ENQUEST PLC, 17 March 2016. Results for the year ended 31 December 2015*.

Strong 2015 production, up 31% year on year, above upper end of guidance range
Further capex and opex reductions
c.$500 million of liquidity available

2015 Highlights

- Production averaged 36,567 Boepd in 2015, up 31% on 2014 and above EnQuest's guidance range. In both November and December, EnQuest production averaged over 50,000 Boepd. This reflected a very good operating performance in 2015, with continuing high levels of production efficiency.
- Continued to reduce operating costs, with full year 2015 unit opex at $29.7/bbl, compared to $42.1/bbl in 2014.
- Revenue of $906.6 million and EBITDA** of $464.8 million, reflecting the strong operational performance.
- Projects: Alma/Galia was brought onstream on 27 October 2015. The Kraken project continued on schedule and overall project savings of c.$300 million were achieved compared to the original sanctioned level of capital expenditure.
- Net 2P reserves of 216 MMboe as at start of 2016, down 4 MMboe after 2015 production of 13.3 MMboe, also reflecting the impact of lower oil price assumptions and of EnQuest's 10.5% additional interest in the Kraken development, acquired at the start of 2016. Net contingent resources were 146 MMboe at end of 2015.
- Non-cash post-tax tangible oil and gas asset impairments of $626.2 million, due to the significant reduction in the oil price, particularly in the near term.
- Net debt at the year end, was $1,548.0 million, EnQuest was therefore well within its net debt to EBITDA covenant of five times, for 2015.

2016 Priorities and Outlook Highlights

- Hedging remains in place for 2016: 10 million barrels are hedged across 2016, at an average of $68 per barrel.
- Further cost reductions: Unit opex: EnQuest is now on course to achieve further reductions in average unit opex, in the range $25 – 27/bbl overall for 2016 and into the low $20s after the Kraken development is fully onstream. Total EnQuest 2016 cash capex has been reduced again, now at the low end of the previously announced $700 million to $750 million, despite including additional capex associated with the 10.5% increase in EnQuest's Kraken working interest. This is down from an equivalent initial 2016 cash capex budget of c.$950 million.
- EnQuest remains focused on its balance sheet strength and is also pursuing a range of further opportunities for debt reduction, including potential asset sales and continuing opex and capex cost reductions. As at 31 December 2015, cash and undrawn facilities totalled $496.0 million, giving sufficient liquidity to fund Kraken through first oil at prevailing prices.
- EnQuest reaffirms its production guidance for the full year 2016 at an average of between 44,000 Boepd to 48,000 Boepd.
- Projects: Six Alma/Galia production wells have now been commissioned and are all expected to be onstream by early Q2 2016. The Kraken FPSO is on course for departure from Singapore in 2016, and the development is continuing on schedule for first oil in 2017. Since capex savings of c.$300 million were announced in 2015, a further c.$125 million reduction has been made against Kraken's full cycle gross capex budget.

* Unless otherwise stated, all figures are on a business performance basis and are in US dollars.

	2015	2014	Change %
Production (Boepd)	36,567	27,895	31.1
Revenue ($m)	906.6	1,009.9	(10.2)
Realised oil price $/bbl* **	72.0	103.9	(30.7)
Gross profit ($m)	173.2	355.8	(51.3)
Profit before tax & net finance costs ($m)	173.9	362.5	(52.0)
EBITDA ** ($m)	464.8	581.0	(20.0)
Cash generated from operations ($m)	221.7	632.2	-
Reported basic earnings per share (cents)	(98.0)	(22.8)	-
Cash capex *** ($m)**	751.1	1,058.2	(29.0)
	End 2015	**End H1 2015**	
Net (debt)/cash ** ($m)**	(1,548.0)	(1,314.1)	17.8

EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation and foreign exchange movements. * Including revenue of $261.2 million (2014: $31.7 million) associated with EnQuest's effective oil price hedges. **** Net (debt)/cash represents cash and cash equivalents less borrowings as per the balance sheet stated excluding accrued interest and the net-off of unamortised fees. ***** Cash capex shown net of proceeds from sale of Annan House and intangible assets.

EnQuest CEO Amjad Bseisu said:

"EnQuest continues to focus on its strategic priorities in this low oil price environment: strengthening the balance sheet, delivering on production and execution targets and streamlining operations. Significant reductions in both capex and opex have been achieved, in conjunction with continued excellent operational performance, enabling us to produce positive operational cashflows at current oil prices. At the start of 2016, EnQuest had $496.0 million of cash and undrawn facilities, giving sufficient liquidity to fund Kraken through first oil at prevailing oil prices.

In 2015, average production of 36,567 Boepd was up 31% year on year, above the 36,000 Boepd upper end of our guidance. This reflected high levels of operating efficiency and contributions from Alma/Galia and a full year contribution from Malaysia, which is now 25% of total production.

Since EnQuest's Operations Update in December 2015, we have taken further action on costs and are delivering additional savings, with unit operating costs now expected to be in the range of $25-27/bbl for 2016 and into the low $20s per barrel after Kraken is fully onstream**.** The Kraken full project capex had already been reduced by c.$300 million and EnQuest has since made a further c.$125 million reduction. The development itself continues to make strong progress, in particular the critical path conversion programme for the Kraken FPSO vessel is on schedule for its departure from Singapore for commissioning and hook up, with production in H1 2017.

EnQuest's high operating efficiency, great execution and low cost capabilities are essential for the challenges of the current market conditions."

Summary of 2015

In 2015, operations and production were very strong across the portfolio, in H2 2015 in particular, with a 49% increase to 43,356 Boepd in H2 2015 Vs H1 2015. This included initial spot rates of c.14,000 Boepd gross from the Alma/Galia development which was brought onstream in late October. Production from Malaysia was ahead of expectations, benefitting from the success of its low cost idle well revitalisation programme.

2015 Kraken project highlights included the successful installation of the integrated turret buoy and the delivery of the drilling programme ahead of schedule. Drilling results show excellent reservoir correlation with subsurface expectations. Pro-active planning and project execution was key to being able to secure a c.10% total project capex reduction.

The overall EnQuest 2015 drilling programme was below budget, with high operating efficiencies across EnQuest's operated rigs and with significantly lowered spread rates.

In 2015, EnQuest centralised its procurement function, resulting efficiency improvements included consolidation of purchasing volume and leveraged spend across assets, with reduced transaction costs and improved quality, accessing lower cost markets. Based on the success of this project, EnQuest has offered other North Sea operators use of its centralised procurement centre to further consolidate and leverage spending volumes, across E&P companies. Premier Oil is collaborating with EnQuest on this project and we are in discussions with a number of other North Sea E&P companies.

2016 year to date and outlook

EnQuest is performing well at the start of 2016 and the focus on operational efficiencies has continued to reduce unit operating costs. In 2016, the focus is on delivering the Kraken plan on track. The drilling programme has also been rationalised yet further.

Production guidance: Average production guidance for the full year 2016 is between 44,000 Boepd and 48,000 Boepd.

Drilling programme: Kraken and Scolty/Crathes will be the focus for the 2016 programme.

Capital expenditure: The 2016 capex programme will predominantly relate to Kraken and total cash capex is anticipated to be at the low end of the $700-$750 million range, this includes approximately $600 million of cash capex on Kraken, including an increase in relation to the newly acquired First Oil interest. Capex reductions have been achieved both from development projects and from existing fields.

Operating expenditure: EnQuest's programme of cost reduction initiatives is now expected to deliver unit opex of $25-27/bbl in 2016. At the mid-point, this represents a further 12% saving compared to 2015.

EnQuest continues to seek costs reductions across the board; including production operations and services, import gas, logistics, maintenance, subsea, manpower, Sullom Voe Terminal capex. Contracts are being cancelled, projects are being reduced in scope and deferrals of cash payment are being agreed.

Savings have been achieved across the business. Unit operating costs have been reduced through lower cost barrels coming onstream and through substantial direct cost savings. To achieve these cost reductions EnQuest has focused on three key areas:

- Lower unit cost rates: Examples are scale treatments, subsea inspection, repairs and maintenance, logistics, equal time rotas and reduced contractor rates
- Incentivised contract structures: KPI structures for service providers so payment is linked to performance
- Enhanced contract and procurement practices. The procurement team has been offshored to take advantage of lower global costs

Transportation costs have also been reduced. EnQuest's SVT costs have reduced from $10.6/bbl in 2014 to $6.3/bbl in 2015 due to a reduction in terminal operating cost and a change in how costs are shared between users. EnQuest continues to work with the SVT operator to reduce gross cost levels and agree cost allocation based on usage and reductions are expected to continue.

General and administration costs for 2016 are expected to be similar to the level delivered in 2015.

Further cost savings continue to be targeted across the business, through the supply chain and by improving efficiencies in operations. Contractor rates and headcount have been reduced in the UK and logistics costs also reduced.

Depletion and depreciation: The 2016 depletion and depreciation charge is anticipated to be slightly lower on a per barrel basis than it was in 2015.

Tax: In the current oil price environment, EnQuest does not anticipate paying material UK cash tax in the foreseeable future.

Hedging: EnQuest has 10 million barrels hedged across 2016, weighted towards the second half of the year, broadly in line with the anticipated timing of production. The 2016 hedging position of put options over 8mmbbls with an average strike price of $68/bbl remains in place. EnQuest also has oil swap contracts to sell 2 million barrels in 2016 at a fixed price of $67/bbl. Additionally the nature of the Malaysian PM8/Seligi PSC contract provides a form of natural hedging, with cost recovery being prioritised and a higher share of barrels allocated to EnQuest at lower oil price levels.

2016 outlook by individual production and development asset
Including performance updates for December 2015 and early 2016

UK North Sea

Thistle/Deveron

- The workover of Deveron well A58 was completed in December 2015, electrical submersible pumps were replaced and upgraded, and production was recommenced. The planned Southern Fault Block P2 sidetrack was abandoned due to slot recovery issues. This brought the latest programme of Thistle drilling activities to a close. One of power generation turbines has been overhauled in Q1 2016; maintenance, integrity and life extension projects will continue in 2016.

Don fields/Ythan

- The 2016 Dons programme includes well chemical treatment programmes and routine maintenance.

Heather/Broom

- There will be no drilling on Heather in 2016. Maintenance and integrity projects continue as normal, including a Broom pigging campaign in Q2.

Greater Kittiwake Area ('GKA'), including the Scolty/Crathes development

- By the end of H1 2016, both the Scolty and the Crathes development wells will have spudded. There will be no other drilling on GKA in 2016. Scolty/Crathes development related topsides construction work is also being carried out on the GKA platform.

Alma/Galia

- The first cargo offload took place in December. Good uptimes are being achieved on the EnQuest Producer, 77% for 2015 and over 90% in early 2016. At Alma/Galia, six production wells have now been commissioned, alongside one water injector well. All six production wells are expected to be onstream by early Q2 2016. The permanent boiler and turbine power arrangements are also expected to be online in early Q2 2016.

Kraken

- In 2016, the drilling programme is focused on drill centres one and two and is currently ahead of schedule, despite a particularly harsh North Sea winter. This should ensure that the planned four production and four injection wells will be available for first oil.

- Following the departure of the FPSO from dry dock in December 2015, work is continuing on the marine systems. The FPSO remains on schedule to leave Singapore in 2016 for commissioning and 'hook-up', with production in H1 2017.

- An additional c.$125 million saving in Kraken's capex has been made, following a revision of the development plan. A total of 23 wells will now be drilled from three drill centres, instead of 25 wells from four drill centres. The overall full cycle project costs have now been reduced by c.$425 million from the $3.2 billion at sanction, a reduction of c.13%.

Malaysia

- The overall impact of the north east monsoon season has been low compared to last year, and 2016 production has started strongly, following a well intervention on Seligi A. EnQuest will continue to enhance production by investing in well intervention work, improving facility reliability and production efficiency, and facilities improvement upgrades.

Summary financial review of 2015

- Total revenue for 2015 was $906.6 million compared to $1,009.9 million for 2014. The overall decrease in revenue was due to the lower oil price offset partially by the higher production. The blended average realised price per barrel of oil sold was $50.9 for the year ended 31 December 2015, significantly below the $100.6 per barrel received for 2014, reflecting the steep decline in the oil price in 2015. Revenue is predominantly derived from crude oil sales and for the year ended 31 December 2015 crude oil sales totalled $634.3 million compared with $970.5 million in 2014. Within revenue in 2015, there is $261.2 million of realised income relating to oil commodity hedges, call options and swaps. There was an overlift of $23.9 million of revenue in 2015, compared to an overlift of $8.2 million in 2014.

- EBITDA for the year ended 31 December 2015 was $464.8 million compared with $581.0 million in 2014. The lower EBITDA is mainly due to the lower oil price in H2 2015, which was partially mitigated through the contribution of $261.2 million from the commodity hedge portfolio.

- EnQuest's average unit production and transportation cost in 2015, decreased by $12.4 per barrel, or by 29.5% compared to 2014. Total operating costs for the year ended 31 December 2015 totalled $390.7 million compared to $399.4 million in 2014. Production costs of $318.5 million were $28.7 million lower than 2014 reflecting EnQuest's cost reductions, partly offset by a full year of costs on PM8 and initial production costs on Alma/Galia. Transportation costs decreased from $107.5 million to $69.1 million for the year ended 31 December 2015, primarily driven by lower SVT costs.
- Profit after tax and net finance costs was $127.8 million, reflecting a tax credit for the year of $129.3 million more than offset by increased finance costs of $176.4 million. The tax credit for the year, excluding exceptional items, is due primarily to an increase in the Ring Fence Expenditure Supplement on UK activities. The increased finance costs included $80.2 million of bond and loan interest payable and $70.0 million relating to the time value of amortisation of the closed oil puts.
- EnQuest's funding facilities include c.$900 million of bonds and a committed credit facility of $1.2 billion, plus an accordion of up to a further $500 million. 2015 year end net debt was $1,548.0 million, including cash and cash equivalents of $269.0 million and $902.3 million drawn on the credit facility. Cash and undrawn facilities therefore totalled $496.0 million.
- Exceptional items include a non-cash post-tax impairments of $626.2 million, due to lower near term oil price assumptions.
- As a result of the continued capital investment, UK corporate tax losses at the end of the year increased to approximately $2,535.8 million.

2015 Production and reserves statistics

Production on a working interest basis	Net daily average 1 Jan' 2015 to 31 Dec' 2015	Net daily average 1 Jan' 2014 to 31 Dec' 2014
	(Boepd)	(Boepd)
Thistle/Deveron	8,930	9,025
Dons/Ythan	7,690	8,835
Heather/Broom	4,643	4,081
Kittiwake	3,981	1,281[1]
Alma/Galia	1,083[2]	-
Alba	1,178	1,214
Total UKCS	27,505	24,436
PM8/Seligi	8,689	3,459[3]
Tanjong Baram	373[4]	-
Total Malaysia	9,062	3,459
Total EnQuest	36,567	27,895

[1] Net production since the completion of the acquisition at the start of Mar' 2014, averaged over the twelve months to end of Dec' 2014
[2] Net production since since first oil on 27 October 2015, averaged over the twelve months to the end of Dec' 2015
[3] Net production since the completion of the acquisitions at the end of June 2014, averaged over the twelve months to end of Dec' 2014
[4] Net production since first production in June 2015, averaged over the twelve months to end of Dec' 2015

Note: Production from Malaysia was 6,219 Boepd on an entitlement basis.

Reserves

- Audited net 2P reserves at the start of 2016 were 216 MMboe, a 2% decrease on the start of 2015; representing a reserve life of 18 years. The decrease resulted partly from production of 13.3 MMboe as well as lowered future oil price assumptions. The 216 MMboe includes the additional 10.5% working interest in Kraken, which EnQuest acquired with effect on 1 January 2016.

Ends

For further information please contact:

EnQuest PLC Tel: +44 (0)20 7925 4900
Amjad Bseisu (Chief Executive)
Jonathan Swinney (Chief Financial Officer)
Michael Waring (Head of Communications & Investor Relations)

Tulchan Communications Tel: +44 (0)20 7353 4200
Martin Robinson
Martin Pengelley

Presentation to Analysts and Investors
A presentation to analysts and investors will be held at 08:30 today – London time. The presentation and Q&A will also be accessible via an audio webcast – available from the investor relations section of the EnQuest website at www.enquest.com. A conference call facility will also be available at 08:30 on the following numbers:

Conference call details:

UK: +44 (0) 20 3427 1913

USA: +1212 444 0895

Confirmation Code: EnQuest

Notes to editors
EnQuest is the largest UK independent producer in the UK North Sea. EnQuest PLC trades on both the London Stock Exchange and the NASDAQ OMX Stockholm. Its operated assets include the Thistle/Deveron, Heather/ Broom, Dons area, the Greater Kittiwake Area and Alma/Galia, also the Kraken and the Scolty/Crathes developments; EnQuest also has an interest in the non-operated Alba producing oil field. At the start of 2016, EnQuest had interests in 30 UK production licences, covering 42 blocks or part blocks and was the operator of 25 of these licences.

EnQuest believes that the UKCS represents a significant hydrocarbon basin, which continues to benefit from an extensive installed infrastructure base and skilled labour. EnQuest believes that its assets offer material organic growth opportunities, driven by exploitation of current infrastructure on the UKCS and the development of low risk near field opportunities.

EnQuest is replicating its model in the UKCS by targeting previously underdeveloped assets in a small number of other maturing regions; complementing its operations and utilising its deep skills in the UK North Sea. In which context, EnQuest has interests in Malaysia where its operated assets include the PM8/Seligi Production Sharing Contract and the Tanjong Baram Risk Services Contract.

Forward looking statements: This announcement may contain certain forward-looking statements with respect to EnQuest's expectation and plans, strategy, management's objectives, future performance, production, reserves, costs, revenues and other trend information. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Nothing in this presentation should be construed as a profit forecast. Past share performance cannot be relied on as a guide to future performance.

Glossary

GKA	Greater Kittiwake Area
SVT	Sullom Voe Terminal
FPSO	Floating production, storage and offloading vessel
ESP	Electrical submersible pump
DC	Drill centre
KPI	Key performance indicators
PSC	Production sharing contract

STRATEGIC REPORT
CHAIRMAN'S STATEMENT

EnQuest in 2015

Our strategic priorities are to grow production by delivering on operational and development execution, while reducing the operating cost base and strengthening the balance sheet. In 2015, EnQuest delivered an excellent operational performance, whilst at the same time significantly reducing cost, given the low oil price environment. 2015 cash capital investment was 29% down on 2014. In 2016, the focus is on the Kraken development.

Lower future oil price assumptions reduced overall reserves and EnQuest started 2016 with a net 2P reserve base of 216 MMboe. Notwithstanding this decrease, the new total represents a net 167% increase since EnQuest's formation six years ago or an 18% growth per annum and a current reserve life of 18 years.

Industry context
Prior to the oil price declines which started in 2014, the UK oil and gas industry had a high operating cost structure. The wake-up call of low oil prices galvanised the industry to cut costs. Since its inception, operating efficiency has been central to EnQuest. This is how, in its first five years, EnQuest was able to hold unit operating costs broadly flat, when on average they doubled across the UK North Sea. In practice, EnQuest has always been pursuing cost reduction strategies. The new lower cost base currently being forced on the oil and gas industry in the UK needs to represent a lasting structural change.

EnQuest believes that the need to protect critical infrastructure is an important objective in the current climate. If operators of these infrastructure nodes are considering cessation of production, the implications for other connected asset owners must be considered. Assets need to be in the hands of the right owners, owners who are operationally competent and who have the financial capability to make the level of investment required to fund not only current cost efficiency and investment programmes, but also to fund longer term growth. Simplification of the UK upstream tax regime and a programme of reduction in the headline level of oil and gas tax rates are essential to create certainty and to drive the investment needed to ensure optimal extraction of hydrocarbons, for the decades potentially still to come in the North Sea.

The Department of Energy & Climate Change's ('DECC') has an evolving strategy for 'Maximising Economic Recovery ('MER') for the UK', to ensure the North Sea is fully developed. The Oil & Gas Authority ('OGA') has been established as DECC's operationally independent executive agency and as a regulator. The UK Government has recently formed a North Sea oil group to provide support to the industry. EnQuest looks forward to adding value to these initiatives through applying its capabilities to optimise the recovery of oil from the North Sea.

EnQuest's performance in a lower oil price environment
The current period of lower oil prices started in the second half of 2014, when EnQuest implemented its oil price hedging programme and accelerated its programme of working closely with the supply chain to reduce operating and capital expenditure. In 2015, the cost base was further substantially reduced and the oil price hedging was increased and extended. The investment programme itself was materially cut back and reprioritised, with EnQuest deselecting and exiting a number of countries and assets.

Despite these challenges and the considerable reductions in previously planned levels of spending, EnQuest achieved an excellent operational performance in 2015. The very strong 31% year on year production growth represents a compound annual growth rate of 18% since EnQuest began. In its first full year, Malaysia has been established as a material part of the Group, with a 25% contribution to total production. The implementation of EnQuest's hub strategy at the Greater Kittiwake Area has already delivered considerable production and cost efficiency success and with the sanction of the adjacent Scolty/Crathes development is set to continue to do so. The Alma/Galia field achieved first oil in October 2015, with the FPSO finally being ready to accept hydrocarbons. Since its sanction in 2013, the Kraken development has consistently been on schedule and in 2015, through rigorous project management, it secured a c.10% reduction against its original approved capital costs, with further progress in 2016.

EnQuest's funding facilities include a $1.2 billion committed credit facility, with a $500 million accordion. In 2015, to provide greater flexibility for its capital expenditure programme, EnQuest renegotiated covenants with its lending banks and these were relaxed until mid-2017. The covenants were fully complied with in 2015 and ongoing continued compliance with its covenants remains a priority for 2016 and beyond.

The EnQuest Board

In August 2015, EnQuest welcomed Phillip Holland to the Board, as a new Non-Executive Director. Phil has extensive international project management experience in oil and gas, making him a valuable addition to the Board. Otherwise the composition of the Board remained constant during 2015. In 2016, Clare Spottiswoode will be retiring from the Board and will therefore not be standing for re-election at our forthcoming Annual General Meeting. The Board would like to extend its gratitude to Clare for her valuable contributions during her tenure with EnQuest.

The Directors assess and evolve EnQuest's strategy as appropriate, taking key decisions on its implementation.

In 2015, the strategic focus was on positioning the business for an extended period of lower oil prices, whilst also ensuring it continued to achieve its operational targets. Delivery of these ongoing programmes has only been possible due to the agility and collaboration of EnQuest's people. The Board would like to thank everyone at EnQuest for such an impressive performance in these challenging times.

Governance

The Board believes that the manner in which EnQuest conducts business is important and is committed to delivering the highest standard of corporate governance. Ensuring EnQuest has the right approach to governance and that the Board works effectively remain a key focus.

EnQuest is required to comply with the UK Corporate Governance Code, as revised in 2014. The Board is pleased to report that all the principles of the code were complied with in 2015. EnQuest embraces the spirit of the code and views corporate governance as an essential part of its framework, supporting structure, risk management and core values.

EnQuest's Corporate Responsibility is focused on Health and Safety, People, Environment, Business Conduct and Community. EnQuest is committed to operating responsibly and never knowingly compromises its health and safety standards to meet its operational objectives. Our approach to HSE&A management is built on our Company values. Through respect for our people, our contractors, our stakeholders and the environment, we pursue our principal aim: safe results, with no harm to people and respect for the environment.

EnQuest has developed an Environmental Management System to ensure its activities are conducted in such a way that EnQuest minimises and mitigates its impact on the environment. The system is aligned with the requirements of the International Organisation for Standardisation's ('ISO') environmental management system standard:ISO 14001:2004. EnQuest works to minimise its impact on the environment and report on and measure liquid waste, accidental spills, atmospheric emissions, waste management and continual improvement. Detailed environmental statements relating to EnQuest's operations are available on its website.

Dividend

The Company has not declared or paid any dividends since incorporation and does not intend to pay dividends in the near future. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and on such other factors as the Board of Directors of the Company considers appropriate.

Delivering sustainable growth

In 2014, EnQuest started putting in place its programme to address lower oil prices. In 2015, EnQuest took that programme substantially further forward and has done so again in early 2016. EnQuest has a more positive long term view of oil prices than the levels which have prevailed in the first quarter of 2016. Nonetheless, EnQuest continues to manage rigorously on the planning assumption of a prolonged period of lower oil prices. With unit opex heading into the low $20s/bbl post Kraken, EnQuest is continuing to improve its position to cope with the current macro climate and beyond.

STRATEGIC REPORT
CHIEF EXECUTIVE'S REPORT

EnQuest's performance, business model and strategy, in a low oil price environment
EnQuest is working hard and is performing well in addressing the challenges of the low oil price environment. EnQuest is strengthening its balance sheet, delivering on production and execution targets and streamlining operations. EnQuest has a long standing culture and practice of rigorous cost discipline, essential in the current market conditions. EnQuest has actively hedged oil prices to protect its investment programme; hedging added $261.2 million to EBITDA in 2015. In addition, in 2016, 10 million barrels are hedged at an average of $68 per barrel. Execution in 2015 was marked by first oil from Alma/Galia, a transformation in performance from the Greater Kittiwake Area, substantial further progress on the Kraken development and a material first full year contribution from EnQuest's business in Malaysia.

