DELIVER

DE-LEVER

GROW

EnQuest PLC
Annual Report and Accounts 2018

OUR PURPOSE

With hydrocarbons expected to remain a key element of the global energy mix for many years, EnQuest is focused on enhancing hydrocarbon recovery and extending the useful lives of assets in a profitable and responsible manner, helping to fulfil energy demand requirements as part of the transition to a sustainable lower-carbon world

ENQUEST VALUES

EnQuest's Values embody everything the Company stands for, underpinning the way in which we want to work with all our stakeholders in achieving our strategy.

Safety sits at the core of everything we do as we aim for **Safe Results** with no harm to our people and respect for the environment. We conduct our business and our relationships with **respect and openness**.

We **work collaboratively** to achieve exceptional results, **driving a focused business** to achieve success. Always pursuing **growth and learning** opportunities to unlock our full potential as individuals, teams and the Company as a whole.

eQ EnQuest Values

These Are What Connect Us

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HIGHLIGHTS

The Group met its operational targets for 2018, growing production by 48%. Material production growth of around 20% is expected in 2019 and a focus on cost control and capital discipline will enable the scheduled repayment of debt, which remains the priority for the Group

2018 PERFORMANCE

Production (Boepd)

55,447

+48%

Unit opex (/Boe)

$23

-10%

EBITDA[1] (m)

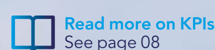
$716

+136%

Net 2P Reserves (MMboe)

245

+17%



Read more on KPIs
See page 08

2019 OUTLOOK

Production range (Boepd)

c.63,000 to 70,000

+14% to 26%

Operating expenditure (m)

c.$600

+28%

Cash capex (m)

c.$275

+14%

For more details
See pages 07 and 15

2018 STATUTORY REPORTING METRICS

	2018 $m	2017 $m	Change %
Revenue and other operating income	**1,298.4**	627.5	106.9
Profit/(loss) before tax	**94.0**	(243.8)	–
Basic earnings per share (cents)[2]	**10.4**	(4.6)	–
Net cash flow from operating activities	**794.4**	301.8	163.2
Net assets	**983.6**	760.9	29.3

Notes:
1 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, foreign exchange movements, inventory revaluation and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure
2 2017 reported earnings per share has been restated for the bonus element of the rights issue

This Strategic Report includes details of EnQuest's strategy, business model, capabilities, Values, long-term track record and key risks. The Group's performance since the last Annual Report and current outlook is covered within the Chairman's statement, the Chief Executive's report and the Operating, Financial and Corporate responsibility reviews.

OUR YEAR IN REVIEW

In 2018, EnQuest delivered a good operational performance and strong cost control and cash generation, enabling the Group to reduce its debt.

JANUARY TO MARCH

- Received $30 million in cash from BP in exchange for undertaking the management of the physical decommissioning of the Thistle and Deveron fields and making payments by reference to 4.5% of BP's decommissioning costs of these fields when spend commences. Option agreed to receive a further $20 million in cash in exchange for increasing future decommissioning-related payments by 3.0%
- Agreed renegotiated terms for the drilling rig at Kraken, reducing both the contract duration and day rates, saving c.$60 million of net cash payments for capital expenditure in 2019

APRIL TO JUNE

- First production from the M-62 well at Magnus in May
- Improved cash flow generating capacity enabled the early cancellation of $50 million of the Group's credit facility, which reduced to $1,075 million by the end of May
- Esperanza drilling rig arrived and commenced the Group's first ever drilling operations on PM8/Seligi

The Magnus and SVT assets are a strong strategic fit for EnQuest. They are assets to which the Group can apply its life extension expertise to deliver value for all its stakeholders.

