We report historical data from all our activities over the last five years. Levels of activity at Cairn vary considerably from year to year and for this reason we do not have a fixed baseline.

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Uncertainties and estimates

While we make every effort to ensure our data is as accurate as possible, it is not possible or practical to measure all data exactly. Where this is the case (e.g. obtaining electricity consumption data for a small office that is part of a larger building or recording water effluent from an office or vessel that has no water outflow meter), then we use accepted estimation methodologies that may involve the use of conversion factors (e.g. calculating office data as a proportion of the figures for the whole building, using volume-to-mass conversion factors for calculating tonnage of waste), calculating GHG emissions. We highlight these methodologies in our data.

Targets

We recognise the importance of targets in driving performance improvements. Cairn sets corporate objectives at the start of each year, and these include some health, safety and environment (HSE)-related KPIs – e.g. spills, Total Recordable Injury Rate (TRIR) and HSE Leading Performance Indicator targets. When Cairn owned operated producing assets, it had Group greenhouse gas (GHG) emission targets normalised against production. This was not a meaningful target in 2017, as Cairn does not have operated producing assets. It is also hard to forecast, or set targets for, annual GHG emissions from our operated exploration activities as these operations can change significantly from year to year depending on location and scale of activity.

Supporting data

Our Reporting Guidelines for 2017 Key Performance Indicators, which can be found in our CR report 2017 Data Appendix www.cairnenergy.com/media/2202/data-index.pdf, provide a methodology and definitions for selected KPIs from subject areas that were assessed through our materiality process to be the most important to Cairn and its stakeholders.

A full set of CR data and associated notes can also be found in our CR report 2017 Data Appendix www.cairnenergy.com/media/2202/data-index.pdf.



External assurance

RPS Planning and Environment has provided verification of Cairn Energy's 2017 greenhouse gas emissions as stated in its Annual Report and Accounts 2017 and this Corporate Responsibility Report. Within the scope of the limited assurance engagement, the GHG statements made are found to be materially correct, a fair representation of available GHG data and information, and to have been prepared in accordance with the methodology defined for reporting by Cairn Energy. A full verification statement with details of the verification scope, independence of RPS and recommendations is available on the Cairn Energy website at www.cairnenergy.com/media/2237/cairn-ghg-verification-report-2017_final.pdf.