Production averaged 36,567 Boepd in 2015, above the upper end of the target range and up 31% on 2014, with production in H2 in particular strong across the portfolio. Production in H2 2015 was up 49% on H1, with the strong finish to the year including both November and December averaging over 50,000 Boepd. The Alma/Galia development was brought onstream in late October and the Kraken development was on schedule overall, with the drilling programme ahead of schedule. I am pleased to report an excellent operating performance overall.

Controlling costs and managing operations in an agile and efficient manner are core EnQuest competencies. Given the macro environment, EnQuest has driven even more operational streamlining initiatives, both in terms of pace and scale. 2015 unit operating costs were delivered ahead of target at $29.7/bbl. With further persistent granular work on all aspects of the operating cost base, EnQuest has improved its operating targets further, and in 2016 is on course to achieve an average unit opex in the range $25-27/bbl. This is achieved through both production increases and ongoing material cost reductions. Further unit opex reductions are set to follow, when the low operational costs of the Kraken and Scolty/Crathes developments are brought fully onstream. The resulting unit opex base will be in the low $20s per barrel, providing a sustainable lower cost base in a lower oil price environment.

In December 2015, the capex cost of the overall Kraken development was reduced by c.$300 million, and in early 2016 by a further c.$125 million. The 2015 drilling programme was delivered below budget, with very high efficiency levels across our operated rigs and with significantly lowered supplier rates.

Given the low oil price environment, in H1 2015, EnQuest negotiated a relaxation of covenants to its revolving credit facility and in its retail bond until mid-2017. This continued commitment from the lenders recognised the cash flow generation of EnQuest's business and in particular those expected from the Kraken development. With 2016 capex focused on Kraken, net debt is planned to increase during 2016 ahead of Kraken first oil.

EnQuest produced 13.3 MMboe of oil in 2015, which combined with the impact of lowered future oil price assumptions and the inclusion of a 10.5% increase in the Kraken working interest, resulted in a 2% decrease in overall net 2P reserves to 216 MMboe at the start of 2016. EnQuest has increased net oil reserves by 135 MMboe over the last six years, and converted the equivalent of 68% of its original 81 MMboe reserves into flowing barrels. Notwithstanding the reductions to the investment programme, EnQuest remains on course to achieve annual net production well in excess of 50,000 Boepd, with six operated producing hubs in the UK and with the PM8/Seligi hub in Malaysia. Beyond Kraken, PM8/Seligi in particular has the potential to increase international production significantly over the coming years.

2015

Health, Safety, Environment and Assurance ('HSE&A')

In 2015, EnQuest met its commitment to deliver safe results.

In its UK operations, the frequency of Dangerous Occurrences (incidents with the potential to cause a major accident, such as hydrocarbon releases, dropped objects and lifting incidents) reduced by more than 30% from 2014, with only relatively minor incidents reported. The Lost-Time Injury ('LTI') Frequency Rate and the Recordable Injury Frequency Rate both remained low at 2.14 and 4.99 incidents per million man hours respectively; with the producing North Sea assets Kittiwake, Northern Producer and Heather achieving 10 years, 43 months and 34 months LTI free respectively.

In 2015 EnQuest also had a total of 11 safety and environmental inspections of its operated assets by UK regulators (Health and Safety Executive and Department of Energy & Climate Change) with no reported enforcement action.

In Malaysia, EnQuest delivered an excellent occupational health and safety performance, with no lost time injuries from 1.7 million man hours worked and only one recordable incident.

These results are a testament to EnQuest's unceasing focus on HSE&A.

North Sea operations
In 2015, EnQuest delivered strong production of 27,505 Boepd in the UK, 13% up on 2014. This reflects the continuing strength of field reservoir performance and continuing high production efficiency from EnQuest's existing UK assets and the inclusion of first production from Alma Galia.

In 2015, EnQuest's North Sea operations delivered an impressive operating performance. First oil from the Ythan development was achieved five months earlier than scheduled and produced oil was sustained at higher than expected rates. At Thistle, the success of the initial three well drilling programme resulted in further activity being added. These wells were delivered at 25% under budget, with three of the wells drilled having already achieved payback within 2015. The transformational post acquisition performance at the Greater Kittiwake Area ('GKA') has continued, with 2015 reported production of 3,981 Boepd compared to 1,281 Boepd in 2014. The sidetracking of the Gadwall well and resolution of gas-lift issues on Grouse were highlights of the 2015 programme of well rejuvenation and improved production efficiency.

Savings have been achieved across the business; GKA reduced unit opex from above $100/bbl, at the time of its acquisition, to below $30/bbl, partly due to significant increases in production, but also to cost reduction. EnQuest is continuing to work with the supply chain and contractors to achieve further cost savings and optimisation.

North Sea developments

Alma/Galia
First oil from the Alma/Galia development was achieved on 27 October 2015, following final commissioning of all the required systems. This final commissioning took longer than anticipated, due mainly to more work than expected being required on the cargo systems, as became apparent during testing, which was only possible when the vessel was offshore and in situ.

Production was increased in the second half of November as the Galia well was also brought onstream, adding to production from the first two Alma wells. The EnQuest Producer FPSO vessel performed well in 2015 and the first cargo offload was completed in December 2015.

Kraken
During 2015, the Kraken project again progressed well. The development project proceeded on schedule, and by the end of the year capex costs for the overall project had been reduced by c.10%, bringing the expected gross capex down to c.$2.9 billion.

The fixed pipelines for the first two Kraken drill centres were installed on the seabed in H1 2015. Installation of the mooring system for the FPSO was started. Following manufacture, the submerged turret/buoy was transported to the field and successfully installed. Drill centre one ('DC1') was fully connected to the turret/buoy, at the year end only one production riser was still to be connected from the second drill centre.

In H2 2015, following the completion of the Kraken batch top-hole drilling programme at DC1, the drilling rig progressed with the pre-drilling of individual wells into the reservoir. This element of the project was ahead of schedule in 2015, contributing to the reduction in overall project capex. Reservoir analysis of the two full well penetrations to the end of 2015 correlated closely with the previous subsurface prognosis.

The conversion programme for the Kraken FPSO vessel continued on plan, with the vessel on track for delivery in 2016.

Scolty/Crathes
The Scolty/Crathes development received regulatory approval and was sanctioned by EnQuest in H2 2015. EnQuest is the operator of the development, with a 50% working interest. The project benefits from limited cash capital expenditure until first oil in 2017 and extends field life for the GKA field. Including this field life extension,

unit capital costs for the project are under $20/bbl. Unit operating cost should be under $15/bbl in the initial peak volume years.

The fields will be tied back to the Kittiwake platform, in the Greater Kittiwake Area. The potential for such a tie back was part of the rationale for the acquisition of GKA. Production from the Scolty/Crathes fields is expected to continue until 2025; this also extends the life of the GKA hub itself to 2025. Development well drilling is anticipated by mid-2016, with first oil from Scolty/Crathes expected by the first half of 2017.

The cost of the tie back and the work required on the topsides of the Kittiwake platform have been agreed on a fixed lump sum turnkey basis and will become payable after a first oil determined date.

Malaysia

In 2015, EnQuest's Malaysian operations continued to increase in both significance and importance, representing 25% of production. PM8/Seligi increased production from 3,459 Boepd in 2014 (six months of production averaged over the full year), to 8,689 Boepd in 2015, with well intervention activities resulting in a gross production increase of approximately 3,000 Boepd in Q4 2015. First oil was achieved from Tanjong Baram in June 2015, the field was then briefly shutdown for changes requested by the host platform to accommodate volumes of liquids in gas. The changes were engineered and implemented extremely quickly, enabling rapid restart to production. This type of performance typifies EnQuest's agile operational capability.

Production from PM8/Seligi had already covered most of the consideration costs of the acquisition before completion and the team's operational performance since then has been excellent.

Investment prioritisation and asset disposals

As part of its investment prioritisation programme, EnQuest disposed of its Norwegian North Sea interests in 2015. EnQuest also ceased to have interests in Egypt and Tunisia and sold its exploration assets in Malaysia. In the UK, it has relinquished interests in a number of licences since the oil price decline. By the end of 2015, EnQuest had interests in 30 UK production licences, down from 35 before oil prices started to decline steeply in H2 2014.

Financial performance

In 2015, EnQuest generated EBITDA of $464.8 million compared with $581.0 million in 2014, lower as a result of the lower oil prices, as mitigated by hedging income of $261.2 million and also by the significant action taken on costs.

Cost reduction measures led to EnQuest's average unit production and transportation cost being reduced by $12.4 per barrel, or by 29.5% over 2014.

EnQuest's funding facilities include c.$900 million of bonds and a committed credit facility of $1.2 billion, plus an accordion of up to a further $500 million. At 31 December 2015, EnQuest had cash and undrawn facilities totalling $496.0 million.

Exceptional items include non-cash post-tax impairments of $626.2 million, due to lower near term oil price assumptions.

2016 year to date

EnQuest has performed well at the start of 2016.

At Alma/Galia, six wells have now been commissioned and are all expected to be onstream by early Q2 2016.

With effect from 1 January 2016, EnQuest acquired an additional 10.5% interest in the Kraken development, from First Oil plc, bringing EnQuest's total interest to 70.5%. This added approximately $90 million to EnQuest's net Kraken capex to first production.

In addition to the c.$300 million Kraken capex saving announced in December 2015, an additional c.$125 million saving in Kraken's capex has been made, following optimisation of the drilling programme. A total of 23 wells will now be drilled from three drill centres, instead of 25 wells from four drill centres. The overall full cycle project costs have now been reduced by c.$425 million from $3.2 billion at sanction, a reduction of c.13%.

Outlook for the rest of 2016 and beyond

EnQuest is intent on delivering on execution, with safety as the first priority. EnQuest remains extremely focused on operational efficiency and on further reducing both operating and capital costs.

Total EnQuest production for 2016 continues to be expected to average between 44,000 Boepd and 48,000 Boepd, a 26% increase over 2014 at the mid-point of the range. 2016 hedging remains in place, with 10 million barrels hedged at an average of $68 per barrel.

Action is continuing on all cost fronts, including production operations and services, fuel costs, logistics, maintenance, subsea, manpower, and SVT capital programme reductions. Further recent progress on these and other operating cost areas has enabled EnQuest to improve unit operating targets, to between $25-27/bbl for 2016. The business continues to target additional improvements in 2016, seeking low $20s unit opex from the North Sea business and mid-teens from Malaysia; the latter would effectively enable that business to fund its growth from its own cash flow.

2016 priorities include delivering the investment programme on time and on budget. Total EnQuest 2016 cash capex has been reduced again, now at the low end of the previous $700 million to $750 million range, despite including additional capex associated with the 10.5% increase in EnQuest's Kraken working interest. The predominant focus areas are the next phases of the Kraken development, with the FPSO being a critical path element. This has been reduced from an equivalent c.$950 million original capex budget, including the First Oil acquisition.

Smaller production and development companies require high efficiency and low cost capabilities, in particular in these market conditions. EnQuest has the requisite capabilities and with its operating costs rebased at materially lowered levels, even modest increases in oil prices would have a significant positive impact on future cash flows and growth. However, for the foreseeable future, EnQuest's priority is to continue delivering a business which is robust in a low oil price environment.

STRATEGIC REPORT
OPERATING REVIEW

NORTH SEA OPERATIONS

Successfully addressing EnQuest's strategic priorities in a low oil price environment

- Delivering on execution

- Streamlining operations

- Strengthening the balance sheet through good operations

As a focused and agile company, EnQuest commenced work on streamlining operations well before the oil price started to decline in Q4 2014. As a result, additional benefits were realised early in 2015. By acting early and working proactively with the supply chain, EnQuest lowered unit costs significantly, without impacting safety or production efficiency, for which EnQuest has had a strong track record since its inception. With the EnQuest Producer onstream in October 2015, EnQuest delivered full year 2015 production above guidance levels, having achieved its strongest production performance yet. As well as maintaining high levels of production efficiency ('PE'), EnQuest's 2015 drilling programme was upper quartile, measured against the industry standard 'Rushmore' benchmark.

2015 was a busy and successful year on Thistle, it saw further benefits from the field life extension programme. The drilling programme on Heather was completed in 2015, following which the drill crew returned to drill on Thistle. Initially, the Thistle programme was sanctioned with three activities but the maturation of subsurface targets, coupled with high drilling efficiency, enabled the completion of additional previously unscheduled activities. The programme was delivered approximately 25% below budget, benefitting from the power upgrades completed in the life extension project, careful engineering and rigorous performance management of drilling operations. The Thistle development programme has been self funding. The production programme on the Northern Producer was well ahead of plan, despite scaling issues on the West Don field which impacted Q1 production. Heather also benefitted from the drilling activities performed in 2014, with an almost doubling of the field's production rate. The Heather team's focus and perseverance on costs saw significant progress in 2015. The Ythan development was delivered well ahead of schedule. In 2014, EnQuest took the licence, prepared the Field Development Plan ('FDP') and then had the well hooked up by Q2 2015. Performance of the Ythan development well has exceeded expectations.

On unit opex overall, EnQuest set a target of a 10% reduction for 2015. In the event, a reduction of over 15% in unit opex was delivered. In Q4 2015, unit costs in the North Sea were below $30/bbl and this comprehensive cost reduction programme is sustainable. EnQuest anticipates overall unit opex in 2016 to be $25-27/bbl and there will be a further reduction once Kraken is fully onstream. Unnecessary complexity is avoided with standardised approaches used whenever possible. Procurement has been offshored to Dubai and we continue our long standing tradition of working closely with the supply chain, constantly seeking innovative new ways to optimise cost efficiencies. EnQuest is incorporating a structurally lower unit operating cost into its base whilst maintaining high production efficiency. This now includes Kittiwake, the asset which had a running opex of more than $100/bbl when first taken over in March 2014 and which now operates at below $30/bbl.

Capital discipline is also paramount and, post Alma/Galia, other than Kraken, EnQuest's North Sea activities are focused on a much lower, more limited capex programme, to activities which generate higher margins and achieve faster paybacks. Development costs continue to be brought down; for example, since the early concept selection work on the Scolty/Crathes project was completed, a 40% reduction in capex was achieved along with a low-risk execution strategy and the majority of facilities' capex is payable after first oil related dates.

In 2015, our HSE performance was very good. The continuous improvement programme has therefore been revised in 2016 to drive our performance higher. Our aim is always to achieve safe results and to have the right targets to help us achieve incident free operations.

Thistle/Deveron

Working interest at end 2015: 99%
Decommissioning liabilities: Original liabilities remain with former owner
Fixed steel platform
Daily average net production:
2015: 8,930 Boepd
2014: 9,025 Boepd

2015

Drilling recommenced at Thistle in 2015, with the A61/34 well which came onstream in May and which has been performing well. An additional production well A62/53 has been drilled and was placed on production in August. An Electric Submersible Pump ('ESP') workover on well A59/45 was completed successfully in August, with the well reinstated to production. Due to strong performance of the drilling programme, two wells anticipated in 2016 were brought forward into 2015. Well A64/40 was drilled in the crest of the Western Fault Block and was brought online in October. This was followed by completion of the Deveron A63/07 well with a dual ESP, which was brought online in November and the workover of the Deveron A58 well to upgrade the ESP. Excellent drilling performance has delivered considerable savings against budgeted costs.

2016 and beyond

This latest programme of Thistle drilling activities was brought to a close in January 2016. One of the power generation turbines has been overhauled in Q1 2016; maintenance, integrity and life extension projects will continue in the rest of 2016, including a routine planned two week shutdown in Q3.

The Don fields

Working interest at end 2015:
- Don Southwest, 60%
- Conrie, 60%
- West Don, 63.45%
- Ythan, 60%

Decommissioning liabilities: As per working interests
Floating production unit with subsea wells
Daily average net production:
2015: 7,690 Boepd
2014: 8,835 Boepd

2015

The new Ythan production well was completed in April and tied in and brought online in late May 2015 and continues to deliver oil rates above expectations. Production efficiency in the Don fields was again strong, with high levels of water injection efficiency also supporting production. 2015 production in the Dons area was down year on year due partly to the maintenance shutdown in June and to the operational shut-in of the W4 well in January and February due to scale build up.

2016 and beyond

The 2016 Dons work programme includes chemical treatment programmes and routine maintenance throughout the year, including a planned two week shutdown around the middle of the year.

Heather/Broom

Working interest at end 2015:
- Heather, 100%
- Broom, 63%

Decommissioning liabilities:
- Heather, 37.5%
- Broom, 63%

Fixed steel platform

Daily average net production:
2015: 4,643 Boepd
2014: 4,081 Boepd

2015

The Heather H66 production well was brought onstream in March and has performed well, contributing to the successful outcome of this phase of the development drilling campaign. The rig crew then moved to Thistle. Water injection was reinstated to the Broom field as planned in Q2 2015, following replacement of a flowline. Overall production in 2015 was ahead of 2014 reflecting the increase in Heather rate from 2014 drilling, offset by the water injection outage on Broom and the planned maintenance shutdown in June 2015. High levels of operational uptime have been achieved. Overall levels of water injection improved in 2015 and this increased production rates on both Heather and Broom.

2016 and beyond

There will be no drilling on Heather in 2016. Maintenance and integrity projects continue as normal, including pigging campaign this quarter.

Greater Kittiwake Area ('GKA')
At end 2015, working interest 50% in each of:
- Kittiwake
- Grouse
- Mallard
- Gadwall
- Goosander

Decommissioning liabilities:
Kittiwake 25%
Mallard 30.5%
Grouse, Gadwall and Goosander 50%
Fixed steel platform
100% interest in export pipeline from GKA to Forties Unity platform
Daily average net production:
2015: 3,981 Boepd
2014: 1,281 Boepd
2014 data is based on the net production since the acquisition at the start of March 2014, as averaged over the full year.

2015

GKA

In 2015, GKA demonstrated continual improvement in production efficiency since acquisition, achieving almost 80% across the year, including the impact of a planned shutdown. The redundant Gadwall production well was successfully sidetracked to an updip location and was brought onstream in August with encouraging results. A successful chemical treatment has also been undertaken on Goosander raising production levels substantially from the field. The planned three week GKA maintenance shutdown was successfully completed in September. Reported 2015 production was over three times the level in 2014, with Gadwall having peaked at over 19,000 Boepd.

The success of GKA demonstrates the transferability of the EnQuest model and of its ability to create value from mature assets; the strategy was sound, the investment programme has been focused and the opex discipline has been strong.

The Scolty/Crathes development (to be tied back to GKA). 50% EnQuest working interest

The Scolty/Crathes Field Development Plan received regulatory approval in H2 2015 and was then sanctioned by EnQuest. EnQuest is the operator of the development with a 50% working interest. The project benefits from limited cash capital expenditure until first oil in 2017 and extends field life for the GKA field.

The development plan consists of single horizontal wells to be drilled in each of the Scolty and Crathes fields. The fields will be tied back to the Kittiwake platform, in the Greater Kittiwake Area. Production from the Scolty/Crathes fields is expected to continue until 2025, which also extends the life of the GKA hub itself to 2025. Development well drilling is anticipated by mid-2016, with first oil from Scolty/Crathes expected by the first half of 2017.

2016 and beyond

Subsea and topside scopes on the Scolty/Crathes development are progressing according to schedule. There will be no other drilling on GKA. A planned three week shutdown is scheduled for early in H2 2016.

Alma/Galia

Working interest at end 2015:
- 65% in both fields

Decommissioning liabilities: As per working interest

Floating, production storage and offloading unit with subsea wells

Daily average net production

2015: 1,083 Boepd

Net production since first oil on 27 October 2015, averaged over the twelve months to the end of December 2015

2015

In H1 2015, the FPSO vessel left the yard in Newcastle, successfully completed marine performance trials and was towed out to the field, where it was securely moored. It was first made 'storm safe' and then all the remaining anchor chains were installed. All the risers were then pulled in and the ship was able to weathervane. The subsea equipment was successfully function tested from the vessel via the umbilicals. The Galia production well was also completed and tied into the production manifold.

First oil from the Alma/Galia development was achieved on 27 October 2015, following the safe delivery of final commissioning of all the required systems. Production from the first two Alma ESP wells (K3Z and K5) was increased in the second half of November as the Galia well was also brought onstream.

2016 and beyond

The FPSO has performed well since first oil and continues to do so. Excellent uptime has been achieved on the EnQuest Producer, with 77% in 2015 and over 90% in early 2016. The first cargo was successfully offloaded in December. A short production shutdown is required to prepare for transfer over to power generated from the steam turbine generators and to commission the remaining subsea scope. At Alma/Galia, all six wells have now been commissioned, alongside one water injector well. All six production wells are expected to be onstream by early Q2 2016. The permanent boiler and turbine power arrangements are also expected to be online in early Q2 2016.

Alba (non-operated)

Working interest at end of 2015: 8%
Decommissioning liabilities: As per working interest
Fixed steel platform
Daily average net production:
2015: 1,178 Boepd
2014: 1,214 Boepd

2015

Field production was broadly stable in 2015. The Alba oil field is operated by Chevron.

2016 and beyond

The ADW and S11 wells are both scheduled to be brought online later in 2016.

INTERNATIONAL: MALAYSIAN OPERATIONS

ALREADY 25% OF PRODUCTION, DEMONSTRATING THE EXPORTABILITY OF THE ENQUEST MODEL

EnQuest's Production Sharing Contract ('PSC') for PM8/Seligi in Malaysia includes the Seligi oil field, once the largest oil field off Peninsular Malaysia. PM8/Seligi combined has over 200 wells. This is a substantial opportunity for EnQuest to replicate the success of its strategy on Thistle, potentially on a considerably larger scale, significantly increasing production, extending PM8/Seligi's field life and increasing reserves.

PM8/Seligi

Working interest at end 2015: 50%
Decommissioning liabilities:
- PM8, 50%
- Seligi, 50% of partial liability allocated based on ratio of remaining oil reserves and to estimated ultimate recovery
In addition to the main production platform and separate gas compression platform, there are 11 minimum facility satellite platforms tied back to the main platform
Daily average net production:
2015: 8,689 Boepd (working interest): 5,958 Boepd (entitlement)
2014: 3,459 Boepd (working interest): 2,078 Boepd (entitlement)
2014 data reflects net production from June 2014 to December 2014, averaged over the full year.

2015

EnQuest assumed offshore field operations in October 2014 and the overall transition was completed in December 2014. The PM8/Seligi asset has delivered strong production performance, well above target, due to improved production efficiency and to the successful idle well restoration activities completed since assuming operatorship. In 2015, EnQuest was able to deliver material improvements from 16 idle wells.

The 2015 PM8/Seligi field infrastructure work programme focused on inspections to establish pipeline, vessel and structural integrity baselines and on overhauls and repairs to gas compression trains. As a result, compressor availability was improved from 70% to 95% and overall production efficiency was increased from c.80% to over 90%, delivering an immediate boost to production. In addition, well intervention activities were completed to restore idle wells and optimise existing wells, leading to a production gain of approximately 3,000 gross Boepd in Q4.

2016 and beyond

EnQuest will continue to enhance production by investing in well intervention work, activities to improve facility reliability and production efficiency, and facilities improvement upgrades. At the same time, ongoing technical studies will support future drilling, well workover, gas injection and water injection projects to further enhance production and ultimate recovery.

The overall impact of the north east monsoon season has been low compared to last year, and 2016 production has started strongly, following a successful well intervention on Seligi A.

Tanjong Baram

Working interest at end 2015: 70%
Decommissioning liabilities: None
Daily average net production:
2015: 373 Boepd (working interest): 261 Boepd (entitlement)
2015 data reflects net production from first production in June 2015 averaged over the twelve months to end December 2015

2015

Tanjong Baram was developed as an unmanned platform with production from two wells tied back to the PETRONAS Carigali operated West Lutong A complex.

First production from the Tanjong Baram field was achieved on schedule in June 2015. The host platform requested changes to the receiving vessel to accommodate the volumes of liquids in the associated gas. This required the field to be shut in while the work was completed. Tanjong Baram was successfully restarted on 18 August and the field was producing close to 3,000 Boepd gross by year end.

2016 and beyond

Tanjong Baram experienced two unplanned shutdowns in January due to weather. Average overall oil production has nonetheless continued at stable levels. Co-ordination with the host platform operator is continuing, in order to optimise daily production rates and minimise operating costs.

MAJOR PROJECTS

THE KRAKEN PROJECT IS PROGRESSING WELL, ON SCHEDULE AND UNDER BUDGET

Overview
During 2015, the Kraken project again progressed well. The development project proceeded on schedule, and by the end of the year capex costs for the overall full cycle project had been reduced by over 10%, bringing the expected gross capex down to c.$2.9 billion. A further c.$125 million reduction in project capex has since been made. The Kraken FPSO vessel continues to be on track for 'sail away' in 2016.

The successful installation of the integrated turret buoy mooring system was an important part of the 2015 programme. All the risers and mooring lines are now connected to this turret buoy, which will itself be connected to the FPSO when it arrives in the field. This avoids the need for the individual risers to be connected one by one into the FPSO, and significantly reduces the weather window to connect the wells, down to only fortyeight hours of suitably calm seas.

From the start of the project, the Kraken development has applied an approach of using standardised equipment where possible. Suppliers were asked to provide and install their standard units and EnQuest tailored the design of its field to those standard facilities. EnQuest does not commission bespoke designs or engineering where standardised approaches already provide good solutions.

The initial c.10% capex cost reduction on the project was challenging to achieve, due in particular to the lump sum fixed price contractual nature of most of the supplier arrangements. The saving derives partly from the efficiencies of the drilling programme, but also generally as a result of rigorous project management of all aspects of the project, with excellent planning and project execution. Change procedures in particular are strictly managed. An interventionist approach is taken with all subcontractors, with whom EnQuest is actively involved to ensure commitments are delivered.