JULY TO SEPTEMBER

- Production from the Group's two-well drilling programme at PM8/Seligi was successfully completed and brought into production in July, with aggregate flow rates in line with pre-drill expectations
- All six well abandonments at Thistle successfully concluded ahead of schedule and at a lower cost than budgeted
- Completed the replacement of three Electric Submersible Pumps at Alma/Galia, increasing aggregate production from the previously low levels as planned
- Agreed a $15 million (gross) compensation settlement with Armada Kraken Pte Ltd, a wholly-owned subsidiary of Bumi Armada Berhad ('Bumi'), in relation to historic issues with the Kraken FPSO
- Issued Bumi with the FPSO Acceptance Certificate upon completion of agreed engineering requirements for issuance
- Improved reservoir understanding enabled approval for developing DC4 at Kraken with three wells instead of the four originally planned, saving approximately $23 million in capital costs with no material impact on oil production rates or recovery anticipated
- 10 MMbbls of oil produced and 20 cargoes offloaded from the Kraken FPSO since first production
- Agreed $175 million of financing, ring-fenced on a 15% interest in the Kraken oil field, with funds managed by Oz Management
- The SVT team handled logistical support to the Shetland Islands Council for the first ship-to-ship transfer of crude oil at the Port of Sullom Voe for almost three years

- Heather H-67 well brought into production in March, with production significantly better than expectations
- EnQuest Malaysia reached four years LTI free with Tanjong Baram remaining recordable incident free since inception

Production (Boepd)

55,447

+48%

EBITDA[1] (m)

$716

+136%

Note:
1 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, foreign exchange movements, inventory revaluation and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure

- Sanctioned the Dunlin bypass export project which, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal
- Sanctioned a replacement pipeline at Scolty/Crathes to mitigate existing wax-related restrictions on production. Following installation, production levels from the development are expected to improve significantly

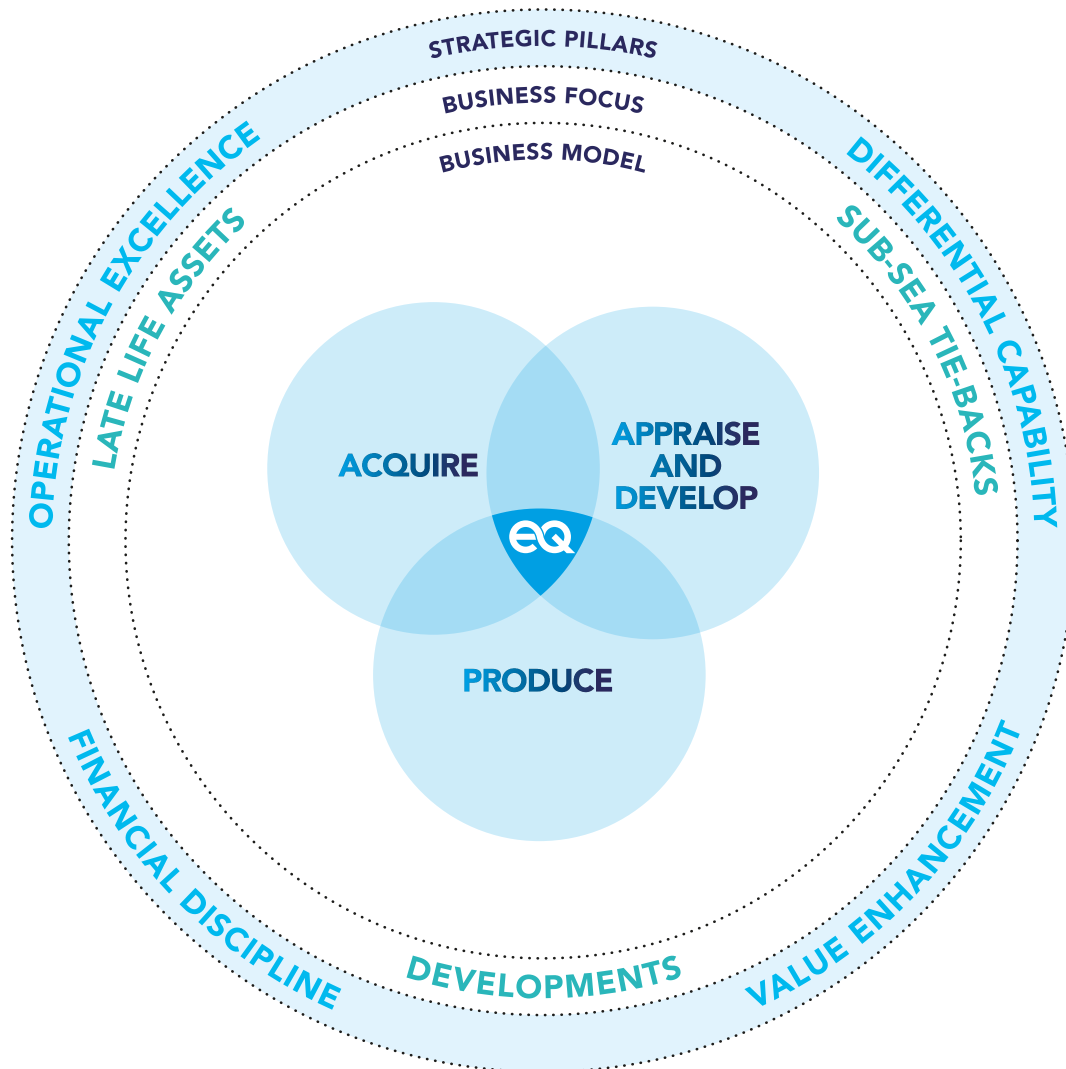
OCTOBER TO DECEMBER

- Kittiwake and PM8/Seligi achieved 13 and eight years LTI free respectively
- Following an early repayment of $25 million of the term facility in August, a further $200 million repayment was made in October, reducing the facility to $850 million. The reduction was primarily funded by the drawdown from the $175 million Oz Management facility
- Kraken subsea infrastructure for DC4 completed and three-well drilling campaign commenced
- Received strong shareholder support to undertake a rights issue to finance the acquisition of additional interests in Magnus, SVT and associated infrastructure from BP. The rights issue successfully raised approximately $129 million (net) to fund the acquisition, which completed effective 1 December 2018 adding significant low-cost 2P reserves, and to drill two new wells at Magnus in 2019

- Exercised the Thistle option, receiving $20 million in cash in exchange for increasing the Group's total decommissioning payment obligation to 7.5%
- Strong cash generation enabled a further early repayment of $65 million of bank debt in November; term facility reduced to $785 million
- Successfully reduced annual operating costs at SVT by around 25% to approximately £150 million through applying an asset business model at the terminal, focused supply chain management and efficient project delivery

STRATEGY AND BUSINESS MODEL

EnQuest's strategic vision is to be the operator of choice for maturing and underdeveloped hydrocarbon assets by focusing on operational excellence, differential capability, value enhancement and financial discipline



SHAREHOLDERS

We aim to deliver growth and returns through the acquisition of high-quality assets with creative transaction structuring, commercialising and developing discoveries, converting contingent resources into reserves, and exploiting existing reserves.

EMPLOYEES

We recognise that our people are critical to our success. We have a strong set of Values that underpin our way of working and are dedicated to delivering Safe Results. We aim to provide a rewarding work environment, with opportunities for growth and learning while contributing to the delivery of our strategy.

OTHER STAKEHOLDERS

We are committed to delivering Safe Results, helping meet society's need for hydrocarbons with no harm to people and respect for the environment. Delivering on our targets ensures we fulfil our commitments with our creditors and suppliers, with whom we aim to develop and maintain long-term relationships based on respect and collaboration.

OPERATIONAL EXCELLENCE

This underpins everything we do. With safety the top priority, EnQuest's highly skilled and integrated teams strive to enhance hydrocarbon recovery through focused improvement programmes with no harm to people and with respect to the environment.

- In 2018, maintained production efficiency in excess of 94% at PM8/Seligi with production efficiency improved across the majority of the Group's UK operated assets, with many achieving rates above 80%
- Workshops held to maintain and improve Major Accident Hazard awareness
- Improved reservoir understanding facilitated a reduction in the number of DC4 wells at Kraken, saving approximately $23 million in capital costs with no material impact on oil production rates or recovery anticipated
- PM8/Seligi flaring maintained c.35% below the annual flare consent
- PM8/Seligi compressor rejuvenation resulting in improved reliability

DIFFERENTIAL CAPABILITY

EnQuest has the right mix of integrated technical capabilities to select appropriate development and production options, delivering high levels of production efficiency and cost control to realise value from maturing and underdeveloped assets. Achieving asset life extension and maximising economic recovery from those assets will enable future growth.