Kraken

Working interest at end 2015: 60%. Increased to 70.5% at the start of 2016.
Decommissioning liabilities: As per working interest
Floating Production Storage and Offloading unit with subsea wells
First Oil expected 2017

2015

Kraken

The fixed pipelines for the first two Kraken drill centres were installed on the seabed in H1 2015. Installation of the mooring system for the FPSO was started, also in the first half. Following manufacture, the submerged turret/buoy was transported to the field and successfully installed. Drill centre one ('DC1') was fully connected to the turret/buoy, with only one production riser still to be connected from the second drill centre.

The conversion programme for the Kraken FPSO vessel continued on plan. Equipment procurement and fabrication of the modules was ongoing.

In H2 2015, following the completion of the Kraken batch top-hole drilling programme at DC1, the drilling rig progressed with the pre-drilling of individual wells into the reservoir. Reservoir analysis of the two full well penetrations to the end of 2015 correlated very closely with the previous subsurface prognosis. Procurement, manufacture and installation continued in relation to the next phases of wells, subsea infrastructure and the FPSO.

2016 and beyond

In 2016, the drilling programme is focused on drill centres one and two. It continues to be ahead of schedule, despite a particularly harsh North Sea winter; this should ensure that as planned there will be eight wells available for first oil, four production wells and four injection wells.

Following the departure of the FPSO from dry dock, in December 2015, work is continuing on the marine systems and the modules which will be lifted onto the vessel in the first half of 2016. The FPSO remains on schedule to leave Singapore in 2016 for commissioning and 'hook-up', with production in H1 2017. Preparation on Kraken readiness to transition from development to operations is well underway.

Kraken's capex has been reduced by an additional c.$125 million, following a revision to the development plan. A total of 23 wells will now be drilled from three drill centres, instead of 25 wells from four drill centres. The overall full cycle project costs have now been reduced by c.$425 million from $3.2 billion at sanction, a reduction of c.13%.

With effect from 1 January 2016, EnQuest acquired an additional 10.5% interest in the Kraken development, from First Oil plc, bringing EnQuest's total interest to 70.5%.

RISKS AND UNCERTAINTIES

Management of risks and uncertainties
The Board has articulated EnQuest's strategy to deliver shareholder value by:

- exploiting its hydrocarbon reserves;
- commercialising and developing discoveries;
- converting its contingent resources into reserves; and
- pursuing selective acquisitions and disposals.

In pursuit of this strategy, EnQuest has to face and manage a variety of risks. Accordingly, the Board has established a risk management framework to enhance effective risk management within the following overarching statement of risk appetite approved by the Board:

- We aim to deliver consistently above median investment performance
- We will manage the investment portfolio against agreed key performance indicators
- We seek to avoid reputational risk by ensuring that our operational processes and practices reduce the potential for error to the extent practicable
- We seek to embed a risk culture within our organisation corresponding to the appetite for risk which is articulated for each of our principal risks
- We seek to manage operational risk by means of a variety of controls to prevent or mitigate occurrence
- We set clear tolerances for all material operational risks to minimise overall operational losses, with zero tolerance for criminal conduct

We seek to balance our risk position between investing in activities that may drive growth and the continuing need to remain a stable and viable company with the capacity to continue to grow as market opportunities present themselves. The Board will review the Company's risk appetite annually in light of changing market conditions and the Company's performance

The Executive Committee periodically reviews and updates the Group Risk Register based on the individual risk registers of its members. The Group Risk Register, along with an assurance mapping exercise and a risk report (focused on the most critical risks and emerging and changing risk profiles), is periodically reviewed by the Board (with Senior Management), to ensure that key issues are being adequately identified and actively managed. In addition, a sub-committee of the Board has been established (the Risk Committee) to provide a forum for the Board to review selected individual risk areas in greater depth.

The Board, upon the advice of the Audit Committee, has reviewed the Group's system of risk management and internal control for the period from 1 January 2015 to the date of this report, and is satisfied that they are effective and that the Group complies in this respect with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

Key business risks
The Group's principal risks are those which could prevent the business from executing its strategy and creating value for shareholders or lead to a significant loss of reputation.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Group's risk management system works effectively in assessing the Group's risk appetite and has supported a robust assessment by the Directors' of the principal risks facing the Group. Set out below are the principal risks and the mitigations (together with an estimate of the potential impact and likelihood of occurrence after the mitigation actions and how these have changed in the past year) and an articulation of the Group's risk appetite for each of these principal risks

RISK	APPETITE	MITIGATION
Health, safety and environment ('HSE') Oil and gas development, production and exploration activities are complex and HSE risks cover many areas including major accident hazards, personal health and safety, compliance with regulatory requirements and potential environmental harm. **Potential impact** – Medium (2014 Medium) **Likelihood** – Low (2014 Low) There has been no material change in the potential impact or likelihood and the Group's overall record on HSE remains robust.	The Group strives to provide a highly secure setting for its people and the natural environment and we endeavour to constantly improve our safety standards back to where we have shown we can deliver with zero recordable or high potential incidents. There is no reason for anyone associated with our business to take safety risks other than those normally associated with oil and gas operations and the Group has a low appetite for risks to HSE.	The Group maintains, in conjunction with its core contractors, a comprehensive programme of health, safety, environmental, asset integrity and assurance activities and has implemented a continual improvement programme, promoting a culture of transparency in relation to HSE matters. The Group has established a Corporate HSE Committee which meets quarterly. HSE performance is discussed at each Board meeting. In addition, the Group has a positive, transparent relationship with the UK Health and Safety Executive and Department of Energy & Climate Change. EnQuest's HSE&A Policy is now fully integrated across our operated sites and this has enabled an increased focus on Health, Safety and the Environment. There is a strong assurance programme in place to ensure EnQuest complies with its Policy and Principles and regulatory commitments.
Production The Group's production is critical to its success and is subject to a variety of risks including subsurface uncertainties, operating in a mature field environment and potential for significant unexpected shutdowns and unplanned expenditure to occur (particularly where remediation may be dependent on suitable weather conditions offshore). Lower than expected reservoir performance may have a material impact on the Group's results. The Group's delivery infrastructure in the UKCS is mostly dependent on the Sullom Voe Terminal. Longer term production is threatened if low oil prices bring forward decommissioning timelines. **Potential impact** – High (2014 High) **Likelihood** – Low (2014 Low) There has been no material change in the potential impact or likelihood.	Since production efficiency is core to our business and the Group seeks to maintain a high degree of operational control over production assets in its portfolio, EnQuest has a very low tolerance for operational risks to its production (or the support systems that underpin production).	The Group's programme of asset integrity and assurance activities provides leading indicators of significant potential issues which may result in unplanned shutdowns or which may in other respects have the potential to undermine asset availability and uptime. The Group continually assesses the condition of its assets and operates extensive maintenance and inspection procedures designed to minimise the risk of unplanned shutdowns and expenditure. The Group monitors both leading and lagging KPIs in relation to its maintenance activities and liaises closely with its downstream operators to minimise pipeline and terminal production impacts. Production efficiency is continually monitored and identified remedial and improvement opportunities are undertaken as required. A continual, rigorous cost focus is also maintained. Life of asset production profiles are audited by independent reserves auditors. The Group also undertakes regular internal reviews. The Group's forecasts of production are risked to reflect appropriate production risks. The Sullom Voe Terminal has a good safety record and its safety and operational performance levels are regularly monitored and challenged by the Group and other terminal owners and users to ensure that operational integrity is maintained. Nevertheless, the Group actively continues to explore the potential of alternative transport options and developing hubs that may provide cost savings.

RISK	APPETITE	MITIGATION
Project execution The Group's success will be dependent upon bringing new developments, such as Alma/Galia (which was not delivered to schedule or budget) and Kraken, to production on budget and on schedule. To be successful, the Group must ensure that project implementation is both timely and on budget. Failure to do so may have a material negative impact on the Group's performance. Potential impact – High (2014 High) Likelihood – Low (2014 Medium) The likelihood of occurrence of an event impacting project execution has decreased as the Alma/Galia project has come into production and as the Kraken development project progresses. However, in light of the adverse market conditions impacting EnQuest and the oil and gas industry, the potential impact of a significant cost increase or delay to the Kraken project has increased in light of the greater materiality to EnQuest which the project now represents.	The efficient delivery of new developments is a key feature of the Group's long-term strategy. While the Group necessarily assumes significant risk when it sanctions a new development, (for example, by incurring costs against oil price assumptions) it requires that risks to efficient implementation of the project are minimised.	The Group has project teams which are responsible for the planning and execution of new projects with a dedicated team for each development. The Group has detailed controls, systems and monitoring processes in place to ensure that deadlines are met, costs are controlled and that design concepts and Field Development Plans are adhered to and implemented. These are modified when circumstances require and only through a controlled management of change process and with the necessary internal and external authorisation and communication. The Group also engages third party assurance experts to review, challenge and, where appropriate, make recommendations to improve the processes for project management, cost control and governance of major projects. EnQuest ensures that responsibility for delivering time-critical supplier obligations and lead times are fully understood, acknowledged and proactively managed by the most senior levels within supplier organisations. The Kraken development was sanctioned by DECC and EnQuest's partners in November 2013. First oil production remains scheduled for 2017. The development involves the drilling of 23 new subsea horizontal wells which will be connected to an FPSO. Prior to sanction, EnQuest identified and optimised the development plan using EnQuest's pre-investment assurance processes. With respect to the Kraken development, the FPSO is being provided by a third party on a lease basis to mitigate risk of cost overrun. As well as FPSO related engineering and management expertise in the Kraken project team in Aberdeen, there is also a dedicated EnQuest team at the FPSO construction yard in Singapore to ensure quality and mitigate risk of schedule overrun.
Reserve replacement Failure to develop its contingent and prospective resources or secure new licences and/or asset acquisitions and realise their expected value. Potential impact – High (2014 High) Likelihood – Medium (2014 Medium) The likelihood has increased as oil price volatility continues to limit business development activity. Low oil prices can potentially affect development of contingent and prospective resources and can also affect reserve certifications.	Reserves replacement is a key element of the Group's success. The Group has some tolerance for the assumption of risk in relation to the key activities required to deliver reserves growth, such as drilling and acquisitions.	The Group puts a strong emphasis on subsurface analysis and employs industry leading professionals. The Group continues to recruit in a variety of technical positions which enables it to manage existing assets and evaluate the acquisition of new assets and licences. All analysis is subject to internal and, where appropriate, external review. All reserves are currently externally audited by a Competent Person. In addition, EnQuest has active business development teams both in the UK and internationally developing a range of opportunities and liaising with vendors/government.

RISK	APPETITE	MITIGATION
Financial Inability to fund financial commitments. The Group's revolving credit facility and retail bond contain certain financial covenants (each containing covenants based on the ratio of net indebtedness to EBITDA and finance charges to EBITDA) and in the case of the revolving credit facility, a requirement for liquidity testing. Prolonged low oil prices, cost increases and production delays or outages could threaten the Group's liquidity and/or ability to comply with relevant covenants. Potential impact – High (2014 High) Likelihood – High (2014 Medium) Falling oil prices have continued to impact cash flow adversely. However, it is considered that the risk is being appropriately mitigated and remains controlled. Further information is contained in the going concern and viability paragraphs of the Financial Review.	The Group recognises that significant leverage has been required to fund its growth. It is however intent on maintaining liquidity and complying with its obligations to finance providers, recognising that reasonable assumptions relating to external risks need to be made in transacting with finance providers.	During the year, the Group renegotiated certain financial covenants under its revolving credit facility and under its £155million retail bond to provide greater flexibility for its capital investment programme (the net debt / EBITDA covenant has been increased to five times and the ratio of financial charges to EBITDA is reduced to three times, both until mid-2017) and disposed of its Aberdeen office developments. Ongoing compliance with the financial covenants under all of the Group's lending arrangements (including the $650million High Yield Bonds) is actively monitored and reviewed. Funding from the bonds and revolving credit facility is supplemented by operating cash inflow from the Group's producing assets. The Group reviews its cash flow requirements on an ongoing basis to ensure it has adequate resources for its needs. The Group is maintaining a focus on costs through supplier renegotiations, cost-cutting and rationalisation. Where costs are incurred by external service providers, e.g. at Sullom Voe Terminal, the Group actively challenges operating costs. The Group also maintains a framework of internal controls.
Human resources The Group's success is dependent upon its ability to attract and retain key personnel and develop organisational capability to deliver strategic growth. Industrial action across the sector could also impact on the operations of the Group. **Potential impact** – Low (2014 Low) **Likelihood** – Medium (2014 Low) The impact has remained static due to low oil prices impacting the buoyancy of the employment market. The likelihood has increased due to the erosion in value of long term share based incentive plans.	As a low cost, lean organisation, the Group relies on motivated and high quality employees to achieve its targets and manage its risks. The Group recognises that the benefits of a lean and flexible organisation require agility to assure against the risk of skills shortages.	The Group has established a competent employee base to execute its principal activities. In addition to this, the Group, which seeks to maintain good relationships with its employees and contractor companies, regularly monitors the employment market to provide remuneration packages, bonus plans and long-term share-based incentive plans that incentivise performance and long- term commitment from our employees to the Group. EnQuest is undertaking a number of human resource initiatives. These initiatives are part of the overall People and Organisation strategy and have specific themes relating to Organisation, People, Performance and Culture. It is a Board-level priority that the Executive and Senior Management have the right mix of skills and experience. The Group also maintains market-competitive contracts with key suppliers to support the execution of work where the necessary skills do not exist within the Group's employee base. The focus on Executive and Senior Management retention, succession planning and development remains an important priority for the Board and an increasing emphasis will continue to be placed on this.

RISK	APPETITE	MITIGATION
Reputation The reputational and commercial exposures to a major offshore incident are significant. **Potential impact** – High (2014 High) **Likelihood** – Low (2014 Low) There has been no material change in the potential impact or likelihood.	The Group has no tolerance for conduct which may compromise its reputation for integrity and competence.	Operational activities are conducted in accordance with approved policies, standards and procedures. Interface agreements are agreed with all core contractors. The Group requires adherence to its Code of Conduct and runs compliance programmes to provide assurance on conformity with relevant legal and ethical requirements. The Group undertakes regular audit activities to provide assurance on compliance with established policies, standards and procedures.
Oil price A material decline in oil and gas prices adversely affects the Group's operations and financial condition. **Potential impact** – High (2014 High) **Likelihood** – High (2014 High) The potential impact and likelihood remains high due to low and volatile oil prices.	The Group recognises that considerable exposure to this risk is inherent to its value proposition.	This risk is being mitigated by a number of measures including hedging production, renegotiating supplier contracts and lending arrangements and reducing costs and commitments. The Group monitors oil price sensitivity relative to its capital commitments and has a policy which allows hedging of its production. The Group has hedged significant amounts of its production in 2016 using puts and calls. This ensures that the Group will receive a minimum oil price for its production. In order to develop its resources, the Group needs to be able to fund substantial levels of investment. The Group will therefore regularly review and implement suitable policies to hedge against the possible negative funding impacts of changes in oil prices whilst remaining within the limits set by its revolving credit facility. The Group has established an in-house trading and marketing function to enable it to enhance its ability to mitigate the exposure to volatility in oil prices.
Political and fiscal Unanticipated changes in the regulatory or fiscal environment can affect the Group's ability to deliver its strategy and potentially impact revenue and future developments. **Potential impact** – High (2014 High) **Likelihood** – Low (2014 Medium) The likelihood has reduced as it appears unlikely that the UK government will unexpectedly burden the industry in the current low oil price environment.	The Group faces an uncertain macro-economic and regulatory environment. Due to the nature of such risks and their relative unpredictability, it must be tolerant of certain inherent exposure.	It is difficult for the Group to predict the timing or severity of such changes. However, through Oil & Gas UK and other industry associations the Group does engage with government and other appropriate organisations in order to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations. All business development or investment activities recognise potential tax implications and the Group maintains relevant internal tax expertise. At a more operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.

RISK	APPETITE	MITIGATION
Joint venture partners Failure by joint venture parties to fund their obligations. Dependence on other parties where the Group is not the operator. **Potential impact** – Medium (2014 Medium) **Likelihood** – Medium (2014 Medium) There has been no material change in the potential impact or likelihood.	The Group requires partners of high integrity. It recognises that it must accept a degree of exposure to the creditworthiness of partners and evaluates this aspect carefully as part of every investment decision.	The Group operates regular cash call and billing arrangements with its co-venturers to mitigate the Group's credit exposure at any one point in time and keeps in regular dialogue with each of these parties to ensure payment. Risk of default is mitigated by joint operating agreements allowing the Group to take over any defaulting party's share in an operated asset and rigorous and continual assessment of the financial situation of partners. The Group generally prefers to be the operator. The Group maintains regular dialogue with its partners to ensure alignment of interests and to maximise the value of joint venture assets.
Competition The Group operates in a competitive environment across many areas including the acquisition of oil and gas assets, the marketing of oil and gas, the procurement of oil and gas services and access to human resources. **Potential impact** – Medium (2014 Medium) **Likelihood** – Medium (2014 Medium) There has been no material change in the impact or likelihood.	The Group operates in a mature industry with well-established competitors and aims to be the leading operator in the sector; it thus has a high appetite for this risk.	The Group endeavours to have a resilient balance sheet, which puts it in a position to be able to compete effectively and move quickly when looking to acquire assets. The Group also has strong technical and business development capabilities to ensure it is well positioned to identify and execute potential acquisition opportunities. The Group maintains good relations with oil and gas service providers and constantly keeps the market under review.
Portfolio concentration The Group's assets are concentrated in the UK North Sea around a limited number of infrastructure hubs and existing production (which is principally only oil) is from mature fields. This amplifies exposure to key infrastructure, political/fiscal changes and oil price movements. **Potential impact** – Medium (2014 Medium) **Likelihood** – Medium (2014 Low)	Although the extent of portfolio concentration has reduced (as the business has developed), the majority of the Group's assets remain relatively concentrated and therefore this risk is still intrinsic to the Group.	This risk is mitigated in part through acquisitions. For all acquisitions, the Group uses a number of business development resources to evaluate and transact acquisitions in a commercially sensitive matter. This includes performing extensive due diligence (using in-house and external personnel) and actively involving executive management in reviewing commercial, technical and other business risks together with mitigation measures. The Group also constantly keeps its portfolio under rigorous review and accordingly, actively considers the potential for making disposals, executing development projects (Alma/Galia, Kraken), making international acquisitions and expanding hubs.

RISK	APPETITE	MITIGATION
International business Whilst the majority of the Group's activities and assets are in the UK, the international business is becoming more material. The Group's international business is subject to the same risks as the UK business (e.g. HSE, production and project execution); however, there are additional risks that the Group faces including security of staff and assets, political, foreign exchange and currency control, taxation, legal and regulatory, cultural and language barriers and corruption. **Potential impact** – Medium (2014 Medium) **Likelihood** – Low (2014 Medium) The likelihood of the overall risk has reduced due to EnQuest exiting Egypt and Tunisia. In addition, oil price uncertainty has increased the potential impact and likelihood of a slowdown in international growth plans.	In light of its long-term growth strategy, the Group seeks to expand and diversify its production (geographically and in terms of quantum); as such it is tolerant of assuming certain commercial risks which may accompany the opportunities it pursues. However such tolerance does not impair the Group's commitment to comply with legislative and regulatory requirements in the jurisdictions in which it operates.	Prior to entering into a new country, EnQuest evaluates the host country to assess whether there is an adequate and established legal and political framework in place to protect and safeguard first its expatriate and local staff and, second, any investment within the country in question. When evaluating international business risks, executive management reviews commercial, technical and other business risks together with mitigation and how risks can be managed by the business on an ongoing basis. EnQuest looks to employ suitably qualified host country staff and work with good quality local advisers to ensure it complies within national legislation, business practices and cultural norms whilst at all times ensuring that staff, contractors and advisers comply with EnQuest's business principles, including those on financial control, cost management, fraud and corruption. Where appropriate, the risks may be mitigated by entering a joint venture with partners with local knowledge and experience. After country entry, EnQuest maintains a dialogue with local and regional government, particularly with those responsible for oil, energy and fiscal matters, and may obtain support from appropriate risk consultancies. When there is a significant change in the risk to people or assets within a country, the Group takes appropriate action to safeguard people and assets.

Financial Overview

Against a backdrop of the lowest crude oil prices since 2002, with the price of oil averaging $52.4/bbl throughout 2015 versus $98.9/bbl through 2014, EnQuest has delivered a robust operational performance. Production, on a working interest basis, increased by 31% to 36,567 Boepd. This included a full year of production from PM8/Seligi, which contributed 8,689 Boepd compared to 3,459 Boepd in 2014 and 1,084 Boepd from Alma/Galia, with first oil achieved in October 2015. Reflecting EnQuest's cost optimisation, first oil from Alma/Galia and the increase in production, unit operating costs reduced by 29% to $29.7/bbl.

	Business performance	
	2015 $ million	2014 $ million
Profit from operations before tax and finance income/(costs)	173.9	362.5
Depletion and depreciation	305.9	245.1
Intangible impairments and write-offs	0.0	0.6
Net foreign exchange (gains)/losses	(15.0)	(27.2)
EBITDA	464.8	581.0

EBITDA for the year ended 31 December 2015 was $464.8 million compared with $581.0 million in 2014. The lower EBITDA is mainly due to lower oil prices in H2 2015, which were partially mitigated through the contribution of $261.2 million of EBITDA from the Group's commodity hedge portfolio.

Reflecting the ongoing investments EnQuest has made in its assets, notably Kraken, EnQuest's net debt has increased from $967.0 million at the end of 2014 to $1.55 billion as at 31 December 2015.

	Net debt/(cash)	
	2015 $ million	2014 $ million
Bond[1]	879.7	892.0
Multi-currency revolving credit facility[1]	902.3	217.6
Tanjong Baram project finance facility[1]	35.0	-
Property Loan[1]	-	34.2
Cash and cash equivalents	(269.0)	(176.8)
	1,548.0	967.0

1 Stated excluding accrued interest and excluding the net-off of unamortised fees.

There are no significant debt maturities until October 2017. As at 31 December 2015, cash and undrawn facilities totalled $496.0 million.

As a result of the continued capital investment, UK corporate tax losses at the end of the year increased to approximately $2.54 billion. In the current environment, no material corporation tax or supplementary corporation tax is expected to be paid on UK operational activities. The Group paid cash corporate income tax on assets acquired in Malaysia which will continue throughout the life of the production sharing contract (PSC).

The substantial decline in the oil price has led to $626.2 million of post-tax impairments to tangible oil and gas assets, and the de-recognition of $478.1 million of tax losses. This impairment is made up of Thistle/Deveron $104.7 million, Heather and Broom $60.4 million, the Dons hub $96.2 million, Alba $12.3 million, Alma/Galia $344.8 million and Tanjong Baram $7.8 million.

Income Statement

Production and revenue

Production levels, on a working interest basis, for the year ended 31 December 2015 averaged 36,567 Boepd compared with 27,895 Boepd in 2014. The increase reflects a full year of production from PM8/Seligi, additional production from Gadwall and Goosander in the Greater Kittiwake Area (GKA), production from the Alma/Galia development which was brought onstream in late October and initial production from Tanjong Baram. This was partially offset by the expected natural decline in the Don fields.

The Group’s blended average realised price per barrel of oil sold excluding hedging was $50.9 for the year ended 31 December 2015, significantly below the $100.6 per barrel received for 2014, reflecting the steep decline in the oil price in 2015. Revenue is predominantly derived from crude oil sales and for the year ended 31 December 2015 crude oil sales totalled $634.3 million compared with $970.5 million in 2014. The decrease in revenue was due to the lower oil price offset partially by the higher production. Revenue in 2015 also included $261.2 million of realised income relating to oil commodity hedges, and other oil derivatives. This includes $119.1 million of hedge accounting gains deferred from 2014, and $111.6 million of non-cash amortisation of option premium.

Operating costs

Cost of sales comprises cost of operations, tariff and transportation expenses, change in lifting position, inventory movement, derivative and foreign exchange hedging movements and depletion of oil and gas assets. Cost of sales for the Group (pre-exceptionals and depletion of fair value adjustments) was as follows:

	Reported year ended 31 December 2015 $ million	Reported year ended 31 December 2014 $ million
Cost of sales	733.4	654.1
	$	$
Unit operating cost, adjusted for over/underlift and inventory movements (per barrel):		
-Production costs	23.4	31.5
-Tariff and Transportation costs	6.3	10.6
-Operating costs	29.7	42.1
-Depletion of oil and gas properties	25.0	24.6
	55.7	66.7

Cost of sales pre-exceptionals and depletion of fair value adjustments was $733.4 million for the year ended 31 December 2015 compared with $654.1 million in 2014. Lifting costs and tariffs decreased by $67.2m reflecting EnQuest’s cost reductions and a lower percentage of throughput at the Sullom Voe Terminal (SVT). This was offset by an increase in the DD&A charge of $61.2 million driven by increased production on PM8/Seligi, GKA and first production from Alma/Galia. Other operating costs, which principally includes the supplemental payment due on profit oil in Malaysia increased by $11.1 million, reflecting a full year of PM8 production, and higher profit oil entitlement. Overlift and inventory movement increased by $15.8 million. Additionally, 2014 had benefitted from a gain of $46.7 million relating to the bond proceeds currency transactions.

The Group’s operating costs, which are included in the calculation of the unit operating costs, comprise production costs, tariff and transportation costs, and the effect of any realised foreign exchange hedging gains or losses. Operating costs for the year ended 31 December 2015 totalled $390.7 million compared with $399.4 million in 2014 (on a pre-exceptional basis). Production costs of $318.5 million were $28.7 million lower than 2014. This was driven by the Group’s ongoing cost optimisation activities, partially offset by a full year of PM8. Transportation costs decreased from $107.5 million to $69.1 million for the year ended 31 December 2015. This reduction is primarily driven by lower SVT costs in 2015. These reductions were offset by a negative movement of $58.4 million in hedging, most of which is attributable to the gain realised in 2014 in respect of the bond proceeds currency swap.

Due to the above factors, the Group’s average unit production and transportation cost has decreased by $12.4 per barrel.

The Group’s depletion expense per barrel for the year increased slightly due to the impact of depletion on Alma/Galia which has a higher depletion rate than the rest of the Group’s hubs.

Exploration and evaluation expenses

Exploration and evaluation expenses were $0.3 million in the year relating to pre-licence costs expensed.

General and administrative expenses
General and administrative expenses were $14.4 million in the year ended 31 December 2015 compared with $16.5 million reported in the previous year. The decrease reflects reduced personnel costs in 2015.

Other income and expenses
Other income of $15.4 million is comprised mainly of net foreign exchange gains of $15.0 million in the year ended 31 December 2015 relating to foreign currency forwards and trades, as well as foreign exchange gains on other working capital.

Taxation
The tax credit for the year of $129.3 million (2014: $105.8 million tax charge), excluding exceptional items, is due primarily to an increase in the Ring Fence Expenditure Supplement on UK activities.

Exceptional items and depletion of fair value uplift
Exceptional losses totalling $1,339.4 million before tax ($887.3 million on a post-tax basis) have been disclosed separately in the year ended 31 December 2015. This primarily relates to a post tax impairment of tangible oil and gas assets of $626.2 million caused by the continued decline in the oil price throughout 2015.

Exceptional items also include an impairment of $1.9 million to capitalised exploration costs in respect of licence areas where development of the area is unlikely to take place in current market conditions.

The material items which make up the remaining balance are the unrealised mark to market losses on derivative contracts of $45.6 million, $3.8 million of depletion on the fair value uplift on acquisitions, $26.6 million which includes $3.7 million relating to the unavoidable costs in relation to the sub-let space of the Aberdeen building and $22.9 million of which relates to providing for the unutilised days for the Stena Spey drilling vessel activity in 2016, the vessel will not be fully utilised during this period. There was also an $8.5 million loss on the disposal of Annan House, $7.2 million relating mainly to the write-off of costs for relinquished licences for Cairngorm, Norway and Elke and $13.6 million relating to the write-down of the carrying value of Xmas trees in inventory. Finally, a $4.4 million loss was incurred relating to the difference between the receivable from PA Resources in Tunisia as at 31 December 2014 and the actual settled amount.

The tax impact of the above exceptional items is a tax credit of $634.4 million. A one-off deferred tax credit of $56.8 million in respect of the enacted decrease in the supplementary charge on UK oil and gas production to 20%, with effect from 1 January 2015, and decrease in the Petroleum Revenue Tax rate to 35%, with effect from 1 January 2016, has been reported as an exceptional item in the period. The de-recognition of tax losses resulted in a deferred tax charge of $239.1 million.

Finance costs
Finance costs of $176.4 million include $80.2 million of bond and loan interest payable, $17.0 million unwinding of discount on decommissioning provisions, $70.0 million relating to the amortisation of premium on options designated as hedges of production, and $5.0 million relating to the unwinding of the KUFPEC cost recovery provision. Other financial expenses of $11.0 million are primarily commitment and letter of credit fees and amortisation of finance fees of $7.3 million relates to arrangement fees for the bank facilities and bonds. The Group capitalised interest of $14.4 million for the year ended 31 December 2015 is in relation to the interest payable on borrowing costs on its capital development projects.

Finance income
Finance income of $1.0 million includes $0.3 million of bank interest receivable and $0.5 million unwinding on the financial asset created in 2012 as part of the consideration for the farm out of the Alma/Galia development to KUFPEC.

Earnings per share
The Group's reported basic earnings per share was (98.0) cents for the year ended 31 December 2015 compared with (22.8) cents in 2014. The decrease of 75.2 cents was attributable to a lower gross profit, higher finance fees and offset by a lower effective income tax for 2015. The Group's reported diluted earnings per share excluding exceptional items was 16.5 cents for the year ended 31 December 2015 compared with 17.8 cents in 2014. The decrease of 1.3 cents was mainly attributable to lower gross profit and higher finance costs offset by a lower effective income tax rate.

Cash flow and liquidity
The Group's reported cash generated from operations in 2015 was $221.7 million compared with $632.2 million in 2014, reflecting principally the significant reduction in the oil price. The reported cash flow from operations was 28.6 cents per share compared with 81.6 cents per share in 2014.

During the year ended 31 December 2015, $2.9 million was received in relation to an exploration refund for EnQuest Norge AS's activities in Norway. In addition, $3.5 million was received in relation to EnQuest Group's

UK tax liabilities for non-operational activities and Petroleum Revenue Tax (PRT). $7.7 million was paid in relation to the Group's operations in Malaysia.

It is anticipated that the underlying effective tax rate for 2016 will be below the UK statutory tax rate of 50%, excluding one-off exceptional tax items, due to UK tax reliefs and profits charged to tax at a lower rate in Malaysia. In the current environment and with the investment in the North Sea, the Group does not expect a material cash outflow for UK corporation tax on operational activities. This is due to the benefits from tax deductible first year capital allowances in the UK, available investment allowances and accumulated tax losses which are largely attributable to the Group's capital investment programme to date.

Cash outflow on capital expenditure is set out in the table below:

	2015 $ million	2014 $ million
North Sea capital expenditure	677.4	922.1
Malaysia capital expenditure	90.2	19.1
Exploration and evaluation capital expenditure	19.6	69.7
Other capital expenditure	39.4	49.4
Proceeds on disposal of Aberdeen new building	(68.4)	-
Other proceeds	(7.1)	(2.2)
	751.1	1,058.2

Significant projects were undertaken during the year, including:

- the Alma/Galia development including spend on the FPSO;
- the Kraken development;
- the Thistle life extension and drilling programme;
- the drilling of the Ythan JT well;
- the drilling of the Heather/Broom H66 side-track well; and
- the completion of the Tanjong Baram development in Malaysia

Net debt at 31 December 2015 amounted to $1,548.0 million compared with net debt of $967.0 million in 2014.

In early 2015, the Group renegotiated financial covenants under its Revolving Credit Facility (RCF) to provide greater flexibility for its capital investment programme. The net debt/EBITDA covenant has been increased to 5 times and the ratio of financial charges to EBITDA is reduced to 3 times, both until mid-2017. Compliance with ongoing covenants continues to be a priority for the Group, and financial covenants have been complied with throughout the year.

Balance Sheet

The Group's total asset value has decreased by $481.9 million to $3,777.3 million at 31 December 2015 (2014: $4,259.2 million).

Property, plant and equipment

Property, plant and equipment (PP&E) has decreased to $2,436.7 million at 31 December 2015 from $3,279.7 million at 31 December 2014. The decrease of $843.0 million is mainly due to the oil and gas assets impairment of $1,224.5 million offset by additions of $826.5 million and an increase in PP&E of $45.6 million in relation to changes in estimates on the decommissioning provision. This is offset by the disposal of the new building in Aberdeen, reducing PP&E by $78.1 million and depletion and depreciation charges of $309.7 million.

The PP&E capital additions, including carry arrangements, during the year are set out in the table below:

	2015 $ million
Dons hub	40.2
Thistle hub	105.1
Heather and Broom hub	16.7
Alma/Galia	147.8
Kraken	355.9
GKA	18.0
Scolty Crathes	22.7
PM8/Seligi	21.1
Tanjong Baram	60.4
Annan House – including fixtures & fittings	36.9
Other	1.7
	826.5

Intangible oil and gas assets
Intangible oil and gas assets decreased by $19.2 million to $46.5 million at 31 December 2015. The decrease mainly relates to an impairment of the Outwith Broom development costs, the disposal of the Norway licenses, write-offs relating to the relinquishment of licences and the sale of the Elke licence. There was also $16.2 million of intangible assets reclassified to tangible assets, with Scolty Crathes accounting for the majority of this balance. The remaining balance primarily relates to Kraken and the exploration of the Tyrone and Tiree areas and the Avalon development of which Summit is the operator.

Investments
The Group holds an investment of 8,045,198 new ordinary shares in Ascent Resources plc which is valued at $0.1 million based on the quoted bid price as at 31 December 2015.

Trade and other receivables
Trade and other receivables have increased by $65.7 million to $351.9 million at 31 December 2015 compared with $286.2 million in 2014. The increase is due to higher trade receivables as a result of December crude oil sales from the GKA and Alma/Galia fields, as well as an increase in joint venture debtors.

Cash and bank
The Group had $269.0 million of cash and cash equivalents at 31 December 2015 and $902.3 million was drawn down on the $1.2 billion RCF.

Provisions
The Group's decommissioning provision increased by $57.1 million to $506.8 million at 31 December 2015 (2014: $449.7 million). The increase is driven by the inclusion of a provision for Kraken to account for the subsea infrastructure that is now in place. Additionally, the Alma/Galia provision was increased to reflect the full cost of the estimate now that first oil has been achieved, and the estimates for Dons and GKA increased reflecting an increase in the estimate of the number of days to decommission a well.

The $80 million provision held at 31 December 2014 in respect of the Kraken reserves determination contingent carry has been released in full during the year-ended 31 December 2015, with a corresponding credit booked in PP&E. The reduction of this provision reflects management's view that the reserves determination process, which is required to use the Dated Brent forward curve, less an appropriate oil price discount, will result in no contingent carry. The reserves determination process which will ultimately determine whether any amount is payable, will commence in the 2nd quarter of 2016.

Income tax
The Group had no UK corporation tax or supplementary corporation tax liability at 31 December 2015, which remains unchanged from the prior year. The Group had PRT payable of nil at 31 December 2015 compared with a $4.4 million liability at 31 December 2014. The reduction in the liability is due to a significant reduction in PRT payable on income from Alba during 2015. The income tax asset at 31 December 2015 represents UK corporation tax receivable in relation to non-upstream activities.

Deferred tax
The Group's net deferred tax position has moved from a liability of $476.3 million at 31 December 2014, to an asset of $79.3 million at 31 December 2015. This movement is principally due to a $598.2 million reduction in the deferred tax liability following the impairment of the Group's oil and gas assets, a reduction in the deferred

tax liability of $56.8 million due to the reduction in statutory tax rates which is offset by a $239.1 million de-recognition of deferred tax assets due to the uncertainty of recovery. Total UK tax losses carried forward at the year-end amount to approximately $2,535.8 million.

Trade and other payables
Trade and other payables have increased to $543.5 million at 31 December 2015 from $429.1 million at 31 December 2014. This increase reflects both an increase in activity, principally related to Kraken, plus the impact of the milestone payments in relation to the Kraken and Scolty Crathes developments.

Other financial liabilities
Other current liabilities have decreased by $92.3 million to $9.2 million. The decrease relates to the Kraken 'firm' carry which has expired in the year, amounting to $66.2 million as well as a reduction in the value of commodity contracts and forward foreign currency contracts of $26.1 million.

Other non-current financial liabilities have decreased by $16.0 million to $7.7 million. The balance forms part of the agreement to acquire the PM8 assets in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments, the balance is the discounted carry.

Financial Risk Management

Oil price
The Group is exposed to the impact of changes in Brent crude oil prices on its revenue and profits. EnQuest's policy is to manage the impact of commodity prices to protect against volatility and to ensure the availability of cash flow for reinvestment in capital programmes that are driving business growth.

During 2014 the Company entered into commodity hedging contracts to hedge partially the exposure to fluctuations in the Brent oil price during 2015. The Group has actively managed this hedge portfolio during 2015, which has generated cash flows of $68.6 million and revenue of $264.0 million. Finance costs of $119.8 million have been recognised, representing the movement in the time value of put options which have been designated as effective hedges of production. The revenue recognised includes $119.1 million of gains realised in 2014 which were deferred until 2015 to match the timing of the underlying production the options were hedging. It also includes $123.6 million of non-cash gains in respect of the movement in the time value of options not designated as hedges.

At 31 December 2015, the Group's commodity derivative contracts includes bought put options over 8mmbbls, maturing throughout 2016 with an average strike price of $68/bbl and a positive fair value of $164.8 million (including deferred premiums owed by EnQuest of $53.5 million). The Group also has oil swap contracts to sell 2mmbbls at $66.64/bbl maturing throughout 2016 with a positive fair value of $49.7 million, and net sold call options which, based on the current forward curve, are not expected to result in any loss to the Group, and had a positive net fair value of $42.0 million (including deferred premiums owed to EnQuest of $44.4 million).

In addition to the realised gains and losses on these contracts, the Group's business performance results will be impacted by the amortisation of option premium over the life of these options. Amortisation of premium in respect of bought put options designated as effective hedges are recognised in finance costs, whilst the amortisation of all other option premium is recognised in revenue. Business performance results for 2015 include a charge in finance costs totalling $70.0 million in respect of bought put option premium amortisation, and revenue includes $111.6 million of sold option premium amortisation. The current hedging position will result in the realisation of a further $24.2 million of revenue and $35.7 million of finance costs throughout 2016.

Foreign exchange
EnQuest's functional currency is US Dollars. Foreign currency risk arises on purchases and the translation of assets and liabilities denominated in currencies other than US Dollars. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. The Group has hedged its exposures to Sterling, Norwegian Kroner and the Euro in line with this policy.

For the year-ended 31 December 2015, the Group's foreign currency hedging portfolio realised a loss of $3.2 million. Unrealised gains of $2.3 million were also recognised.

At the end of 2015, the Group had foreign exchange hedge contracts in place over £463.6 million with a protection rate of approximately $1.49/£, €13.0 million with a protection rate of approximately €1.12/£ and forward contracts over NOK74.6 million at a fixed rate of NOK7.84/£. These contracts had a negative net fair value of $9.2 million at 31 December 2015, and expire throughout 2016.

EnQuest continually reviews its currency exposures and when appropriate looks at opportunities to enter into foreign exchange hedging contracts.

Surplus cash balances are deposited as cash collateral against in-place letters of credit as a way of reducing interest costs. Otherwise cash balances can be invested in short term bank deposits and AAA-rated liquidity funds, subject to Board approved limits and with a view to minimising counterparty credit risks.

Going Concern

The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner.

Following the significant decline in oil prices, management has taken action to implement certain cost saving programmes, to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2016 and 2017. Management also successfully renegotiated temporary relaxation of certain covenants within the Revolving Credit Facility and Retail Bond.

At year end, the Group had headroom of $235 million on its borrowing facilities (excluding cash at hand) and headroom on its related financial covenants which are the same under both the Revolving Credit Facility and the Retail Bond. The Group's forecasts and projections take into account the actions described in the preceding paragraph, and reflect the assumptions that the Group's major projects remain on track.

This going concern assessment is prepared on the basis that the Facility providers continue to provide access to funding for the duration of the period under review. The forecasts which underpin this assessment, use an oil price assumption of $30/bbl throughout 2016, and $40/bbl in the first quarter of 2017, indicate that the Company will be able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of the Annual Report and Accounts. Furthermore, management is pursuing a number of options available to it to inject near-term liquidity, including asset sales and other funding options. The Directors therefore consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

KEY PERFORMANCE INDICATORS

	2015	2014
North Sea Lost Time Incident Frequency (LTIF)	2.14	0.00
Malaysia LTIF	0.00	0.00
2P reserves (MMboe)	216	220
Business performance data:		
Production (Boepd)	36,567	27,895
Revenue ($ million)	906.6	1,009.9
Realised blended average oil price per barrel (excluding hedging) ($)	50.9	100.6
Opex per barrel (production and transportation costs) ($)	29.7	42.1
Cash capex on property, plant and equipment oil and gas assets ($ million)	751.1	1,058.2
Reported data:		
Cash generated from operations ($ million)	221.7	632.2
Net debt ($ million)	(1,548.0)	(967.0)
EBITDA ($ million)	464.8	581.0

EnQuest PLC

Abridged Group Income Statement
For the year ended 31 December 2015

	2015			2014		
	Business Performance US$'000	***Depletion of fair value uplift, remeasurements, impairment and other exceptional items US$'000***	***Total for period US$'000***	***Business Performance US$'000***	***Depletion of fair value uplift, remeasurements, impairment and other exceptional items US$'000***	***Total for period US$'000***
Revenue	**906,582**	**1,932**	**908,514**	1,009,884	18,611	1,028,495
Cost of sales	**(733,408)**	**(15,130)**	**(748,538)**	(654,061)	(57,797)	(711,858)
Gross profit/(loss)	**173,174**	**(13,198)**	**159,976**	355,823	(39,186)	316,637
Exploration and evaluation expenses	**(325)**	**(9,059)**	**(9,384)**	(4,033)	(151,982)	(156,015)
Impairment on available for sale assets	**-**	**(566)**	**(566)**	-	(1,316)	(1,316)
Impairment of oil and gas assets	**-**	**(1,224,463)**	**(1,224,463)**	-	(678,801)	(678,801)
Negative goodwill	**-**	**-**	**-**	-	28,630	28,630
Loss on disposal of land and buildings	**-**	**(8,473)**	**(8,473)**	-	-	-
(Loss)/gain on disposal of intangible oil and gas assets	**-**	**(2,264)**	**(2,264)**	-	2,019	2,019
General and administration expenses	**(14,371)**	**(3,611)**	**(17,982)**	(16,464)	-	(16,464)
Other income	**15,431**	**1,936**	**17,367**	27,176		27,176
Other expenses	**-**	**(29,635)**	**(29,635)**	-	-	-
Profit/(loss) from operations before tax and finance income/(costs)	**173,909**	**(1,289,333)**	**(1,115,424)**	362,502	(840,636)	(478,134)
EBITDA*	**464,797**	**(40,722)**	**424,075**	580,993	(32,316)	548,677

Notes:
* EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation and foreign exchange movements. EBITDA is not a measure of financial performance under IFRS.

EnQuest PLC

OIL AND GAS RESERVES AND RESOURCES
At 31 December 2015

	UKCS		Other Regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and Probable Reserves (notes 1, 2, 3 & 6)					
At 1 January 2015		205	-	15	220
Revisions of previous estimates		(10)	-	3	(7)
Acquisitions and disposals (note 7)		2	-	-	2
Production:					
Export meter	(10)		(3)		
Volume adjustments (note 5)	-		1		
		(10)		(2)	(12)
Proven and Probable Reserves at 31 December 2015 (note 8)		**187**		**16**	**203**
Contingent Resources (notes 1, 2 & 4)					
At 1 January 2015		118		52	171
Revisions of previous estimates		(7)		-	(7)
Disposals (note 7)		(18)		-	(18)
Contingent Resources at 31 December 2015		**94**		**52**	**146**

Notes:

(1) Reserves are quoted on a net entitlement basis, resources are quoted on a net working interest basis.
(2) Proven and Probable Reserves and Contingent Resources have been assessed by the Group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data.
(3) The Group's Proven and Probable Reserves are based on the report audited by a recognised Competent Person in accordance with the definitions set out under the 2007 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers.
(4) Contingent Resources relate to technically recoverable hydrocarbons for which commerciality has not yet been determined and are stated on a best technical case or '2C' basis.
(5) Adjustment for export to sales volumes.
(6) All UKCS volumes are presented pre SVT value adjustment.
(7) Equity in Scolty and Crathes increased to 50%. Contingent resources: Cairngorm has been relinquished, exited from SW Heather and reduced equity in Crawford and Porter.
(8) The above proven and probable reserves include 6.8 MMboe that will be consumed as lease fuel on the Alma and Kraken FPSOs.
(9) The above table excludes Tanjong Baram in Malaysia.

EnQuest Oil and Gas Reserves as at 1 January 2016

	UKCS	Other Regions	Total
	MMboe	MMboe	MMboe
Proven and Probable Reserves (note 1)			
At 31 December 2015	187	16	203
Acquisitions and disposals (note 2)	13	-	13
Total as at 1 January 2016 (notes 2 and 3)	**200**	**16**	**216**

Notes:

(1) Notes 1, 2, 3 and 6 from the main resources table also apply to the reserves reported here.
(2) Equity in Kraken increased to 70.5% economically effective as of 1 January 2016.
(3) The above proven and probable reserves include 7.5 MMboe that will be consumed as lease fuel on the Alma and Kraken FPSOs.

EnQuest PLC

GROUP STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

	Notes	*2015* Business performance	Depletion of fair value uplift, re-measurements, impairments and other exceptional items (note 4)	Reported in year	*2014* Business performance	Depletion of fair value uplift, re-measurements, impairments and other exceptional items (note 4)	Reported in year
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue and other operating income	5(a)	**906,582**	**1,932**	**908,514**	1,009,884	18,611	1,028,495
Cost of sales	5(b)	**(733,408)**	**(15,130)**	**(748,538)**	(654,061)	(57,797)	(711,858)
Gross profit/(loss)		**173,174**	**(13,198)**	**159,976**	355,823	(39,186)	316,637
Exploration and evaluation expenses	5(c)	**(325)**	**(9,059)**	**(9,384)**	(4,033)	(151,982)	(156,015)
Impairment of investments	4	**-**	**(566)**	**(566)**	-	(1,316)	(1,316)
Impairment of oil and gas assets	4	**-**	**(1,224,463)**	**(1,224,463)**	-	(678,801)	(678,801)
Negative goodwill	4	**-**	**-**	**-**	-	28,630	28,630
Loss on disposal of land and buildings	4	**-**	**(8,473)**	**(8,473)**	-	-	-
Loss on disposal of intangible oil and gas assets	4	**-**	**(2,264)**	**(2,264)**	-	2,019	2,019
General and administration expenses	5(d)	**(14,371)**	**(3,611)**	**(17,982)**	(16,464)	-	(16,464)
Other income	5(e)	**15,431**	**1,936**	**17,367**	27,176	-	27,176
Other expenses	5(f)	**-**	**(29,635)**	**(29,635)**	-	-	-
Profit/(loss) from operations before tax and finance income/(costs)		**173,909**	**(1,289,333)**	**(1,115,424)**	362,502	(840,636)	(478,134)
Finance costs	6	**(176,384)**	**(50,097)**	**(226,481)**	(121,066)	18,698	(102,368)
Finance income	6	**964**	**-**	**964**	1,814	-	1,814
Profit/(loss) before tax		**(1,511)**	**(1,339,430)**	**(1,340,941)**	243,250	(821,938)	(578,688)
Income tax	7	**129,328**	**452,128**	**581,457**	(105,841)	508,120	402,279
Profit/(loss) for the year attributable to owners of the parent		**127,817**	**(887,302)**	**(759,484)**	137,409	(313,818)	(176,409)
Other comprehensive income for the year, after tax:							
Cash flow hedges:							
Reclassified to profit or loss	20			**(244,445)**			-
May be reclassified subsequently to profit or loss when specific conditions are met	20			**356,540**			156,281
Deferred tax on gain on cash flow hedges	7			**(37,283)**			(96,894)
Available-for-sale financial assets	13			**-**			(398)
Total other comprehensive income for the year				**74,812**			58,989
Total comprehensive income for the year, attributable to owners of the parent				**(684,672)**			(117,420)
Earnings per share	8	**US$**		**US$**	US$		US$
Basic		**0.165**		**(0.980)**	0.178		(0.228)
Diluted		**0.165**		**(0.980)**	0.178		(0.228)

The attached notes 1 to 28 form part of these Group financial statements.

EnQuest PLC

GROUP BALANCE SHEET
At 31 December 2015

	Notes	2015 US$'000	2014 Restated US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,436,672**	3,279,739
Goodwill	11	**189,317**	189,317
Intangible oil and gas assets	12	**46,530**	65,710
Investments	13	**123**	689
Deferred tax assets	7	**138,525**	40,401
Other financial assets	20	**15,262**	18,809
		2,826,429	3,594,665
Current assets			
Inventories	14	**67,629**	89,397
Trade and other receivables	15	**351,873**	286,227
Current tax receivable		**3,666**	11,199
Cash and cash equivalents	16	**269,049**	176,791
Other financial assets	20	**258,692**	100,932
		950,909	664,546
TOTAL ASSETS		**3,777,338**	4,259,211
EQUITY AND LIABILITIES			
Equity			
Share capital	17	**113,433**	113,433
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**134,199**	59,387
Share-based payment reserve		**(11,995)**	(17,696)
Retained earnings		**(231,293)**	528,191
TOTAL EQUITY		**667,199**	1,346,170
Non-current liabilities			
Borrowings	19	**907,073**	227,035
Bonds	19	**870,281**	882,561
Obligations under finance leases	24	**-**	36
Provisions	22	**686,577**	719,702
Other financial liabilities	20	**7,684**	23,694
Deferred tax liabilities	7	**59,198**	516,740
		2,530,813	2,369,768
Current liabilities			
Borrowings	19	**10,150**	-
Bonds	19	**12,319**	12,689
Trade and other payables	23	**543,518**	429,070
Obligations under finance leases	24	**36**	36
Other financial liabilities	20	**9,169**	101,478
Current tax payable		**4,134**	-
		579,326	543,273
TOTAL LIABILITIES		**3,110,139**	2,913,041
TOTAL EQUITY AND LIABILITIES		**3,777,338**	4,259,211

The attached notes 1 to 28 form part of these Group financial statements.
The financial statements were approved by the Board of Directors on 16 March 2016 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

EnQuest PLC

GROUP STATEMENT OF CHANGES IN EQUITY
At 31 December 2015

	Share capital US$'000	***Merger reserve US$'000***	***Cash flow hedge reserve US$'000***	***Available -for-sale reserve US$'000***	***Share-based payments reserve US$'000***	***Retained earnings US$'000***	***Total US$'000***
At 1 January 2014 (restated) [(i)]	113,433	662,855	-	398	(10,280)	704,600	1,471,006
Loss for the year	-	-	-	-	-	(176,409)	(176,409)
Other comprehensive income	-	-	59,387	(398)	-	-	58,989
Total comprehensive income for the year	-	-	59,387	(398)	-	(176,409)	(117,420)
Share-based payment	-	-	-	-	8,468	-	8,468
Shares purchased on behalf of Employee Benefit Trust	-	-	-	-	(15,884)	-	(15,884)
At 31 December 2014 (restated) [(i)]	**113,433**	**662,855**	**59,387**	**-**	**(17,696)**	**528,191**	**1,346,170**
Loss for the year	-	-	-	-	-	(759,484)	(759,484)
Other comprehensive income	-	-	74,812	-	-	-	74,812
Total comprehensive income for the year	-	-	74,812	-	-	(759,484)	(684,672)
Share-based payment	-	-	-	-	5,701	-	5,701
At 31 December 2015	**113,433**	**662,855**	**134,199**	**-**	**(11,995)**	**(231,293)**	**667,199**

[(i)] Opening retained earnings has been decreased by an amount of $13,703,000 related to the recognition of a deferred tax liability which arose in 2012 in respect of the KUFPEC farm-out receivable. The balance of deferred tax liabilities as at 31/12/14 has been increased by a corresponding amount.