- Redesigned, upgraded and reused existing facilities and infrastructure, including drilling rig reactivation at Thistle and Magnus
- Completed more than 1,500 well work programmes and more than doubled the active well count to over 70 strings at PM8/Seligi since 2014, facilitating additional production to arrest field decline
- Matched production history to support development drilling and secondary recovery schemes to add additional reserves and extend field life at Thistle, Heather, Dons and Magnus
- In 2018, successfully completed a variety of extensive drilling, workover, intervention and abandonment campaigns, including those at Kraken, Magnus, PM8/Seligi, Heather, Alma/Galia and Thistle

VALUE ENHANCEMENT

EnQuest employs a cost-conscious approach and implements innovative initiatives to add value to its operations. Innovative transaction structures facilitate getting the right assets into the right hands.

- Hub approach to logistics, inspection and maintenance combined with inventory sharing with other operators in the North Sea
- Innovative supply chain management, including interactive supplier forums, open book contracts and 'should cost' modelling
- Innovative transaction structure enabled the acquisition of Magnus, SVT and associated infrastructure from BP
- Drilled the first two wells at Magnus at materially lower cost than originally anticipated
- Renegotiated both the contract duration and day rates for the drilling rig at Kraken, saving c.$60 million of net cash payments for capital expenditure in 2019

FINANCIAL DISCIPLINE

EnQuest focuses on capital allocation that prioritises positive cash flow generative investment and the effective management of EnQuest's capital structure and liquidity.

- Reduced costs at SVT by c.25% through applying an asset business model at the terminal, focused supply chain management and efficient project delivery
- 2018 rights issue raised c.$129 million (net) to fund the acquisition of additional interests in Magnus, SVT and associated infrastructure and the drilling of two wells in 2019
- Improved cash generation and the Kraken financing agreement facilitated cancellation and repayment of $340.0 million of the Group's credit facility, more than the scheduled amortisation requirement
- Effective liquidity management through the exercise of the Thistle decommissioning option

For more details
See pages 12 to 35

TRACK RECORD

Having the right assets in the right hands leads to improved performance

UK

2010 → 2017

55%
production growth on a pro forma basis in our first year

Three operated producing hubs

EnQuest listed on the London Stock Exchange in April 2010

3
additional production hubs added through the sanction of Alma/Galia and Kraken and the acquisition of GKA

Thistle major power supply upgrade; new and simplified process controls and safety systems introduced; integrity work on platform topsides; and a water injection reliability programme

>70%
reduction in GKA unit opex since acquisition

Material production enhancement at GKA through additional wells, dissolver treatment and 'Produce the Limit' focus; Scolty/Crathes sanctioned, extending GKA hub life to 2025

Rig reactivation and drilling campaign initially doubled production at Heather/Broom in 2015. Alma/Galia development first production

25%
equity interest in Magnus acquired from BP

First oil from Kraken in June 2017 with production of >40,000 Bopd gross achieved in November

Kraken full cycle gross project capital expenditure further reduced; anticipated to be more than 25% lower than originally sanctioned

MALAYSIA

2014 → 2017

13
operated offshore assets acquired at PM8/Seligi through PM8 Extension PSC

Quickly increased gross production from 12,400 Boepd to 15,100 Boepd

Signed Tanjong Baram SFRSC contract and commenced development

2
wells drilled and brought online at Tanjong Baram

At PM8/Seligi, gas engine changeouts for Train A & B gas compressors and first scheduled annual maintenance shutdown completed ahead of schedule