The attached notes 1 to 28 form part of these Group financial statements.

EnQuest PLC

GROUP STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

	Notes	***2015 US$'000***	*2014 US$'000*
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		**(1,340,941)**	(578,688)
Depreciation	5(d)	**7,017**	7,438
Depletion	5(b)	**302,687**	244,531
Exploration costs impaired and written off	5(c)	**9,059**	152,550
Impairment of oil and gas assets	4	**1,224,463**	678,801
Loss on disposal of land and buildings	4	**8,473**	-
Write down of receivable	4	**4,350**	-
Write down of inventory	4	**13,598**	-
Loss on disposal of intangible oil and gas assets	4	**2,264**	(2,019)
Impairment on available-for-sale investments	4	**566**	1,316
Negative goodwill	4	**-**	(28,630)
Share-based payment charge	5(g)	**5,701**	8,468
Unwinding of discount on decommissioning provisions	6	**17,034**	12,093
Unwinding of other discount	6	**5,019**	-
Change in deferred consideration	22	**2,307**	-
Change in surplus lease provision	22	**26,560**	-
Hedge accounting deferral	20	**(119,055)**	-
Amortisation of option premiums	20	**(111,572)**	(6,820)
Unrealised gains on financial instruments	5(a)(b)	**(3,907)**	5,373
Unrealised exchange gains	5(e)	**(15,030)**	(27,176)
Net finance costs	6	**203,465**	88,461
Operating profit before working capital changes		**242,058**	555,698
(Increase)/decrease in trade and other receivables		**(76,429)**	91,384
Decrease/(increase) in inventories		**10,085**	(41,748)
Increase in trade and other payables		**45,980**	26,877
Cash generated from operations		**221,694**	632,211
Cash received on sale of financial instruments		**29,571**	100,126
Decommissioning spend		**(5,342)**	(7,177)
Income taxes paid		**(1,370)**	(12,503)
Net cash flows from operating activities		**244,553**	712,657
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(806,965)**	(990,563)
Purchase of intangible oil and gas assets		**(19,600)**	(69,749)
Proceeds from disposal of land and buildings		**68,425**	-
Proceeds from disposal of intangible oil and gas assets		**7,065**	2,162
Acquisitions		**(3,000)**	(58,233)
Prepayment of finance lease		**-**	(100,000)
Interest received		**419**	936
Net cash flows used in investing activities		**(753,656)**	(1,215,447)

EnQuest PLC

GROUP STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

	2015	*2014*
	US$'000	*US$'000*
FINANCING ACTIVITIES		
Proceeds from bank facilities	**736,058**	42,034
Repayment of bank facilities	**(48,491)**	-
Proceeds from bond issue	**-**	650,000
Shares purchased by Employee Benefit Trust	**-**	(15,884)
Repayment of obligations under finance leases	**(35)**	(35)
Interest paid	**(76,120)**	(43,582)
Other finance costs paid	**(15,191)**	(23,049)
Net cash flows from financing activities	**596,221**	609,484
NET INCREASE IN CASH AND CASH EQUIVALENTS	**87,118**	106,694
Net foreign exchange on cash and cash equivalents	**(1,510)**	(7,571)
Cash and cash equivalents at 1 January	**171,932**	72,809
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**257,540**	171,932
Reconciliation of cash and cash equivalents		
Cash and cash equivalents per cashflow statement	257,540	171,932
Restricted cash	11,509	4,859
Cash and cash equivalents per balance sheet	269,049	176,791

The attached notes 1 to 28 form part of these Group financial statements.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

1. Corporate information

EnQuest PLC (EnQuest or the Company) is a limited liability Company registered in England and is listed on the London Stock Exchange and Stockholm NASDAQ OMX market.

The Group's principal activities are the exploration for, and extraction and production of, hydrocarbons in the UK Continental Shelf and Malaysia.

The Group's financial statements for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 16 March 2016.

A listing of the Group companies is contained in note 28 to these Group financial statements.

2. Summary of significant accounting policies

Basis of preparation

The Group financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2015 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

The Group financial information has been prepared on a historical cost basis. The presentation currency of the Group financial information is United States dollars and all values in the Group financial information are rounded to the nearest thousand (US$'000) except where otherwise stated.

Going concern concept

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and there are no material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern. See the Financial Review for further details.

Basis of consolidation

Subsidiaries
Subsidiaries are all entities over which the Group has the sole right to exercise control over the operations and govern the financial policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing the Group's control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Intercompany profits, transactions and balances are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Unincorporated jointly controlled assets
Oil and gas operations are conducted by the Group as co-licensees in unincorporated joint ventures with other companies. The Group's financial statements reflect the relevant proportions of production, capital costs, operating costs and current assets and liabilities of the joint venture applicable to the Group's interests.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Those petroleum reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognised.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviewed the procedures used to measure the amounts to be recognised at the acquisition date, if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred then the gain is recognised in profit or loss.

2. Summary of significant accounting policies (continued)

Business combinations (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss, or as a change to other comprehensive income (OCI). If the contingent consideration is not within the scope of IAS 39, it is measured at fair value in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

New standards and interpretations

The Group has adopted new and revised IFRS's that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2015. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

Annual Improvements 2010-2012 Cycle
With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. None of the improvements had any impact on the Group's financial statements nor accounting policies.

Annual Improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014. They had no impact on the Group's financial statements nor the accounting policies.

Standards issued but not yet effective
Standards issued and relevant to the Group, but not yet effective up to the date of issuance of the Group's financial statements, are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. The Directors do not anticipate that the adoption of these standards will have a material impact on the Group's accounts in the period of initial application.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurement of financial liabilities.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases
IFRS 16 Leases was issued in January 2016, it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases, as is required under IAS 17 and, instead, introduces a single lease accounting model. The Group will assess the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 11 Joint Arrangements for Acquisition of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured in the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties share joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle
These improvements are effective for annual periods beginning on or after 1 Janaury 2016 and are not expected to have any impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets or disposal groups are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosure must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (eg in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significalty change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statements of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to the financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

2. Summary of significant accounting policies (continued)

Critical accounting estimates and judgements

The management of the Group has to make estimates and judgements when preparing the financial statements of the Group. Uncertainties in the estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's result. The most important estimates and judgements in relation thereto are:

Estimates in oil and gas reserves
The business of the Group is the exploration for, development of and production of oil and gas reserves. Estimates of oil and gas reserves are used in the calculations for impairment tests and accounting for depletion and decommissioning. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used in impairment testing, the anticipated date of decommissioning and the depletion charges in accordance with the unit-of-production method.

Estimates in impairment of oil and gas assets and goodwill
Determination of whether oil and gas assets or goodwill has suffered any impairment requires an estimation of the fair value less costs to dispose of the cash-generating units (CGU) to which oil and gas assets and goodwill have been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using discounted cashflow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy). Key assumptions and estimates in the impairment models relate to: commodity prices that are based on forward curve prices for the first three years and thereafter at US$70 per barrel inflated at 2% per annum from 2020; discount rates derived from the Group's post-tax weighted average cost of capital of 8.45% (2014: 8.8%); commercial reserves and the related cost profiles. As the production and related cashflows can be estimated from EnQuest's experience, management believes that the estimated cashflows expected to be generated over the life of each field is the appropriate basis upon which to assess goodwill and individual assets for impairment.

Determining whether an acquisition is a business combination or asset purchase
The Group analyses the transaction or event by applying the definition of a business combination, principally whether inputs, processes and outputs exist, including reviewing Group strategy, control and resources. Should the acquired business not be viewed as a business combination then it is accounted for as an asset purchase.

Determining the fair value of property, plant and equipment on business combinations
The Group determines the fair value of property, plant and equipment acquired based on the discounted cash flows at the time of acquisition, from the proven and probable reserves. In assessing the discounted cash flows, the estimated future cash flows attributable to the asset are discounted to their present value using a discount rate that reflects the market assessments of the time value of money and the risks specific to the asset at the time of the acquisition. In calculating the asset fair value the Group will apply the forward curve followed by an oil price assumption representing management's view of the long term oil price.

Decommissioning provision
Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis.

The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2% (2014: 2%) and an annual discount rate of 3% (2014: 3%).

Carry provision
Part of the consideration for the acquisition of the interest in the Kraken field in 2012 was through development carries. These were split into two parts, a firm carry where the amount was agreed and a contingent carry where the amounts are subject to a reserves determination. In assessing the amounts to be provided, management has made assumptions about the most likely amount outcome of the reserves determination. Future developments may require further revisions to the estimate. These would be recorded as a financial liability for any outstanding balance under the firm carry and as a provision for the contingent carry.

2. Summary of significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

Going concern

The going concern assumption is highly sensitive to economic conditions. The Company closely monitors and manages its funding position and liquidity risk throughout the year including monitoring forecast covenant results to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner.

Taxation

The Group's operations are subject to a number of specific rules which apply to exploration and production. In addition, the tax provision is prepared before the relevant companies have filed their tax returns with the relevant tax authorities and, significantly, before these have been agreed. As a result of these factors, the tax provision process necessarily involves the use of a number of estimates and judgements including those required in calculating the effective tax rate. In considering the tax on exceptionals, the Company applies the appropriate statutory tax rate to each exceptional item to calculate the relevant tax charge on exceptional items.

The Group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised, as well as the likelihood of future taxable profits.

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Group financial statements are presented in United States dollars, the currency which the Group has elected to use as its presentation currency.

In the accounts of the Company and its individual subsidiaries, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange on the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to profit and loss in the statement of comprehensive income.

Classification and recognition of assets and liabilities

Non-current assets and non-current liabilities including provisions consist, for the most part, solely of amounts that are expected to be recovered or paid more than 12 months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within 12 months after the balance sheet date.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas assets are depleted, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

Depreciation on other elements of property, plant and equipment is provided on a straight-line basis at the following rates:

Office furniture and equipment	20%
Fixtures and fittings	10%
Long leasehold land	period of lease

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

2. Summary of significant accounting policies (continued)
Property, plant and equipment (continued)

No depreciation is charged on assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the statement of comprehensive income when the item is derecognised. Gains are not classified as revenue.

Capitalised costs
Oil and gas assets are accounted for using the successful efforts method of accounting.

Intangible oil and gas assets
Expenditure directly associated with evaluation or appraisal activities is capitalised as an intangible asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are impaired and any impairment loss is recognised in the statement of comprehensive income. When exploration licences are relinquished without further development, any previous impairment loss is reversed and the carrying costs are written off through the statement of comprehensive income. When assets are declared part of a commercial development, related costs are transferred to property, plant and equipment oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the statement of comprehensive income.

Farm-outs - in the exploration and evaluation phase
The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

Oil and gas assets
Expenditure relating to development of assets including the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

Farm-outs - outside the exploration and evaluation phase
In accounting for a farm-out arrangement outside the exploration and evaluation phase, the Group:
- derecognises the proportion of the asset that it has sold to the farmee;
- recognises the consideration received or receivable from the farmee, which represents the cash received and/or the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor and/or any deferred consideration;
- recognises a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. A gain is only recognised when the value of the consideration can be determined reliably. If not, then the Group accounts for the consideration received as a reduction in the carrying amount of the underlying assets; and
- tests the retained interests for impairment if the terms of the arrangement indicate that the retained interest may be impaired.

The consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is recognised initially at its fair value by the Group. However, if payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue. Any part of the consideration that is receivable in the form of cash is treated as a financial asset and is accounted for at amortised cost.

Carry arrangements
Where amounts are paid on behalf of a carried party these are capitalised. Where there is an obligation to make payments on behalf of a carried party and the timing and amount are uncertain, a provision is recognised. Where the payment is a fixed monetary amount, a financial liability is recognised.

2. Summary of significant accounting policies (continued)
Property, plant and equipment (continued)

Asset swaps
Exchanges or part exchanges of tangible oil and gas assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the assets received nor the asset given up is realiably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the amount given up. A gain or loss is recognised on the difference between the carrying amount of the asset given up and the fair value of the asset received in profit or loss. Exchanges of intangible oil and gas assets would be measured at cost.

Changes in unit-of-production factors
Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

Borrowing costs
Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the statement of comprehensive income in accordance with the effective interest method.

Impairment of assets (excluding goodwill)
At each balance sheet date, the Group reviews the carrying amounts of its oil and gas assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

For the purposes of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit and related goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Where goodwill has been allocated to a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

2. Summary of significant accounting policies (continued)

Non-current assets held for sale (continued)

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date.

The Group's financial assets include cash and short term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss (FVTPL)
Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised immediately in the income statement for commodity derivatives and foreign exchange derivatives.

Financial assets designated upon initial recognition at FVTPL are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. Where the Group is unable to trade these financial assets or management's intention to sell them in the foreseeable future changes significantly, the Group may elect to reclassify these assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVTPL using the fair value option at designation. These instruments cannot be reclassified after initial recognition.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation and losses arising from impairment are included in the profit or loss.

Available-for-sale financial investments
Listed and unlisted shares held by the Group that are traded in an active market are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the available-for-sale reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available-for-sale reserve is reclassified to profit or loss.

Loans and receivables
These include trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

2. Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired where there is objective evidence of impairment that, as a result of one or more events that have occurred after the initial recognition of the asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an available-for-sale financial asset is considered to be impaired, cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss in the period. In respect of equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss but through other comprehensive income. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount is reduced through use of an allowance account and the amount of the loss is recognised in profit or loss.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The Group categorises derivatives as follows:

Fair value hedge
Changes in the fair value of derivatives that qualify as fair value hedging instruments are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability. Where put options are used as hedging instruments, only the intrinsic value of the option is designated as the hedge, with the time value recorded in finance costs.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. Amounts accumulated in shareholders' equity are transferred to the profit or loss in the period when the hedged item will affect the profit or loss. When the hedged item no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in shareholders' equity is transferred to profit and loss when the forecast transaction which was the subject of the hedge occurs.

Net investment hedge
Hedges of net investments in foreign operations are accounted for in a similar manner as cash flow hedges. The gain or loss accumulated in shareholders´ equity is transferred to the profit or loss at the time the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting
When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the profit or loss.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Inventories

Inventories of consumable well supplies are stated at the lower of cost and net realisable value, cost being determined on an average cost basis. Inventories of hydrocarbons are stated at the lower of cost and net realisable value.

2. Summary of significant accounting policies (continued)

Under/over-lift

Under or over-lifted positions of hydrocarbons are valued at market prices prevailing at the balance sheet date. An under-lift of production from a field is included in current receivables and valued at the reporting date spot price or prevailing contract price and an over-lift of production from a field is included in current liabilities and valued at the reporting date spot price or prevailing contract price.

Cash and cash equivalents

Cash and cash equivalents includes cash at bank, cash in hand, outstanding bank overdrafts and highly liquid interest bearing securities with original maturities of three months or less.

Equity

Share capital
The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of registered share capital of the parent Company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds.

Merger reserve
Merger reserve represents the difference between the market value of shares issued to effect business combinations less the nominal value of shares issued. The merger reserve in the Group financial statements also includes the consolidation adjustments that arise under the application of the pooling of interest method.

Cash flow hedge reserve
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve. Upon settlement of the hedged item, the change in fair value is transferred to the statement of comprehensive income.

Available-for-sale reserve
Gains and losses (with the exception of impairment losses) arising from changes in available-for-sale financial investments are recognised in the available-for-sale reserve until such time that the investment is disposed of, where it is reclassified to profit or loss.

Share-based payments reserve
Equity-settled share-based payment transactions are measured at the fair value of the services received, and the corresponding increase in equity is recorded directly at the fair value of the services received. The share-based payments reserve includes treasury shares.

Retained earnings
Retained earnings contain the accumulated results attributable to the shareholders of the parent Company.

Employee Benefit Trust

EnQuest PLC shares held by the Group are deducted from the share-based payments reserve and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of equity shares.

Provisions

Decommissioning
Provision for future decommissioning costs is made in full when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the statement of comprehensive income.

2. Summary of significant accounting policies (continued)
Provisions (continued)

Other

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable, a part of a financial asset) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the statement of comprehensive income.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are amortised over the life of the facility.

Borrowing costs are stated at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period to the net carrying amount of the financial liability where appropriate.

Bonds

Bonds are measured on an amortised cost basis.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

2. Summary of significant accounting policies (continued)

Revenue

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured.

Oil and gas revenues comprise the Group's share of sales from the processing or sale of hydrocarbons on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

Tariff revenue is recognised in the period in which the services are provided at the agreed contract rates.

Gains or losses arising on remeasurement of commodity derivatives designated at FVTPL are recognised immediately within the income statement.

Rental income is accounted for on a straight line basis over the lease terms and is included in revenue in the income statement.

Exceptional items

As permitted by IAS 1 (Revised), Presentation of Financial Statements, certain items are presented separately. The items that the Group separately presents as exceptional on the face of the statement of comprehensive income are those material items of income and expense which because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Depletion of fair value uplift to property, plant and equipment on acquiring strategic investments

IFRS requires that a fair value exercise is undertaken allocating the cost of acquiring controlling interests to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Any difference between the cost of acquiring the interest and the fair value of the acquired net assets, which includes identified contingent liabilities, is recognised as acquired goodwill. The fair value exercise is performed as at the date of acquisition.

The Directors have determined that for strategic investments it is important to identify separately the earnings impact of increased depletion arising from the acquisition date fair value uplifts made to property, plant and equipment over their useful economic lives. As a result of the nature of fair value assessments in the oil and gas industry the value attributed to strategic assets is subjective, based on a wide range of complex variables at a point in time. The subsequent depletion of the fair value uplifts bear little relationship to current market conditions, operational performance or cash generation. Management therefore reports and monitors the business performance of strategic investments before the impact of depletion of fair value uplifts to property, plant and equipment and the uplifts are excluded from the business result presented in the Group statement of comprehensive income.

Employee benefits

Short term employee benefits
Short term employee benefits such as salaries, social premiums and holiday pay, are expensed when incurred.

Pension obligations
The Group's pension obligations consist of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has no further payment obligations once the contributions have been paid. The amount charged to the statement of comprehensive income in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the balance sheet.

Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions) of EnQuest PLC.

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of EnQuest PLC (market conditions) or 'non-vesting' conditions, if applicable.

2. Summary of significant accounting policies (continued)
Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised over the period in which the relevant employees become fully entitled to the award (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the statement of comprehensive income.

Taxes

Income taxes
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is measured on an undiscounted basis using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legal right exists to offset current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Production taxes
In addition to corporate income taxes, the Group's financial statements also include and disclose production taxes on net income determined from oil and gas production.

Production tax relates to Petroleum Revenue Tax (PRT) and is accounted for under IAS 12 since it has the characteristics of an income tax as it is imposed under Government authority and the amount payable is based on taxable profits of the relevant fields. Current and deferred PRT is provided on the same basis as described above for income taxes.

Investment allowances
The UK taxation regime provides for a reduction in ring fence supplementary corporation tax where investments in new or existing UK assets qualify for a relief known as investment allowances. Investment allowances are only triggered when production from the field commences. The Group is eligible for a number of investment allowances which will materially reduce the level of future supplementary corporation taxation. Investment allowances are recognised as a reduction in the charge to taxation in the years claimed.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Segment information

Management have considered the requirements of IFRS 8, in regard to the determination of operating segments and concluded that the Group has two significant operating segments, being the exploration for, extraction and production of hydrocarbons in the North Sea and Malaysia. Operations are located and managed by location, therefore all information is being presented for geographical segments. The information reported to the Chief Operating Decision Maker does not include an analysis of assets and liabilities and accordingly this information is not presented.

Year ended 31 December 2015	North Sea US$'000	Malaysia US$'000	All other segments US$'000	Total segments US$'000	Adjustments and eliminations US$'000	Consolidated US$'000
Revenue:						
External customers	528,181	117,231	-	645,412	263,102	908,514
Total Group revenue	**528,181**	**117,231**	**-**	**645,412**	**263,102**	**908,514**
Income/(expenses)						
Depreciation and depletion	(258,462)	(51,208)	(34)	(309,704)	-	(309,704)
Impairment of investments	(566)	-	-	(566)	-	(566)
Exploration write offs and impairments	(9,059)	-	-	(9,059)	-	(9,059)
Loss on disposal of assets	(10,737)	-	-	(10,737)	-	(10,737)
Impairment of oil and gas assets	(1,216,650)	(7,813)	-	(1,224,463)	-	(1,224,463)
Segment profit/(loss)	**(1,365,816)**	**(7,275)**	**(4,520)**	**(1,377,611)**	**36,670**	**(1,340,941)**
Other disclosures:						
Capital expenditure	**758,990**	**82,964**	**112**	**842,066**	**-**	**842,066**

All other adjustments are part of the detailed reconciliations presented further below.

Year ended 31 December 2014	North Sea US$'000	Malaysia US$'000	All other segments US$'000	Total segments US$'000	Adjustments and eliminations US$'000	Consolidated US$'000
Revenue:						
External customers	924,800	53,335	-	978,135	50,360	1,028,495
Total Group revenue	**924,800**	**53,335**	**-**	**978,135**	**50,360**	**1,028,495**
Income/(expenses)						
Depreciation and depletion	(234,383)	(17,586)	-	(251,969)	-	(251,969)
Impairment of investments	(1,316)	-	-	(1,316)	-	(1,316)
Exploration write offs and impairments	(127,006)	(21,932)	(3,613)	(152,551)	-	(152,551)
Gain on disposal of assets	2,019	-	-	2,019	-	2,019
Impairment of oil and gas assets	(678,801)	-	-	(678,801)	-	(678,801)
Negative goodwill	-	28,630	-	28,630	-	28,630
Segment profit/(loss)	**(581,609)**	**22,121**	**(6,193)**	**(565,681)**	**(13,007)**	**(578,688)**
Other disclosures:						
Capital expenditure	**985,636**	**192,319**	**2,763**	**1,180,718**	**-**	**1,180,718**

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Segment information (continued)

Adjustments and eliminations

Finance income and costs and gains and losses on derivatives are not allocated to individual segments as the underlying instruments are managed on a Group basis.

Capital expenditure consists of property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

Inter-segment revenues are eliminated on consolidation.

Reconciliation of profit:

	Year ended 31 December 2015 US$'000	*Year ended 31 December 2014 US$'000*
Segment (loss)/profit	(1,377,611)	(565,681)
Finance income	964	1,814
Finance expense	(106,690)	(79,713)
Gains and losses on derivatives	142,396	64,892
(Loss)/profit before tax	**(1,340,941)**	(578,688)

Revenue from three customers (2014: two customers) each exceed 10% of the Group's consolidated revenue and amounted respectively to US$257,653,000 and US$170,177,000 arising from sales of crude oil in the North Sea operating segment (2014: US$472,729,000 and US$347,900,000) and US$101,646 in Malaysia operating segment.

All non-current assets of the Group are located in the United Kingdom except for US$177,337,000 (2014: US$170,948,000) located in Malaysia and nil (2014: US$4,823,000) located in Egypt.

4. Depletion of fair value uplift, remeasurements, impairments and other exceptional items

	Year ended 31 December 2015 US$'000	*Year ended 31 December 2014 US$'000*
Recognised in arriving at profit/(loss) from operations before tax:		
Unrealised mark-to-market losses/(gains)	**45,341**	(19,225)
Write off and impairment of investments, oil and gas and exploration and evaluation assets	**1,234,088**	832,099
Loss/(gain) on disposal of assets	**10,737**	(2,019)
Write down of receivable and inventory	**17,948**	-
Depletion of fair value uplift (note 5(b))	**3,786**	6,870
Change in surplus lease provision (note 5(d), (f) & 6)	**26,625**	-
SVT tariff operator reconciliation (note 5(b))	**-**	32,843
Negative goodwill	**-**	(28,630)
Other	**905**	-
	1,339,430	821,938
Tax on items above	**(634,405)**	(508,120)
Change in tax rate	**(56,790)**	-
Reduction in the carrying amount of deferred tax assets	**239,067**	-
	887,302	(313,818)

4. Exceptional items and depletion of fair value uplift (continued)

Unrealised mark-to-market gains and losses

These include unrealised mark-to-market gains and losses on commodity and foreign exchange instruments which are included within revenue (note 5(a)), costs of sales (note 5(b)) and finance expenses (note (6)). The separate presentation of these items best reflects the underlying performance of the business as it distinguishes between the temporary timing differences associated with re-measurement under IAS 39 rules and actual realised gains and losses.