>500
well interventions undertaken at PM8/Seligi since assuming operatorship

16 idle well strings successfully returned to service

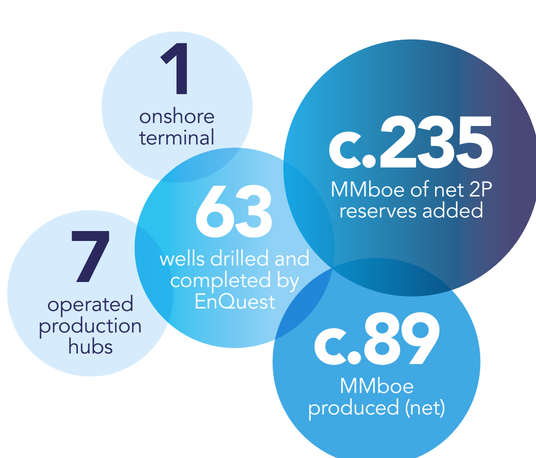
Record weekly production achieved since EnQuest assumed operatorship, averaging over 23,000 Boepd gross in December 2016

5
MMboe gross annual production maintained for third consecutive year at PM8/Seligi

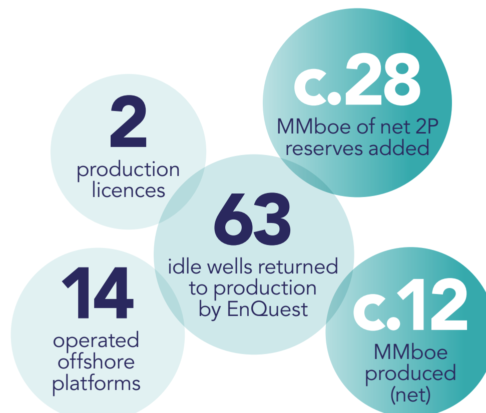
Investment in facility projects and process simplification to improve reliability and production efficiency

Established remote monitoring for satellite wells on Seligi D & F, improving uptime and performance

NORTH SEA OPERATION BREAKDOWN



MALAYSIA OPERATION BREAKDOWN



2018 ACHIEVEMENTS

c.55

MMboe added to net 2P reserves at 31 December 2018 from 75% interest in Magnus

Additional production from new wells at Kraken, Magnus and Heather

Significant cost savings at SVT through focused project execution and supply chain management

Asset life extension activities through well workovers at Alma/Galia and idle well abandonments at Thistle

2019 AND BEYOND

63-70,000

Boepd expected in 2019

In the near term, delivering on operational targets and reducing the Group's debt remains EnQuest's priority

In the future, the Group's capital allocation will balance investment to develop its asset base, the acquisition of suitable opportunities and, should conditions allow, returns to shareholders

2018 ACHIEVEMENTS

2

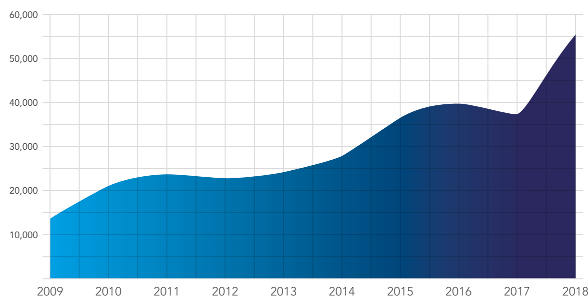
new wells at PM8/Seligi delivered aggregate production in line with expectations

Achieved >99% availability for two gas compressors in Q3

Established remote monitoring of satellite wells at six platforms improving uptime. Received an award from PETRONAS for the 'Highest Improvement' in relation to offshore self-regulation. Delivered cumulative production of 1.5 MMbbls from Tanjong Baram

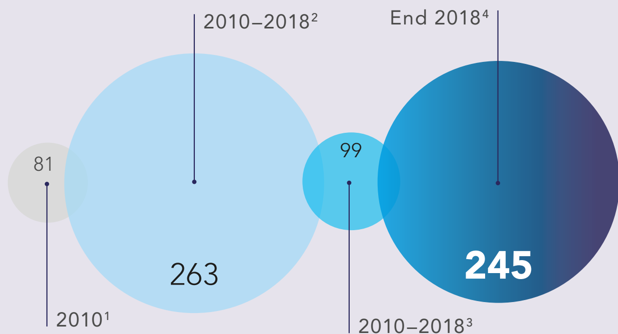
"WITH NET 2P RESERVES OF c.245 MMBOE, UNDERPINNED BY MAGNUS, PM8/SELIGI AND KRAKEN, THE GROUP HAS SIGNIFICANT POTENTIAL WITHIN THE PORTFOLIO AND IS WELL POSITIONED TO PURSUE LONG-TERM SUSTAINABLE GROWTH."