In July 2015, contingent consideration which was receivable on the disposal of the Slovenian Petisovchi asset to Ascent in 2011 was agreed to be converted into a convertible loan note. The fair value of the convertible loan note at 31 December 2015, is US$250,000 (2014: nil). The impact in the income statement net of foreign exchange is US$272,000 (note 5(e)). The loan note is due to mature in November 2016.

Two other oil price related embedded derivatives have been recognised in 2015 with a fair value at 31 December 2015 of US$30,000 (note 5(f)) (2014: nil).

Write off and impairment of investments, oil and gas assets and evaluation and exploration assets

In the year ended 31 December 2015, as part of the annual impairment review process, impairment triggers were highlighted which led to a US$1,224,463,000 (2014: US$678,801,000) impairment charge (refer to note 10).

Exploration assets were reviewed and this has led to an impairment of US$1,854,000 (2014: US$151,982,000) and a write off of US$7,205,000 (2014: nil) (refer to note 12).

As consideration for the disposal of the held for sale Petisovci asset in 2011, the Group received an investment in Ascent Resources plc. The accounting valuation of this shareholding at 31 December 2015 resulted in a non-cash impairment of US$566,000 (note 13), which was recognised in the income statement (2014: US$1,316,000).

Loss/(gain) on disposal of assets

In October 2015, the Group disposed of its Norwegian licences for US$2,065,000, resulting in a loss of US$2,264,000 (note 12). In November 2014 the Group disposed of its Dutch asset P8a for US$2,162,000 resulting in a gain of US$2,019,000.

During the year ended 31 December 2015 the Group entered a sale and leaseback arrangement for the Aberdeen office. The loss of US$8,473,000 represents the difference between the sale proceeds of US$68,425,000 and the carrying value of the property.

Write down of receivable and inventory

Following EnQuest's exit from Tunisia, as at 31 December 2014 the Group had recorded a receivable of US$11,400,000 due from PA Resources (PAR). Since 27 March 2015, PAR has been in corporate reorganisation in accordance with the Swedish Company Reorganisation Act (1996:764). Since PAR commenced its reorganisation process, EnQuest negotiated a settlement agreement whereby in settlement of all amounts due from PAR, EnQuest will receive an amount held by PAR in Tunisia of TND13,771,642. EnQuest has security over the monies in this account, pending the approval of the Tunisian central Bank to covert these amounts into US Dollars and expatriate them out of Tunisia.

EnQuest has recognised a charge to the income statement totalling US$4,350,000 for the year ended 31 December 2015 which represents the difference between the value carried as at 31 December 2014 and the value of the bank account in Tunisian Dinars. The funds of US$6,782,000 are disclosed in the balance sheet at 31 December 2015 as Restricted Cash.

At 31 December 2015, due to the current economic climate, the value of certain items of drilling equipment held within inventory were reviewed against their recoverable values. This assessment has led to a write down of US$13,598,000 within the income statement.

Depletion of fair value uplift

Additional depletion arising from the fair value uplift of Petrofac Energy Developments Limited's (PEDL) oil and gas assets on acquisition of US$3,786,000 (2014: US$6,870,000) is included within cost of sales in the statement of comprehensive income.

4. Exceptional items and depletion of fair value uplift (continued)

Change in surplus lease provision
In June 2015, the Group entered a 20 year lease in respect of the Group's office building in Aberdeen with part of the building subsequently being sub-let. A provision has been recognised for the unavoidable costs in relation to the sub-let space due primarily to a rent free period offered (note 22). For the year ended 31 December 2015, US$3,611,000 has been recognised within rent expenses representing the initial recognition of the provision and the subsequent utilisation in 2015.

In addition, the Group has an agreement to hire the Stena Spey drilling vessel in 2016. Based on the current drilling forecasts for 2016, the vessel will not be fully utilised over this period and at 31 December 2015, a provision has been recognised for the unavoidable costs of US$22,948,000.

Negative goodwill
During the year ended 31 December 2014, the Group acquired the PM8/Seligi assets in Malaysia. The assets and liabilities on acquisition was fair valued and as the fair value was greater than the deemed consideration then a gain of US$28,630,000 was recognised.

Operator SVT tariff reconciliation
SVT terminal operating costs are allocated to East of Shetland users based on each user's delivered production throughput, as a percentage of the total terminal throughput. Costs are further allocated, based on a user's share of two associated services – Stabilised Crude Oil processing (SCO) & Liquified Petroleum Gas processing (LPG). SVT costs incurred during each month are provisionally allocated and charged to users based on a user's estimated share of costs (based on estimated throughput volumes per service). At year end, a process occurs whereby the terminal operator reconciles each user's estimated share of costs against its actual share (based on the actual total spend and actual terminal throughput for that given year).

In 2013, as a direct result of EnQuest's strong production performance versus other SVT users' lower than expected throughput in 2013, a higher base level cost at SVT and a small excess capacity charge, these all contributed to the exceptional value arising from the 2013 reconciliation. The charge recognised in the year ended 31 December 2014 in relation to the 2013 reconciliation process was $30,369,000.
There was no exceptional charge or credit in 2015.

Other
As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration was agreed based on Scolty/Crathes Field Development Plan (FDP) approval and 'first oil'. EnQuest paid US$3,000,000 in November 2015 as Field Development Plan (FDP) was achieved in October 2015. US$9,000,000 is due on the later of first oil or 30 January 2017 and US$8,000,000 due on the later of one year after first oil or 30 January 2018. In addition further payments will become due if the oil price rises above $75 per barrel on a linear basis up to $100 per barrel, up to a cap of US$20,000,000. The change has resulted from a higher likelihood of the payment being made due to FDP approval of Scolty/Crathes in October 2015. An option model has been used to value the element of the consideration that is contingent on the oil price (refer note 22).

The joint venture audit of the SB307/SB308 operator in Malaysia found an overcall, of which US$518,000 is our share and has been recognised in the income statement.

In addition there is an adjustment relating to the acquisition of PM8/Seligi assets in Malaysia in 2014. Information in respect of US$1,146,000 of a condensate/gas sales reserve was not available at the time of finalising the acquisition accounting. In line with IFRS 3 Business Combinations any adjustments to acquisition accounting are recognised in the income statement.

Tax
The tax impact on the exceptional items is calculated based on the tax rate applicable to each exceptional item.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Exceptional items and depletion of fair value uplift (continued)

Change in tax rate

Finance Act 2015 enacted a change in the mainstream corporation tax rate, reducing it from 20% to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. The impact of the change in tax rate in 2015 was a reduction in the tax credit of US$1,367,000. Finance Act 2015 also enacted a change in the supplementary charge tax rate, reducing it from 32% to 20% with effect from 1 January 2015 and a change to the petroleum revenue tax rate, reducing it from 50% to 35% with effect from 1 January 2016. The impact of the change in tax rate in 2015 was an increase in the tax credit of US$58,157,000.

Recoverability of deferred tax assets

At the year end the recovery of deferred tax assets was reviewed and this has led to a reduction in the carrying amount of US$239,067,000 due to uncertainty over the recoverability of these tax assets.

5. Revenue and expenses

(a) Revenue and other operating income

	Year ended 31 December 2015 US$'000	*Year ended 31 December 2014 US$'000*
Revenue from crude oil sales (i)	**895,508**	1,002,210
Revenue from gas sales	**1,917**	-
Tariff revenue	**6,581**	7,564
Other operating revenue	**8**	110
Rental income	**2,568**	-
Business performance revenue	**906,582**	1,009,884
Unrealised gains and losses on commodity derivative contracts (i)	**1,932**	18,611
Total revenue	**908,514**	1,028,495

(i) Included within revenue and other operating income are realised gains of US$261,170,000 (2014: US$31,749,000) and unrealised gains of US$1,932,000 on the Group's commodity derivatives contracts (2014: US$18,611,000) which are either ineffective for hedge accounting purposes or held for trading purposes.

(b) Cost of sales

	Year ended 31 December 2015 US$'000	*Year ended 31 December 2014 US$'000*
Cost of operations (i)	**336,924**	296,211
Tariff and transportation expenses	**69,053**	107,496
Change in lifting position	**23,918**	8,157
Crude oil inventory movement (note 14)	**4,612**	4,535
Depletion of oil and gas assets (note 10)	**298,901**	237,661
Business performance cost of sales	**733,408**	654,060
Depletion of oil and gas assets (note 10)	**3,786**	6,870
Write down of inventory	**13,598**	-
Tariff and transportation expenses	**-**	32,843
Unrealised gains and losses on foreign exchange derivative contracts (i)	**(2,254)**	18,085
Total cost of sales	**748,538**	711,858

(i) Included within cost of operations are realised losses of US$3,169,000 (2014: US$55,273,000 gains) and unrealised gains of US$2,254,000 (2014: US$18,085,000 losses) on foreign exchange derivative contracts ineffective for hedge accounting.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

5. Revenue and expenses (continued)

(c) Exploration and evaluation expenses

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Unsuccessful exploration expenditure written off (i) (note 12)	**7,205**	568
Impairment charge (i) (note 12)	**1,854**	151,982
Pre-licence costs expensed	**325**	3,465
	9,384	156,015

(i) Disclosed as exceptional costs in the income statement

(d) General and administration expenses

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Staff costs (note 5(g))	**98,861**	107,476
Depreciation (note 10)	**7,017**	7,438
Other general and administration costs (i)	**28,436**	26,624
Recharge of costs to operations and joint venture partners	**(116,332)**	(125,074)
	17,982	16,464

(i) US$3,611,000 disclosed as exceptional representing the movement on the surplus office lease provision

(e) Other income

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Net foreign exchange gains	**15,030**	27,176
Fair value movements on financial assets (i)	**272**	-
Acquisition accounting adjustment (i)	**1,146**	-
Other income (ii)	**919**	-
	17,367	27,176

(i) Disclosed as exceptional costs in the income statement
(ii) US$518,000 disclosed as exceptional costs in the income statement

(f) Other expenses

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Change in deferred consideration (i)	**2,307**	-
Fair value movements on financial liabilities (i)	**30**	-
Write down of receivable (i)	**4,350**	-
Surplus lease provision (i)	**22,948**	-
	29,635	-

(i) Disclosed as exceptional costs in the income statement

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

5. Revenue and expenses (continued)

(g) Staff costs

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Wages and salaries	**50,471**	46,203
Social security costs	**5,569**	3,540
Defined contribution pension costs	**3,748**	3,366
Expense of share-based payments (note 18)	**5,701**	8,468
Other staff costs	**3,175**	3,622
Total employee costs	**68,664**	65,199
Contractor costs	**30,197**	42,277
	98,861	107,476

The average number of persons employed by the Group during the year was 475 (2014: 356).

Details of remuneration, pension entitlement and incentive arrangements for each Director are set out in the Remuneration Report.

(h) Auditor's remuneration

The following amounts were payable by the Group to its auditor Ernst & Young LLP during the year:

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**514**	326
Fees payable to the Group's auditor and its associates for other services:		
The audit of the Group's subsidiaries	**112**	246
Audit related assurance services (interim review)	**67**	69
Tax advisory services	**50**	159
Other assurance services	**-**	137
	229	611
	743	937

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

6. Finance costs/income

	Year ended 31 December 2015	*Year ended 31 December 2014*
	US$'000	*US$'000*
Finance costs:		
Loan interest payable	**21,965**	5,915
Bond interest payable	**58,248**	46,200
Unwinding of discount on decommissioning provisions (note 22)	**17,034**	12,093
Unwinding of discount on other provisions (note 22)	**4,912**	-
Unwinding of discount on financial liabilities (note 20)	**323**	132
Fair value loss on financial instruments at fair value through profit or loss (note 20)	**70,022**	22,656
Finance charges payable under finance leases	**1**	2
Amortisation of finance fees on loans and bonds	**7,286**	6,771
Other financial expenses	**10,965**	11,768
	190,756	105,537
Less: amounts included in the cost of qualifying assets	**(14,372)**	(3,169)
Business performance finance expenses	**176,384**	121,066
Fair value loss on financial instruments at fair value through profit or loss (note 20)	**49,769**	(18,697)
Unwinding of discount on other provisions	**328**	-
	226,481	102,368
Finance income:		
Bank interest receivable	**287**	304
Unwinding of discount on financial asset (note 20)	**544**	877
Other financial income	**133**	633
	964	1,814

Fair value gains and losses on financial instruments at fair value through profit or loss relate to the movement in the time value portion of the fair value of commodity put option contracts where the intrinsic value has been designated as an effective hedge of production.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

7. Income tax

(a) Income tax

The major components of income tax expense are as follows:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Group statement of comprehensive income	***US$'000***	*US$'000*
Current income tax		
Current income tax charge	**(11)**	4,684
Adjustments in respect of current income tax of previous years	**320**	(6,540)
Current overseas income tax		
Current income tax charge	**11,898**	5,355
Adjustments in respect of current income tax of previous years	**(714)**	2,640
Total current income tax	**11,493**	6,139
Deferred income tax		
Relating to origination and reversal of temporary differences	**(511,356)**	(410,422)
Adjustments in respect of changes in tax rates	**(56,790)**	-
Adjustments in respect of deferred income tax of previous years	**(15,189)**	2,606
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**(12,663)**	1,685
Adjustments in respect of deferred income tax of previous years	**3,048**	(2,287)
Total deferred income tax	**(592,950)**	(408,418)
Income tax (credit)/expense reported in statement of comprehensive income	**(581,457)**	(402,279)

(b) Reconciliation of total income tax charge

A reconciliation between the income tax charge and the product of accounting profit multiplied by the UK statutory tax rate is as follows:

	Year ended 31 December 2015	*Year ended 31 December 2014*
	US$'000	*US$'000*
Loss before tax	**(1,340,941)**	(578,688)
Statutory rate of corporation tax in the UK of 50% (2014: 62%)	**(670,471)**	(358,787)
Supplementary corporation tax non-deductible expenditure	**11,636**	(11,612)
Non-deductible expenditure (i)	**85,081**	(12,805)
Non-dectuctible loss on disposals	**3,116**	-
Petroleum revenue tax (net of income tax benefit) (ii)	**(83,070)**	20,190
North Sea tax reliefs	**(109,111)**	(93,726)
Tax in respect of non-ring fence trade	**3,482**	32,078
Tax losses not recognised	**242,124**	12,082
Deferred tax rate changes	**(56,790)**	-
North Sea oil and gas decommissioning rate restriction	**-**	5,323
Adjustments in respect of prior years	**(12,535)**	(3,581)
Overseas tax rate differences	**1,747**	1,162
Share-based payments	**3,288**	5,336
Other differences	**46**	2,061
At the effective income tax rate of 43% (2014: 70%)	**(581,457)**	(402,279)

(i) movement is primarily the impact of non-tax deductible impairment of fixed assets
(ii) movement is primarily the release of deferred PRT liability following impairment of Thistle and Alba

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

7. Income tax (continued)

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		Group statement of comprehensive income	
	2015	2014 restated	**2015**	2014
	US$'000	*US$'000*	***US$'000***	*US$'000*
Deferred tax liability				
Accelerated capital allowances	**1,012,416**	1,589,226	**(576,810)**	35,246
Other temporary differences	**171,025**	301,578	**(166,678)**	43,116
	1,183,441	1,890,804		
Deferred tax asset				
Losses	**(1,000,559)**	(1,078,095)	**77,535**	(430,867)
Decommissioning liability	**(234,309)**	(203,496)	**(30,813)**	(30,986)
Other temporary differences	**(27,900)**	(132,873)	**103,816**	(24,927)
	(1,262,768)	(1,414,464)		
Deferred tax expense			**(592,950)**	(408,418)
Deferred tax (assets)/liabilities, net	**(79,327)**	476,340		
Reflected in balance sheet as follows:				
Deferred tax assets	**(138,525)**	(40,401)		
Deferred tax liabilities	**59,198**	516,741		
Deferred tax (assets)/liabilities, net	**(79,327)**	476,340		

Reconciliation of deferred tax assets/(liabilities), net

	2015	2014 Restated
	US$'000	*US$'000*
At 1 January[(i)]	**(476,340)**	(759,966)
Tax income during the period recognised in profit or loss	**592,950**	408,418
Tax expense during the period recognised in other comprehensive income	**(37,283)**	(96,894)
Deferred taxes acquired	**-**	(27,898)
At 31 December	**79,327**	(476,340)

[(i)] Opening deferred tax liabilities have been increased by an amount of $13,703,000 related to the recognition of a deferred tax liability which arose in 2012 in respect of the KUFPEC farm-out receivable. Opening retained earnings as at 1/1/14 has been increased by a corresponding amount.

7. Income tax (continued)

(d) Tax losses

The Group's deferred tax assets at 31 December 2015 are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised. In accordance with IAS 12 – 'Income Taxes' the group assessed the recoverability of its deferred tax assets at 31 December 2015 with respect to ring fence tax losses and allowances. The impairment model used to assess the extent to which it is appropriate to recognise the Group's UK tax losses as deferred tax assets was run, using an oil price assumption of Dated Brent forward curve in the years 2016 to 2019 followed by US$70/bbl 'real' terms thereafter. The results of the impairment model demonstrated that it was appropriate not to recognise deferred tax asset on US$478,133,000 (2014: nil) of the group's UK ring fence corporate tax losses at 31 December 2015 based on expected future profitability. The unrecognised loss amount results in a deferred tax charge of US$239,066,000 (2014: nil) for the year in respect of losses and allowances that were previously recognised as a deferred tax asset.

The Group has unused UK mainstream corporation tax losses of US$36,066,000 (2014: US$16,635,000) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

The Group realised a capital loss of US$3,320,000 in the year in relation to the disposal of a subsidiary company which has not been recognised at the balance sheet date due to the uncertainty of recovery.

The Group has unused overseas tax losses in Canada of approximately CAD$13,359,000 (2014: CAD$12,735,000) for which no deferred tax asset has been recognised at the balance sheet date. The tax losses in Canada have expiry periods of 20 years, none of which expire in 2016 and which arose following the change in control of the UK Stratic Group in 2010.

During the year the Group relinquished licences SB307 and SB308 in Malaysia and its only concession in Egypt. No deferred tax asset has been recognised at the balance sheet date in respect of tax losses of US$29,965,000 (2014: US$29,700,000) in Malaysia and US$3,133,000 (2014: US$3,300,000) in Egypt due to the uncertainty of recovery.

The Group has unused Malaysian income tax losses of US$2,052,000 (2014: nil) arising in respect of the Tanjong Baram RSC for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of recovery of these losses.

No deferred tax has been provided on unremitted earnings of overseas subsidiaries. Finance Act 2009 exempted foreign dividends from the scope of UK corporation tax where certain conditions are satisfied.

(e) Change in legislation

Finance Act 2015 enacted a change in the mainstream corporation tax rate, reducing it from 20% to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. The impact of the change in tax rate in 2015 was a reduction in the tax credit of US$1,367,000.

Finance Act 2015 also enacted a change in the supplementary charge tax rate, reducing it from 32% to 20% with effect from 1 January 2015 and a change to the petroleum revenue tax rate, reducing it from 50% to 35% with effect from 1 January 2016. The impact of the change in tax rate in 2015 was an increase in the tax credit of US$58,157,000.

(f) Factors affecting future tax charges

Finance Act 2015 replaced field allowances with a new investment allowance for expenditure incurred in the UKCS. The Group's existing field allowances have been reclassified as investment allowances as at 1 April 2015. Additional investment spend from 1 April 2015 should generate further investment allowance which, when activated, will reduce future ring fence profits chargeable to Supplementary Charge.

8. Earnings per share

The calculation of earnings per share is based on the profit after tax and on the weighted average number of Ordinary shares in issue during the period.

Potentially issuable ordinary shares are excluded from the diluted earnings per ordinary share calculation, as their inclusion would decrease the loss per ordinary share.

Basic and diluted earnings per share are calculated as follows:

	Profit /(loss) after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2015	*2014*	**2015**	*2014*	**2015**	*2014*
	US$'000	*US$'000*	***Million***	*Million*	***US$***	*US$*
Basic	**(759,484)**	(176,409)	**774.8**	774.1	**(0.980)**	(0.228)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**-**	-	**-**	-	**-**	-
Diluted	**(759,484)**	(176,409)	**774.8**	774.1	**(0.980)**	(0.228)
Adjusted (excluding exceptional items)	**127,817**	137,409	**774.8**	774.1	**0.165**	0.178
Diluted (excluding exceptional items)	**127,817**	137,409	**774.8**	774.1	**0.165**	0.178

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2015 (2014: nil). At 31 December 2015 there are no proposed dividends (2014: nil).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

10. Property, plant and equipment

	Land and buildings	*Oil and gas assets*	*Office furniture, fixtures and fittings*	*Total*
	US$'000	***US$'000***	***US$'000***	***US$'000***
Cost:				
At 1 January 2014	17,272	4,142,012	27,840	4,187,124
Additions	42,665	839,514	5,429	887,608
Acquired	-	206,215	-	206,215
Change in decommissioning provision	-	82,123	-	82,123
Change in cost recovery provision	-	163,334	-	163,334
At 31 December 2014 (restated) [(i)]	59,937	5,433,198	33,269	5,526,404
Additions	18,212	789,670	18,596	826,478
Change in cost carry liabilities	-	(78,045)	-	(78,045)
Disposal	(78,149)	-	-	(78,149)
Change in decommissioning provision	-	45,575	-	45,575
Change in cost recovery provision	-	(41,125)	-	(41,125)
Reclassification from intangible fixed assets (note 12)	-	16,215	-	16,215
At 31 December 2015	**-**	**6,165,488**	**51,865**	**6,217,353**
Depletion and depreciation:				
At 1 January 2014	-	1,301,538	14,357	1,315,895
Charge for the year	110	244,531	7,328	251,969
Impairment charge for the year	-	678,801	-	678,801
At 31 December 2014	110	2,224,870	21,685	2,246,665
Charge for the year	41	302,687	6,976	309,704
Impairment charge for the year	-	1,224,463	-	1,224,463
Disposal	(151)	-	-	(151)
At 31 December 2015	**-**	**3,752,020**	**28,661**	**3,780,681**
Net carrying amount:				
At 31 December 2015	**-**	**2,413,468**	**23,204**	**2,436,672**
At 31 December 2014	59,827	3,208,328	11,584	3,279,739
At 1 January 2014	17,272	2,840,474	13,483	2,871,229

10. Property, plant and equipment (continued)

(i) At 31 December 2014 the provision for KUFPEC's cost recovery protection mechanism was presented net within property, plant and equipment. The numbers presented above have been restated to show the balance of property, plant and equipment gross of this provision. For further information refer to note 22.

On 28 August 2015, the Group completed the sale and leaseback of its Aberdeen property, Annan House for US$69,525,000 resulting in a loss on disposal of US$8,473,000.

The change in carry liabilities is principally due to management's reassessment of 2P reserves to be used in the calculation for the Kraken carry provision resulting in a derecognition of the US$80,000,000 provision (see note 22). In addition, there has been a change in the estimate required for the Malaysian cost carry of US$1,955,000 (see note 20(f)).

On 12 October 2015, the Scolty/Crathes field received Field Development Plan (FDP) approval. Costs of US$16,052,000 previously held within exploration assets have been reclassified as a tangible oil and gas asset.

In March 2014, the Group completed the acquisition of Centrica North Sea Oil Limited (Centrica's) share of the UKCS Greater Kittiwake Area (GKA) assets as well as its 100% interest in the Kittiwake to Forties oil export pipeline. In June 2014, EnQuest completed the acquisition of ExxonMobil Exploration and Production Malaysia Inc's (ExxonMobil's) interest in the Seligi oil field and the PM8 PSC, located offshore Malaysia. The costs relating to these acquisitions are included within 'Acquired' costs.

The impairment charge in the year ended 31 December 2015, relate to Heather/Broom (US$120,291,000), Thistle (US$263,061,000), Dons (US$182,433,000), Alma/Galia (US$595,542,000), Alba (US$25,324,000), all part of the UKCS CGU and also a charge relating to the Malaysian asset, Tanjong Baram (US$7,813,000,000) These assets have recoverable amounts of US$55,964,000, US$100,861,000, US$13,168,000, US$215,250,000, US$(1,327,000) and US$70,731,000 respectively. The impairment was principally due to the continuing fall in the oil price during 2015 and the resulting reduction in future revenues and 2P reserves, together with the impact of cutting the capital programme, in response to the changing economic conditions. For information on significant estimates and judgements made in relation to impairments see Impairment of oil and gas assets and goodwill within note 2 Critical Accounting Estimates and Judgements.

During the year ended 31 December 2014, there were impairments in the Alma/Galia and Don fields of US$678,801,000 (US$256,896,000 on a post tax basis). The impairment was principally due to the significant fall in the oil price in the latter part of 2014. Other factors contributing to the impairment included delays in first oil and cost increases in the case of Alma/Galia, together with the impact of cutting the capital programme, in response to the changing economic conditions. The only asset with a material impairment was Alma/Galia, where it was written down by US$675,600,000 to the estimate of its recoverable value of US$832,900,000.

The net book value at 31 December 2015 includes US$1,009,842,000 (2014: US$1,504,172,000) of pre-development assets and development assets under construction which are not being depreciated.

The amount of borrowing costs capitalised during the year ended 31 December 2015 was US$14,372,000 (2014: US$3,169,000) and relate to the Alma/Galia and Kraken development projects as well as the construction of the new office building. The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 2.03% (2014: 1.54%).

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2015 was US$141,000 (2014: US$141,000) of oil and gas assets.

11. Goodwill

A summary of goodwill is presented below:

	2015 US$'000	*2014 US$'000*
Cost		
At 1 January	**189,317**	107,760
Additions	**-**	81,557
At 31 December	**189,317**	189,317
Provision for impairment		
At 1 January and 31 December	**-**	-
Net carrying amount	**189,317**	**189,317**

The balance at 1 January 2014 represents goodwill acquired on the acquisition of Stratic and PEDL in 2010. The additions during the year ended 31 December 2014 represent the acquisition of the Greater Kittiwake Area asset in 2014.

Goodwill acquired through business combinations has been allocated to a single cash-generating unit (CGU), the UKCS, and therefore the lowest level that goodwill is reviewed.

Impairment testing of oil and gas assets and goodwill
In accordance with IAS 36 Impairment of Assets, goodwill and oil and gas assets have been reviewed for impairment at the year end. In assessing whether goodwill and oil and gas assets have been impaired, the carrying amount of the CGU for goodwill and at field level for oil and gas assets, is compared with their recoverable amounts.

The recoverable amounts of the CGU and fields have been determined on a fair value less costs to sell basis. Discounted cash flow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy) have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax and post-decommissioning basis discounted at the Group's post-tax weighted average cost of capital (WACC) of 8.45% (2014: 8.8%). Risks specific to assets within the CGU are reflected within the cash flow forecasts.

Key assumptions used in calculations
The key assumptions required for the calculation of the CGU are:

- oil prices;
- production volumes;
- discount rates; and
- opex, capex and decommissioning costs.

Oil prices are based on Dated Brent forward price curves for the first three years and thereafter at US$70 per barrel inflated at 2% per annum from 2020.

Production volumes are based on life of field production profiles for each asset within the CGU. The production volumes used in the calculations were taken from the report prepared by the Group's independent reserve assessment experts.

Opex, capital expenditure and decommissioning costs are derived from the Group's Business Plan adjusted for changes in timing based on the production model used for the assessment of 2P reserves.

11. Goodwill (continued)

The discount rate reflects management's estimate of the Group's WACC. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings. Segment risk is incorporated by applying a beta factor based on publicly available market data. The post-tax discount rate applied to the Group's post-tax cash flow projections was 8.45%.

Sensitivity to changes in assumptions

The Group's value is highly sensitive, inter alia, to oil price achieved and production volumes. The recoverable amount (NPV) of the CGU would be equal to the carrying amount of goodwill if either the oil price or production volumes (on a CGU weighted average basis) were to fall by 10% from the prices outlined above. Goodwill would need to be fully impaired if the oil price or production volumes (on a CGU weighted average basis) were to fall by 35% from the prices outlined above. The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant. In reality, management would be highly likely to take steps to mitigate the value impact of further falls in the oil price by cutting supply chain costs.

12. Intangible oil and gas assets

	Cost US$'000	Impairment US$'000	NBV US$'000
At 1 January 2014	228,769	(97,895)	130,874
Additions	67,095	-	67,095
Acquisition of interests in licences	19,800	-	19,800
Write-off of relinquished licences previously impaired	(8,423)	8,423	-
Disposals	(143)	-	(143)
Unsuccessful exploration expenditure written off	(568)	-	(568)
Change in decommissioning provision	634	-	634
Impairment charge for the year	-	(151,982)	(151,982)
At 31 December 2014	307,164	(241,454)	65,710
Additions	15,588	-	15,588
Disposal of interests in licences	(9,329)	-	(9,329)
Write-off of relinquished licences previously impaired	(63,123)	63,123	-
Unsuccessful exploration expenditure written off	(7,205)	-	(7,205)
Change in decommissioning provision	(165)	-	(165)
Reclassified to tangible fixed assets (note 10)	(16,215)	-	(16,215)
Impairment charge for the year	-	(1,854)	(1,854)
At 31 December 2015	**226,715**	**(180,185)**	**46,530**

On 10 September 2015, the Group acquired an additional 10% working interest in the Scolty/Crathes field. On FDP approval in October 2015, the total exploration costs of Scolty/Crathes were reclassified to tangible oil and gas assets (note 10).

In October 2015, the Group disposed of its 35% interest in the Norwegian licences PL 758 and PL800 and its 50% interest in the PL760 and PL760B for US$2,065,000, resulting in a loss of US$2,264,000. In November 2014 the Group disposed of its Dutch asset P8a for US$2,162,000 resulting in a gain of US$2,019,000.

In 2015, the Group exited from its interest in Egypt and costs of US$5,000,000 refunded are included within disposal of interests in licences above.

In the year ended 31 December 2015, costs were written off primarily in relation to the Cairngorm and Elke licences.

On 31 October 2015, the Group completed its withdrawal from SB307/308 blocks in Malaysia. Costs associated with SB307 and SB308 were impaired in the year ended 31 December 2014.

The impairment charge for the year ended 31 December 2014 included costs relating to Crawford Porter, Kildrummy, Cairngorm and some GKA acreage in the UK. In current market conditions some of those interests do not merit sufficient funds to progress them to economic development. In addition, costs relating to the SB307 and SB308 blocks in Malaysia (due to the unsuccessful exploration well) and costs incurred since acquisition on the NWO block in Egypt were impaired. The costs relating to the South West Heather licence were also impaired.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

12. Intangible oil and gas assets (continued)

Included within the acquisition of the GKA assets are exploration licences and an allocation of the fair value is included in acquisition of interests above for the year ended 31 December 2014.

13. Investments

	US$'000
Cost	
At 1 January 2014, 31 December 2014 and 31 December 2015	19,231
Provision for impairment	
At 1 January 2014	(16,828)
Impairment charge for the year (i)	(1,714)
At 31 December 2014	(18,542)
Impairment charge for the year	(566)
At 31 December 2015	**(19,108)**
Net carrying amount:	
At 31 December 2015	**123**
At 31 December 2014	689
At 1 January 2014	2,403

(i) US$1,316,000 was recognised in the income statement and US$398,000 reversing the available-for-sale reserve in 2014.

The investment relates to ordinary shares in Ascent acquired in 2011. In November 2015, Ascent agreed a capital re-organisation whereby new shares were issued and the share capital was re-denominated. The impact was to reduce EnQuest's holding from 160,903,958 0.1p ordinary shares to 8,045,198 0.2p ordinary shares.

The accounting valuation of the Group's shareholding (based on the quoted share price of Ascent) resulted in an additional non-cash impairment of US$566,000 in the year to 31 December 2015 (2014: impairment of US$1,714,000).

14. Inventories

	2015	*2014*
	US$'000	*US$'000*
Crude oil	**11,477**	11,695
Well supplies	**56,152**	77,702
	67,629	89,397

NOTES TO THE GROUP FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. Trade and other receivables

	2015	*2014*
	US$'000	*US$'000*
Current		
Trade receivables	**71,740**	53,812
Joint venture receivables	**110,792**	61,000
Under-lift position	**14,011**	15,010
VAT receivable	**16,838**	20,818
Other receivables	**26,246**	18,716
	239,627	169,356
Prepayments and accrued income	**112,246**	116,871
	351,873	286,227

Trade receivables are non-interest bearing and are generally on 15 to 30 day terms.

Trade receivables are reported net of any provisions for impairment. As at 31 December 2015 no impairment provision for trade receivables was necessary (2014: nil).

Joint venture receivables relate to billings to joint venture partners and were not impaired.

Under-lift is valued at net realisable value being the lower of cost and net realisable value.

As at 31 December 2015 and 31 December 2014 no other receivables were determined to be impaired.

The carrying value of the Group's trade, joint venture and other receivables as stated above is considered to be a reasonable approximation to their fair value largely due to their short term maturities.

16. Cash and cash equivalents

The carrying value of the Group's cash and cash equivalents is considered to be a reasonable approximation to their fair value due to their short term maturities. Included within the cash balance at 31 December 2015 is restricted cash of US$11,509,000 (2014: US$27,183,000). US$6,782,000 of this relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2014: US$22,324,000) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

17. Share capital

The share capital of the Company as at 31 December was as follows:

	2015	*2014*
Authorised, issued and fully paid	***US$'000***	*US$'000*
802,660,757 (2014: 802,660,757) Ordinary shares of £0.05 each	**61,249**	61,249
Share premium	**52,184**	52,184
	113,433	113,433

The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

There were no new issues of shares during 2015 or 2014.

At 31 December 2015 there were 26,702,378 shares held by the Employee Benefit Trust (2014: 29,691,691), the decrease is due to shares used to satisfy awards made under the Company's share-based incentive schemes.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

18. Share-based payment plans

On 18 March 2010, the Directors of the Company approved three share schemes for the benefit of Directors and employees, being a Deferred Bonus Share Plan, a Restricted Share Plan and a Performance Share Plan. A Sharesave Plan was approved in 2012. The grant values for all schemes are based on the average share price from the three days preceding the date of grant.

Deferred Bonus Share Plan (DBSP)

Selected employees are eligible to participate under this scheme. Participants may be invited to elect or, in some cases, be required, to receive a proportion of any bonus in Ordinary shares of EnQuest (invested awards). Following such award, EnQuest will generally grant the participant an additional award over a number of shares bearing a specified ratio to the number of his or her invested shares (matching shares). The awards granted will vest 33% on the first anniversary of the date of grant, a further 33% after year two and the final 34% on the third anniversary of the date of grant. The invested awards are fully recognised as an expense in the period to which the bonuses relate. The costs relating to the matching shares are recognised over the vesting period and the fair values of the equity-settled matching shares granted to employees are based on quoted market prices adjusted for the trued up percentage vesting rate of the plan.

Details of the fair values and assumed vesting rates of the DBSP scheme are shown below:

	Weighted average fair value per share	*Trued up vesting rate*
2015 awards	39p	99%
2014 awards	127p	91%
2013 awards	127p	96%

The following shows the movement in the number of share awards held under the DBSP scheme outstanding:

	2015 Number*	*2014 Number**
Outstanding at 1 January	**1,601,635**	1,484,001
Granted during the year	**1,860,580**	1,021,538
Exercised during the year	**(859,568)**	(741,856)
Forfeited during the year	**(48,378)**	(162,048)
Outstanding at 31 December	**2,554,269**	1,601,635

* Includes invested and matching shares.

There were no share awards exercisable at either 31 December 2015 or 2014.

The weighted average contractual life for the share awards outstanding as at 31 December 2015 was 1.1 years (2014: 0.9 years).

The charge recognised in the 2015 statement of comprehensive income in relation to matching share awards amounted to US$1,095,000 (2014: US$2,095,000).

18. Share-based payment plans (continued)

Restricted Share Plan (RSP)

Under the Restricted Share Plan scheme, employees are granted shares in EnQuest over a discretionary vesting period at the direction of the Remuneration Committee of the Board of Directors of EnQuest, which may or may not be subject to the satisfaction of performance conditions. Awards made under the RSP will vest over periods between one and four years. At present there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future. The fair value of the awards granted under the plan at various grant dates during the year are based on quoted market prices adjusted for an assumed vesting rate over the relevant vesting period.

Details of the fair values and assumed vesting rate of the RSP scheme are shown below:

	Weighted average fair value per share	*Trued up vesting rate*
2015 awards	39p	99%
2014 awards	124p	95%
2013 awards	128p	78%
2012 awards	123p	51%

The following table shows the movement in the number of share awards held under the RSP scheme outstanding:

	2015 Number	*2014 Number*
Outstanding at 1 January	**5,271,022**	8,379,718
Granted during the year	**1,390,000**	288,862
Exercised during the year	**(767,124)**	(2,759,692)
Forfeited during the year	**(78,206)**	(637,866)
Outstanding at 31 December	**5,815,692**	5,271,022
Exercisable at 31 December	**3,021,061**	3,002,311

The weighted average contractual life for the share awards outstanding as at 31 December 2015 was 1.8 years (2014: 1.3 years).

The charge recognised in the year ended 31 December 2015 amounted to US$879,000 (2014: US$1,637,000).

Performance Share Plan (PSP)

Under the Performance Share Plan, the shares vest subject to performance conditions. The PSP share awards granted had three sets of performance conditions associated with them. One third of the award relates to Total Shareholder Return (TSR) against a comparator group of 36 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; one third relates to production growth per share; and one third relates to reserves growth per share, over the three year performance period. Awards will vest on the third anniversary.

The fair value of the awards granted under the plan at various grant dates during the year are based on quoted market prices adjusted for an assumed vesting rate over the relevant vesting period.

18. Share-based payment plans (continued)
Performance Share Plan (PSP) (continued)

Details of the fair values and assumed vesting rate of the PSP scheme are shown below:

	Weighted average fair value per share	*Trued up vesting rate*
2015 awards	39p	96%
2014 awards	127p	88%
2013 awards	127p	82%

The following table shows the movement in the number of share awards held under the PSP scheme outstanding:

	2015 Number	*2014 Number*
Outstanding at 1 January	**11,091,120**	8,299,026
Granted during the year	**12,125,800**	4,905,547
Exercised during the year	**(1,346,663)**	(332,920)
Forfeited during the year	**(1,522,233)**	(1,780,533)
Outstanding at 31 December	**20,348,024**	11,091,120
Exercisable at 31 December	**1,178,512**	605,679

The weighted average contractual life for the share awards outstanding as at 31 December 2015 was 1.7 years (2014: 1.6 years).

The charge recognised in the year ended 31 December 2015 amounted to US$3,717,000 (2014: US$4,711,000).

Sharesave plan
The Group operates an approved savings related share option scheme. The plan is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save over a specified period, either three or five years. The right to exercise the option is at the employee's discretion at the end of the period previously chosen, for a period of six months.

Details of the fair values and assumed vesting rates of the Sharesave Plan are shown below:

	Weighted average fair value per share	*Trued up vesting rate*
2015 awards	6p	88%
2014 awards	38.7p	13%
2013 awards	20p	13%

The following shows the movement in the number of share options held under the Sharesave Plan outstanding:

	2015 Number	*2014 Number*
Outstanding at 1 January	**1,315,755**	1,086,120
Granted during the year	**7,653,785**	1,017,570
Exercised during the year	**-**	(13,000)
Forfeited during the year	**(2,020,298)**	(774,935)
Outstanding at 31 December	**6,949,242**	1,315,755

18. Share-based payment plans (continued)

Sharesave plan (continued)

There were no share options exercisable at either 31 December 2015 or 2014.

The weighted average contractual life for the share options outstanding as at 31 December 2015 was 2.9 years (2014: 2.6 years).

The charge recognised in the 2015 statement of comprehensive income amounted to US$10,000 (2014: US$25,000).

The Group has recognised a total charge of US$5,701,000 (2014: US$8,468,000) in the statement of comprehensive income during the year, relating to the above employee share-based schemes.

19. Loans and borrowings

Revolving credit facility

At 31 December 2015, the Group had a six year US$1,700,000,000 multi-currency revolving credit facility, comprising of a committed amount of US$1,200,000,000 (subject to the level of reserves) with a further US$500,000,000 available through an accordion structure.

Interest on the revolving credit facility is payable at LIBOR plus a margin of 2.50% to 4.25%, dependent on specified covenant ratios.

At 31 December 2015, US$902,277,000 was drawn down under the Group's facility agreement (2014: US$217,649,000) and LoC utilisation was US$7,718,000 (2014: US$149,395,000). Unamortised facility fees of US$19,167,000 have been netted off against the drawdowns in the balance sheet (2014: US$24,168,000).

Tanjong Baram project finance loan

During the year ended 31 December 2015, the Group entered a five year US$35,000,000 loan facility in Malaysia. Interest is payable at USD LIBOR plus a margin of 2.25%. Unamortised fees of US$886,000 have been netted off against the loan balance in the balance sheet.

Bonds

In April 2014, the Group issued a US$650,000,000 high yield bond which matures in 2022 and pays a coupon of 7% payable bi-annually in April and October. The bond is carried at its amortised cost of US$651,120,000 (2014: US$651,077,000).

At 31 December 2015, the Group also had a 5.5% Sterling Retail Bond of £155,245,000. The bond pays a coupon of 5.5% payable bi-annually in February and August and matures in 2022. The bond had a fair value of US$95,508,000 (2014: US$169,010,000) but is carried at its amortised cost of US$231,480,000 (2014: US$244,173,000). The fair value of the Sterling Retail Bond has been determined by reference to the price available from the market on which the bond is traded.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

20. Other financial assets and financial liabilities

(a) Summary

	2015 US$'000	*2014 US$'000*
Financial instruments at fair value through other comprehensive income		
Current assets		
Cash flow hedges:		
Commodity contracts	**214,499**	87,299
Interest rate swap	**47**	-
	214,546	-
Current liabilities		
Cash flow hedges:		
Forward foreign currency contracts	**1,023**	-
Financial instruments at fair value through profit or loss		
Current assets		
Derivatives not designated as hedges:		
Commodity contracts	**36,511**	7,930
Forward foreign currency contracts	**-**	2,409
	36,511	10,339
Current liabilities		
Derivatives not designated as hedges:		
Commodity contracts	**-**	22,445
Forward foreign currency contracts	**8,143**	12,805
	8,143	35,250
Non-current liabilities		
Derivatives not designated as hedges:		
Commodity contracts	**-**	18,041
Loans and receivables		
Current assets		
Other receivable	**7,635**	3,294
Non-current assets		
Other receivable	**15,262**	18,809
Other financial liabilities at amortised cost		
Current liabilities		
Other liability	**3**	66,228
Non-current liabilities		
Other liability	**7,684**	5,653
Total current assets	**258,692**	100,932
Total non-current assets	**15,262**	18,809
Total assets	**273,954**	119,741
Total current liabilities	**9,169**	101,478
Total non-current liabilities	**7,684**	23,694
Total liabilities	**16,853**	125,172

20. Other financial assets and financial liabilities (continued)

(b) Commodity contracts

The Group uses put and call options and swap contracts to manage its exposure to the oil price.

Oil price hedging

Purchased put options are designated as hedges of the Group's production. Where these contracts are effective from a hedge accounting perspective, any intrinsic value gains are deferred until such time as the production to which they relate is sold. Movements in the time value of these options are recognised in finance costs. A total of 10,000,000 barrels of 2015 production, was hedged via the purchase of put options, with a strike price of US$65.00/bbl. Gains totalling US$127,846,000 were included in realised revenue in the income statement in respect of these matured options. A total of 10,000,000 barrels of 2016 production was hedged via similar contracts, with strike prices of between US$67/bbl and US$69/bbl. During July 2015 the Group closed put options which were hedging 2,000,000 barrels of 2016 production, realising US$16,755,000 in cash, and replaced these with oil swap contracts to sell 2,000,000 barrels in 2016 at a fixed price of US$67/bbl.

As at 31 December 2015 the Group held put options over 8,000,000 bbls maturing in 2016. The mark to market of the intrinsic value portion of these contracts at 31 December 2015 was US$217,160,000, which has been deferred as it relates to contracts hedging future production. Mark to market losses on the time value element of these put options, totalling US$119,791,000 have been recognised in finance costs. Of this amount, US$70,022,000 has been recognised within the Group's "business performance" results as it relates to the amortisation of the option premium paid, over the life of the option. The balance of the mark to market losses have been recognised as an exceptional charge in line with the Group's accounting policy.

The fair value of the put options as at 31 December 2015 was US$164,763,000.

In addition, in 2014 gains totalling US$119,054,689 were realised when put options hedging 8,000,000 bbls of 2015 production were closed. This gain was deferred in cash flow hedge reserves as at 31 December 2014. This has been realised to revenue during the year ended 31 December 2015.

Commodity derivative contracts at fair value through profit and loss

Commodity derivative contracts not designated as effective hedges are designated as "At fair value through profit and loss" ("FVTPL"), and gains and losses on these contracts are recognised as a component of revenue. These contracts typically include bought and sold call options, sold put options and commodity swap contracts.

For the year ended 31 December 2015, gains totalling US$19,576,000 were recognised in respect of commodity contracts designated as FVTPL. This included losses totalling US$94,847,000 realised on contracts that matured during the year ended 31 December 2015, and mark to market gains totalling US$114,423,000. Of this amount, US$111,572,000 was realised in business performance revenue in respect of the amortisation of premium income received on sale of these options. The premiums received are amortised into business performance revenue over the life of the option. The balance, being a gain of US$2,851,000 was recognised in exceptional revenue in line with the Group's accounting policy.

In H2 2015, the Group sold put options held with a strike price of US$65/bbl over a total of 4,164,333 barrels maturing in August – December 2015, for proceeds totalling US$31,402,000.

Business performance revenue for the year ended 31 December 2015 included US$10,441,000 of call option premium on options closed early, which would have been recognised in 2016 had these options not been closed early. The cost of closing these options was US$1,350,000 which was included in business performance revenue for the year ended 31 December 2015.

The mark to market of the Group's open contracts as at 31 December 2014 was a loss of US$36,227,000 in respect of option contracts, and a gain of US$3,670,000 in respect of open swap positions. The option contract mark to market was in respect of net sold call options over a total of 10,246,150 barrels, maturing in 2015 with an average strike price of US$96.94/bbl, and 7,498,199 barrels of net sold call options maturing during 2016 with an average strike price of US$99.36/bbl.

20. Other financial assets and financial liabilities (continued)

(c) Forward foreign currency contracts

During the year 31 December 2015 various forward currency contracts were entered into to hedge the Groups exposure to Euro, Norwegian Kroner and Sterling opex and capex. At 31 December 2015, the contracts which do not qualify for hedge accounting have a net liability fair value of US$8,143,000 (2014: US$10,397,000) and those which do qualify for hedge accounting have a net liability fair value of US$1,023,000 (2014: nil). The gains/losses recognised in the income statement are US$2,254,000 unrealised gain (31 December 2014: US$18,085,000 unrealised loss) and US$3,169,000 realised loss (2014: US$55,273,000 realised gain) within cost of sales.

(d) Interest rate swap

During the year ended 31 December 2015, the Group entered an interest rate swap which effectively swaps 50% of floating USD LIBOR rate interest on the Malaysian loan into a fixed rate of 1.035% until 2018. The swap which is effective from a hedge accounting perspective has a net asset fair value of US$47,000. The impact on the income statement is US$31,000 recognised within finance expenses.

(e) Income statement impact

The income statement impact of all commodity, currency and interest rate derivatives are as follows:

	Revenue		***Cost of sales***		***Finance income/(expenses)***	
Year ended 31 December 2015	***Realised US$'000***	***Unrealised US$'000***	***Realised US$'000***	***Unrealised US$'000***	***Realised US$'000***	***Unrealised US$'000***
Call options	23,544	12,001	-	-	-	-
Put options	244,445	(920)	-	-	(70,022)	(49,769)
Commodity swaps	(6,819)	(9,149)	-	-	-	-
Foreign exchange swap contracts	-	-	1,174	144	-	-
Other forward currency contracts	-	-	(4,343)	2,110	-	-
Interest rate swap	-	-	-	-	(31)	-
	261,170	**1,932**	**(3,169)**	**2,254**	**(70,053)**	**(49,769)**

	Revenue		***Cost of sales***		***Finance income/(expenses)***	
Year ended 31 December 2014	***Realised US$'000***	***Unrealised US$'000***	***Realised US$'000***	***Unrealised US$'000***	***Realised US$'000***	***Unrealised US$'000***
Call options	8,785	9,857	-	-	-	-
Put options	920	-	-	-	(41,353)	18,697
Commodity swaps	(11,522)	3,670	-	-	-	-
Foreign exchange swap contracts	-	-	46,756	-	-	-
Other forward currency contracts	-	-	8,517	(18,085)	-	-
Prior year commodity contracts	33,566	5,084	-	-	-	-
	31,749	**18,611**	**55,273**	**(18,085)**	**(41,353)**	**18,697**

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

20. Other financial assets and financial liabilities (continued)

(f) other receivables and liabilities

Other receivables

As part of the 2012 farm-out to KUFPEC of 35% of the Alma/Galia development, KUFPEC agreed to pay EnQuest a total of US$23,292,000 over a 36 month period after Alma/Galia is deemed to be fully operational, the fair value of which was US$19,300,000. The balance of the receivable at 31 December 2015 is $22,647,000 (2014: US$22,103,000). The unwinding of discount of US$544,000 is included within finance income for the year ended 31 December 2015 (2014: US$877,000).

During the year, contingent consideration receivable on the disposal of the Slovenian Petisovchi asset to Ascent in 2011 was converted into a convertible loan note. The fair value of the convertible loan note at 31 December 2015, is US$250,000 (2014: nil). The loan note is due to mature in November 2016.

Other liabilities

The consideration for the acquisition of 40% of the Kraken field from Cairn (previously Nautical) and First Oil in 2012 was through development carries. These were split into a 'firm' carry and a 'contingent' carry dependent upon reserves determination. The firm carry expired in 2015 (2014: liability US$66,502,000). The 'contingent' carry has been accounted for as a provision (note 22).

As part of the agreement to acquire the PM8 assets in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments. The discounted value of US$7,657,000 has been disclosed as a financial liability (2014: US$5,379,000). The unwinding of discount of US$323,000 is included within finance expense for the year ended 31 December 2015 (2014: US$132,000).

The fair value of the Group's oil price related embedded derivatives is US$30,000 (2014: nil).

	Other liabilities US$'000	*Other receivables US$'000*
At 1 January 2014	164,176	21,226
Additions during the year	5,247	-
Utilised during the year	(97,674)	-
Unwinding of discount	132	877
At 31 December 2014	71,881	22,103
Additions during the year	1,985	433
Change in fair value	-	(161)
Utilised during the year	(66,502)	-
Unwinding of discount	323	544
Foreign exchange	-	(22)
At 31 December 2015	**7,687**	**22,897**

21. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

	Date of valuation	Total US$'000	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000
Assets measured at fair value:					
Derivative financial assets					
Commodity contracts	31 December 2015	251,009	-	251,009	-
Interest rate swap	31 December 2015	47	-	47	-
Other financial assets					
Available-for-sale financial investments					
Quoted equity shares	31 December 2015	123	123	-	-
Loans and receivables					
Other receivables	31 December 2015	22,897	250	-	22,647
Liabilities measured at fair value:					
Derivative financial liabilities					
Forward foreign currency contracts	31 December 2015	9,165	-	9,165	-
Other liability					
Other liabilities	31 December 2015	7,687	-	30	7,657
Liabilities for which fair values are disclosed (notes 19 and 24)					
Interest bearing loans and borrowings	31 December 2015	917,223	-	917,223	-
Obligations under finance leases	31 December 2015	36	-	36	-
Sterling retail bond	31 December 2015	95,508	-	95,508	-
High yield bond	31 December 2015	651,120	-	651,120	-

There have been no transfers between Level 1 and Level 2 during the period. The forward foreign currency, the commodity forward contracts and interest rate swap were valued externally by the respective banks and have been reviewed internally.

	Date of valuation	Total US$'000	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000
Assets measured at fair value:					
Derivative financial assets					
Commodity contracts	31 December 2014	95,229	-	95,229	-
Forward foreign currency contracts	31 December 2014	2,409	-	2,409	-
Other financial assets					
Available-for-sale financial investments					
Quoted equity shares	31 December 2014	689	689	-	-
Loans and receivables					
Other receivable	31 December 2014	22,103	-	-	22,103
Liabilities measured at fair value:					
Derivative financial liabilities					
Forward foreign currency contracts	31 December 2014	12,805	-	12,805	-
Commodity contracts	31 December 2014	40,486	-	40,486	-
Other liability					
Other liability	31 December 2014	71,881	-	-	71,881
Liabilities for which fair values are disclosed (notes 19 and 24)					
Interest bearing loans and borrowings	31 December 2014	227,035	-	227,035	-
Obligations under finance leases	31 December 2014	36	-	36	-
Sterling retail bond	31 December 2014	169,010	-	169,010	-
High yield bond	31 December 2014	651,077	-	651,077	-

22. Provisions

	Decommissioning provision US$'000	*Carry provision US$'000*	*Cost recovery provision US$'000*	*Contingent Consideration US$'000*	*Surplus lease provision US$'000*	*Total US$'000*
At 1 January 2014	228,426	80,000	-	-	-	308,426
Additions during the year	7,622	-	163,334	-	-	170,956
Acquisition	133,569	-	-	26,700	-	160,269
Changes in estimates	75,135	-	-	-	-	75,135
Unwinding of discount	12,093	-	-	-	-	12,093
Utilisation	(7,177)	-	-	-	-	(7,177)
At 31 December 2014	449,668	80,000	163,334	26,700	-	719,702
Additions during the year	70,581	-	-	-	27,448	98,029
Changes in estimates	(25,171)	(80,000)	(41,125)	2,307	-	(143,989)
Unwinding of discount	17,034	-	4,912	262	66	22,274
Utilisation	(5,342)	-	-	(3,000)	(888)	(9,230)
Foreign exchange	-	-	-	-	(209)	(209)
At 31 December 2015	**506,770**	**-**	**127,121**	**26,269**	**26,417**	**686,577**

Provision for decommissioning
The Group makes full provision for the future costs of decommissioning its oil production facilities and pipelines on a discounted basis. With respect to the Heather field, the decommissioning provision is based on the Group's contractual obligation of 37.5% of the decommissioning liability rather than the Group's equity interest in the field.

The provision represents the present value of decommissioning costs which are expected to be incurred up to 2034 assuming no further development of the Group's assets. The liability is discounted at a rate of 3.0% (2014: 3.0%). The unwinding of the discount is classified as a finance cost (note 6).

These provisions have been created based on internal and third party estimates. Assumptions based on the current economic environment have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning liabilities is likely to depend on the dates when the fields cease to be economically viable. This in turn depends on future oil prices which are inherently uncertain.

Carry provision
Consideration for the acquisition of 40% of the Kraken field from Cairn (previously Nautical) and First Oil in 2012 was through development carries. The 'contingent' carry is dependent upon a reserves determination which is due to commence in April 2016. The 'contingent' carry is pro-rated between 100 and 166 million barrels of proven and probable reserves (2P reserves). The agreement specifies that the dated brent forward curve at the date of the determination is to be used to determine the reserves of Kraken for the purpose of determining the contingent carry. A provision of US$80,000,000 was recognised in 2013 when the FDP was approved which stated 137 million barrels. Following the significant decline in the oil price, management's view is that no payment will be required under the acquisition agreement. Accordingly the provision has been reversed in full with a corresponding credit to PP&E. Whilst management's view is that no contingent carry will be payable, the reserves determination will be performed by an independent reserves assessor and accordingly the risk remains a payment could be required.

22. Provisions (continued)

Cost recovery provision

As part of the KUFPEC farm-in agreement, a cost recovery protection mechanism was agreed with KUFPEC to enable KUFPEC to recoup its investment to the date of first production. If on 1 January 2017, KUFPEC's costs to first production have not been recovered or deemed to have been recovered, EnQuest will pay to KUFPEC an additional 20% share of net revenue. This additional revenue is to be paid from January 2017 until the capital costs to first production have been recovered.

A provision has been made for the expected payments that the Group will make to KUFPEC. The assumptions made in arriving at the projected cash payments are consistent with the assumptions used in the Group's 2015 year end impairment test, and the resulting cash flows were included in the determination of the recoverable value of the project. In establishing when KUFPEC has recovered its capital cost to first oil, the farm in agreement requires the use of the higher of the actual oil price, or $90/bbl real, inflated at 2% per annum from 2012. These cash flows have been discounted at a rate of 3.0% (2014: 3.0%).

The provision required at 31 December 2014 was netted within the balance of property, plant & equipment as at 31 December 2014. The 31 December 2014 figures presented above have been restated to show the provision separately from the property, plant & equipment balance (see also note 10).

Contingent consideration

As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration has been agreed based on Scolty/Crathes Field Development Plan (FDP) approval and 'first oil'. EnQuest paid US$3,000,000 in November 2015 as Field Development Plan (FDP) was achieved in October 2015. US$9,000,000 is due on the later of first oil or 30 January 2017 and US$8,000,000 due on the later of one year after first oil or 30 January 2018. In addition further payments will become due if the oil price rises above $75 per barrel on a linear basis up to $100 per barrel, up to a cap of US$20,000,000. The cashflows have been discounted using a 3% discount rate.

Surplus lease provision

In June 2015, the Group entered a 20 year lease in respect of the Group's office building in Aberdeen with part of the building subsequently being sub-let with a rent free incentive. A provision has been recognised for the unavoidable costs in relation to the sub-let space. The provision has been discounted using a 3% discount rate. At 31 December 2015, the provision was $3,469,000.

In addition, the Group has an agreement to hire the Stena Spey drilling vessel in 2016. Based on the current drilling forecasts for 2016, the vessel will not be fully utilised over this period and at 31 December 2015, a provision has been recognised for the unavoidable costs of US$22,948,000.

23. Trade and other payables

	2015	*2014*
	US$'000	*US$'000*
Current		
Trade payables	**230,475**	189,257
Accrued expenses	**274,436**	220,723
Over-lift position	**35,797**	13,108
Joint venture creditors	**765**	-
Other payables	**2,045**	5,982
	543,518	429,070

Trade payables are non-interest bearing and are normally settled on terms of between 10 and 30 days. During the year the Group entered contracts with various suppliers to defer payment of a proportion of its spend on the Kraken and Scolty/Crathes developments in accordance with meeting certain milestones. The balance of these deferred payments as at 31 December 2015 will be settled in the latter part of 2016. Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in Sterling.

Accrued expenses include accruals for capital and operating expenditure in relation to the oil and gas assets.

The carrying value of the Group's trade and other payables as stated above is considered to be a reasonable approximation to their fair value largely due to the short term maturities.

24. Commitments and contingencies

Commitments

(i) Operating lease commitments - lessee
The Group has financial commitments in respect of non-cancellable operating leases for office premises. These leases have remaining non-cancellable lease terms of between one and 20 years. The future minimum rental commitments under these non-cancellable leases are as follows:

	2015	*2014*
	US$'000	*US$'000*
Not later than one year	**5,694**	2,031
After one year but not more than five years	**20,926**	3,733
Over five years	**85,631**	1,335
	112,251	7,099

Lease payments recognised as an operating lease expense during the year amounted to US$4,062,000 (2014: US$3,086,000).

Under the Dons Northern Producer Agreement a minimum notice period of 12 months exists whereby the Group expects the minimum commitment under this agreement to be approximately US$8,348,000 (2014: US$13,976,000).

(ii) Operating lease commitments - lessor
The Group sub-leases part of its Aberdeen office. The future minimum rental commitments under these non-cancellable leases are as follows:

	2015	*2014*
	US$'000	*US$'000*
Not later than one year	**150**	-
After one year but not more than five years	**5,242**	-
Over five years	**9,098**	-
	14,490	-

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

24. Commitments and contingencies (continued)

(iii) Finance lease commitments
The Group had the following obligations under finance leases as at the balance sheet date:

	2015 Minimum payments *US$'000*	***2015 Present value of payments US$'000***	2014 Minimum payments US$'000	*2014 Present value of payments* US$'000
Due in less than one year	**37**	**36**	37	36
Due in more than one year but not more than five years	**-**	**-**	37	36
	37	**36**	74	72
Less future financing charges	**(1)**	**-**	(2)	-
	36	**36**	72	72

The leases are fixed rate leases with an effective borrowing rate of 2.37% (2014: 2.37%) and is repayable in 2016.

On 20 December 2013, the Group entered into a bareboat charter with Armada Kraken PTE Limited (Armada) for the lease of an FPSO vessel for the Kraken field. The lease will commence on the date of first production which is currently targeted to come onstream by 2017. Armada will construct the vessel and the Group incurred an initial payment of US$100,000,000 which was paid during 2014.

(iv) Capital commitments
At 31 December 2015, the Group had capital commitments excluding the above lease commitments amounting to US$433,496,000 (2014: US$788,259,000).

Contingencies

There is deferred consideration of US$3,000,000 dependent on FDP approval in relation to the 20% interest in Kildrummy acquired from ENI UK Limited during the year ended 31 December 2012, the costs of this well were impaired in 2014.

In the ordinary course of business there is a risk of disputes with partners, suppliers or customers relating to matters such as cost overruns, service provision or contractual terms. Should disputes emerge and become subject to formal legal proceedings the Group could face liabilities in the event of adverse determinations.

A counterparty has initiated a legal claim against the Group alleging breach of a contractual warranty. The Group considers the merits of the claim to be poor and the Group intends to vigorously defend itself. In the unlikely event that the claim is successful, the Group considers the most likely range for the quantum of any damages award to between nil and US$20,000,000 (and unlikely to have a significant effect on the Group's consolidated financial position or results). The Group anticipates that in the unlikely event of any trial running to a judgement against the Group, no payment of any damages award is likely to be required before 2018.

25. Related party transactions

The Group financial statements include the financial statements of EnQuest PLC and its subsidiaries. A list of the Group's principal subsidiaries is contained in note 28 to these Group financial statements.

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. There have been no transactions with related parties who are not members of the Group during the year ended 31 December 2015 (2014: nil).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. Related party transactions (continued)

Compensation of key management personnel
The following table details remuneration of key management personnel of the Group comprising Executive and Non-Executive Directors of the Company and other senior personnel:

	2015	*2014*
	US$'000	*US$'000*
Short term employee benefits	**4,521**	4,789
Share-based payments	**1,896**	3,375
Post employment pension benefits	**37**	42
	6,454	8,206

26. Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short term deposits, interest-bearing loans, borrowings and finance leases, derivative financial instruments and trade and other payables. The main purpose of these financial instruments is to manage short term cash flow and raise finance for the Group's capital expenditure programme.

The Group's activities expose it to various financial risks particularly associated with fluctuations in oil price, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. Also presented below is a sensitivity analysis to indicate sensitivity to changes in market variables on the Group's financial instruments and to show the impact on profit and shareholders' equity, where applicable. The sensitivity has been prepared for periods ended 31 December 2015 and 2014 using the amounts of debt and other financial assets and liabilities held at those reporting dates.

Commodity price risk – oil prices
The Group is exposed to the impact of changes in Brent oil prices on its revenues and profits generated from sales of crude oil.

The Group's policy is to have the ability to hedge oil prices up to a maximum of 75% of the next 12 months production on a rolling annual basis, up to 60% in the following 12 month period and 50% in the subsequent 12 month period.

Details of the commodity derivative contracts entered into during, and on hand at the end of 2015, are disclosed in note 20.

The following table summarises the impact on the Group's pre-tax profit and total equity of a reasonably possible change in the Brent oil price, on the fair value of derivative financial instruments, with all other variables held constant:

	Pre-tax profit		*Total equity*	
	+US$10/Bbl increase US$'000	*-US$10/Bbl decrease US$'000*	*+US$10/Bbl increase US$'000*	*-US$10/Bbl decrease US$'000*
31 December 2015	**(10,000)**	**10,000**	**(55,000)**	**55,000**
31 December 2014	-	-	(14,495)	37,910

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

26. Risk management and financial instruments (continued)

Risk management objectives and policies (continued)

Foreign currency risk
The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the Group's functional currency and the bond which is denominated in Sterling. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. Approximately 1% (2014: 1%) of the Group's sales and 99% (2014: 91%) of costs are denominated in currencies other than the functional currency.

During the year ended 31 December 2015 various forward currency contracts and structured products were entered into to hedge the Groups exposure to Euro, Norwegian Kroner and Sterling opex and capex.

In January 2015, knockout forwards were entered to mitigate the foreign currency risk arising on the £307,000,000 of Sterling based capex expenditure of the Group. Between the range US$1.505 and US$1.42, they trade at spot, outwith this range EnQuest trades at US$1.505. Should the rate rise above US$1.611 then there is no trade. The contracts mature between January 2015 and February 2016.

Also in January 2015, EnQuest entered into a series of FX forward contracts to purchase £283,297,000 to fund the Group' opex Sterling expenditure. EnQuest will trade at spot between the range US$1.532 and US$1.42, out-with this range EnQuest will trade at US$1.532. The contracts mature between February 2015 and October 2016.

In March 2015, EnQuest entered a series of FX forward contracts to purchase €32,556,000 of the Group's Euro capex expenditure specifically in relation to the Kraken development project. EnQuest will trade at spot when the Euro/USD rate is between US$1.195 and US$0.97. Outwith this range EnQuest will trade at US$1.1195.

Also in 2015 two NOK forwards totalling NOK 74,580,000 were entered into with an average strike price of NOK7.84:£1, these will mature in August and November 2016.

In prior years the Group entered into a series of forward contracts and structured products to hedge a portion of its Sterling, Euro and Norwegian Krone exposure. In 2014, a total of £182,000,000 of Sterling exposure was hedged using this structured product with an average strike price of US$1.46:£1. The remaining contracts matured during 2015.

The same structure was also used to hedge the Group's Norwegian Krone (NOK) exposure arising as part of the Kraken development project. In 2014, a total of NOK367,000,000 was hedged and any remaining contracts matured during 2015.

Also during 2014, EnQuest entered several foreign exchange swap contracts when Sterling was trading above $1.66:£1. The realised impact of US$46,756,000 was recognised in the income statement within cost of sales in the year ended 31 December 2014.

The following table summarises the sensitivity to a reasonably possible change in the United States Dollar to Sterling foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date. The impact in equity is the same as the impact on profit before tax. The Group's exposure to foreign currency changes for all other currencies is not material:

	Pre-tax profit	
Change in United States Dollar rate	***Year ended 31 December 2015 US$'000***	*Year ended 31 December 2014 US$'000*
+10%	**(58,173)**	(75,962)
-10%	**58,173**	75,962

26. Risk management and financial instruments (continued)

Risk management objectives and policies (continued)

Credit risk
Credit risk is managed on a Group basis. Credit risk in financial instruments arises from cash and cash equivalents and derivative financial instruments where the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments (see maturity table within liquidity risks). For banks and financial institutions, only those rated with a A-/A3 credit rating or better are accepted. Cash balances can be invested in short term bank deposits and AAA-rated liquidity funds, subject to Board approved limits and with a view to minimising counterparty credit risks.

In addition there are credit risks of commercial counterparties including exposures in respect of outstanding receivables. The Group trades only with recognised international oil and gas operators and at 31 December 2015 there were no trade receivables past due (2014: nil), US$1,480,000 of joint venture receivables past due (2014: US$490,000) and nil (2014: US$1,955,000) of other receivables past due but not impaired. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables	***2015 US$'000***	*2014 US$'000*
Less than 30 days	**709**	183
30-60 days	**-**	-
60-90 days	**-**	5
90-120 days	**-**	2
120+ days	**771**	2,255
	1,480	2,445

At 31 December 2015, the Group had three customers accounting for 65% of outstanding trade and other receivables (2014: three customers, 89%) and five joint venture partners accounting for 98% of joint venture receivables (2014: three joint venture partners, 95%).

Liquidity risk
The Group monitors its risk to a shortage of funds by reviewing its cash flow requirements on a regular basis relative to its existing bank facilities and the maturity profile of these facilities. Specifically the Group's policy is to ensure that sufficient liquidity or committed facilities exist within the Group to meet its operational funding requirements and to ensure the Group can service its debt and adhere to its financial covenants. During 2015, the Group complied with the financial ratios applicable for the period as allowed for by its revolving credit facility. In light of recent low oil prices and in order to provide flexibility for EnQuest's capital investment programme, the revolving credit facility lending banks agreed to relax existing credit facility covenants. The net debt/ EBITDA covenant was increased to five times and the ratio of financial charges to EBITDA was reduced to three times, both until mid-2017. The financial covenants of the retail bond were subsequently made consistent with the amended covenants in the revolving credit facility.

At 31 December 2015, the Group held a six year US$1,700,000,000 multi-currency revolving credit facility, comprising of a committed amount of US$1,200,000,000 with a further US$500,000,000 available through an accordion structure.

26. Risk management and financial instruments (continued)
Risk management objectives and policies (continued)

The maturity profiles of the Group's non-derivative financial liabilities including projected interest thereon are as follows:

Year ended 31 December 2015	***On demand***	***Up to 1 year***	***1 to 2 years***	***2 to 5 years***	***Over 5 years***	***Total***
	US$'000	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***
Loans and borrowings	**-**	**52,042**	**56,466**	**956,522**	**-**	**1,065,030**
Bond	**-**	**58,140**	**58,140**	**174,419**	**955,223**	**1,245,922**
Obligations under finance leases	**-**	**37**	**-**	**-**	**-**	**37**
Accounts payable and accrued liabilities	**543,518**	**-**	**-**	**-**	**-**	**543,518**
Other liability	**-**	**-**	**8,250**	**-**	**-**	**8,250**
	543,518	**110,219**	**122,856**	**1,130,941**	**955,223**	**2,862,757**

Year ended 31 December 2014	*On demand*	*Up to 1 year*	*1 to 2 years*	*2 to 5 years*	*Over 5 years*	*Total*
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Loans and borrowings	-	27,100	65,959	52,210	217,649	362,918
Bond	-	58,813	58,813	176,439	1,017,266	1,311,331
Obligations under finance leases	-	37	37	-	-	74
Accounts payable and accrued liabilities	429,070	-	-	-	-	429,070
Other liability	-	66,228	5,653	-	-	71,881
Carry provision	-	-	80,000	-	-	80,000
	429,070	152,178	210,462	228,649	1,234,915	2,255,274

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

26. Risk management and financial instruments (continued)
Risk management objectives and policies (continued)
The following tables detail the Group's expected maturity of payables and receivables for its derivative financial instruments. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis.

Year ended 31 December 2015

	On demand US$'000	***Less than 3 months US$'000***	***3 to 12 months US$'000***	***1 to 2 years US$'000***	***>2 years US$'000***	***Total US$'000***
Commodity derivative contracts	**-**	**38,819**	**203,306**	**-**	**-**	**242,125**
Foreign exchange forward contracts	**-**	**163,651**	**545,195**	**-**	**-**	**708,846**
Foreign exchange forward contracts		**(163,651)**	**(546,241)**	**-**	**-**	**(709,892)**
Interest rate swaps	**-**	**(32)**	**(82)**	**(77)**	**(34)**	**(225)**
	-	**38,787**	**202,178**	**(77)**	**(34)**	**240,854**

Year ended 31 December 2014

	On demand US$'000	*Less than 3 months US$'000*	*3 to 12 months US$'000*	*1 to 2 years US$'000*	*>2 years US$'000*	*Total US$'000*
Commodity derivative contracts	-	24,374	24,052	-	-	48,426
Commodity derivative contracts	-	-	(6,130)	-	-	(6,130)
Foreign exchange forward contracts	-	78,313	48,514	-	-	126,827
Foreign exchange forward contracts	-	(78,893)	(56,296)	-	-	(135,189)
	-	23,794	10,140	-	-	33,934

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as in the Group Statement of Changes in Equity.

The primary objective of the Group's capital management is to optimise the return on investment, by managing its capital structure to achieve capital efficiency whilst also maintaining flexibility. The Group regularly monitors the capital requirements of the business over the short, medium and long term, in order to enable it to foresee when additional capital will be required. Note 19 to the financial statements provides further details of the Group's financing activity.

The Group has approval from the Board to hedge foreign exchange risk on up to 70% of the non US Dollar portion of the Group's annual capital budget and operating expenditure. For specific contracted capex projects, up to 100% can be hedged. In addition, there is approval from the Board to hedge up to 75% of annual production in year 1, 60% in year 2 and 50% in year 3. This is designed to minimise the risk of adverse movements in exchange rates and prices eroding the return on the Group's projects and operations.

The Board regularly reassesses the existing dividend policy to ensure that shareholder value is maximised. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and such other factors as the Board considers appropriate.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

26. Risk management and financial instruments (continued)
Capital management (continued)

The Group monitors capital using the gearing ratio and return on shareholders' equity as follows:

	2015	*2014*
	US$'000	*US$'000*
Loans, borrowings and bond (i) (A)	**1,816,965**	1,143,825
Cash and short term deposits	**(269,049)**	(176,791)
Net debt/(cash) (B)	**1,547,916**	967,034
Equity attributable to EnQuest PLC shareholders (C)	**667,199**	1,346,170
Loss for the year attributable to EnQuest PLC shareholders (D)	**(759,484)**	(176,409)
Profit for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**127,817**	137,409
Gross gearing ratio (A/C)	**2.723**	0.850
Net gearing ratio (B/C)	**2.32**	0.718
Shareholders' return on investment (D/C)	**(114%)**	(13%)
Shareholders' return on investment excluding exceptionals (E/C)	**19%**	10%

(i) Principal amounts drawn, excludes netting off of fees

27. Post balance sheet events

On 22 February 2016, EnQuest announced the acquisition of an additional 10.5% interest in the Kraken development for nominal consideration from First Oil PLC. This brings EnQuests total interest to 70.5%.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2015

28. Subsidiaries

At 31 December 2015, EnQuest PLC had investments in the following subsidiaries:

Name of company	*Principal activity*	*Country of incorporation*	*Proportion of nominal value of issued shares controlled by the Group*
EnQuest Britain Limited	Intermediate holding company and provision of Group manpower and contracting/procurement services	England	100%
EnQuest Heather Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited (i)	Extraction and production of hydrocarbons	England	100%
Stratic UK (Holdings) Limited (i)	Intermediate holding company	England	100%
Grove Energy Limited	Intermediate holding company	Canada	100%
EnQuest ENS Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest UKCS Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Norge AS (i)	Exploration, extraction and production of hydrocarbons	Norway	100%
EnQuest Heather Leasing Limited (i)	Leasing	England	100%
EQ Petroleum Sabah Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Leasing Limited (i)	Dormant	England	100%
EnQuest Energy Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Production Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Global Limited	Intermediate holding company	England	100%
EnQuest NWO Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%

EQ Petroleum Production Malaysia Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
NSIP (GKA) Limited	Construction, ownership and operation of an oil pipeline	Scotland	100%
EnQuest Global Services Limited (i)	Provision of Group manpower and contracting/procurement services for the International business	Jersey	100%
EnQuest Marketing and Trading Limited	Marketing and trading of crude oil	England	100%
NorthWestOctober Limited (i)	Dormant	England	100%
EnQuest UK Limited (i)	Dormant	England	100%
EnQuest ED Limited (i)	Dormant	England	100%
EQ Petroleum Developments Malaysia SDN. BHD (i)	Exploration, extraction and production of hydrocarbons	Malaysia	100%

(i) Held by subsidiary undertaking.