PRODUCTION HISTORY (Boepd)



c.17% compound average growth in production

NET 2P RESERVES (MMboe)



Reserves life of c.13 years based on 2018 production

Notes:
1 Net 2P reserves at start of 2010
2 Additions to 2P reserves 2010 to end of 2018
3 Production 2010 to 2018
4 Net 2P reserves at end of 2018

KEY PERFORMANCE INDICATORS

A: HSE&A
GROUP LOST TIME INCIDENT FREQUENCY RATE[1]

-6.5%

EnQuest delivered on its commitment to continual improvement in HSE&A performance. In occupational safety, our Lost Time Incident ('LTI') performance remained strong, with many assets recording an LTI-free year.

Link to strategy

For more details
See pages 28 to 31

B: PRODUCTION
(BOEPD)

+48.2%

Production was 48.2% higher than in 2017. Increased production from Kraken and Magnus was partially offset by the expected lower production at Alma/Galia and Scolty/Crathes and underlying natural declines elsewhere in the portfolio.

Link to strategy

For more details
See pages 10 to 19

C: UNIT OPEX
($/BOE)

-10.2%

Average unit operating costs were 10.2% lower than in 2017 ($25.6/Boe), primarily as a result of increased production from the Kraken field which has a lower unit operating cost than the Group average.

Link to strategy

For more details
See pages 22 to 27

D: EBITDA[2]
($ MILLION)

+135.9%

Higher production from Kraken and Magnus combined with increased realised prices, reflecting higher average market prices, increased EnQuest's EBITDA.

Link to strategy

For more details
See pages 22 to 27

E: CASH GENERATED BY OPERATIONS
($ MILLION)

+141.2%

Cash generated by operations was 141.2% higher than in 2017, primarily reflecting improved EBITDA.

Link to strategy

For more details
See pages 22 to 27

F: CASH CAPEX[3]
($ MILLION)

-40.1%

Cash capex was 40.1% lower than in 2017, primarily driven by reduced activity at Kraken.

Link to strategy

For more details
See pages 22 to 27

G: NET DEBT
($ MILLION)

-10.9%

Net debt decreased by 10.9% compared to 2017, primarily reflecting the improved cash-generating capability of the Group with increased contributions from Kraken and Magnus and favourable working capital movements. The Group has remained in compliance with financial covenants under its debt facilities throughout the year and managing ongoing compliance remains a priority.

Link to strategy

For more details
See pages 22 to 27

H: NET 2P RESERVES
(MMBOE)

+16.6%

Net 2P reserves increased by 16.6% compared to 2017, primarily reflecting the Magnus acquisition-related increase.

Link to strategy

For more details
See page 20

Notes:
1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and 8 hours for onshore)
2 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, foreign exchange movements, inventory revaluation and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure
3 Net of proceeds from disposal of $nil (2017: $nil, 2016: $1.5 million)

ENQUEST VALUES

Our Values embody everything the Company stands for, underpinning the way in which we want to work with all our stakeholders in achieving our strategy.

During 2018, teams from across the organisation were involved in refreshing the Group's Values. Through a series of focus groups and reviews, the teams provided valuable insight to ensure the essence of what makes EnQuest great was captured and provide a link between the Company's purpose, vision and strategy. These Values are now our five key 'drivers of behaviour' and are being incorporated into all our people-related processes, including a core competency framework, performance management appraisal, talent and succession planning and reward.

eQ EnQuest Values

These Are What Connect Us

CHAIRMAN'S STATEMENT

"EXERCISING THE MAGNUS OPTION HAS STRENGTHENED THE BUSINESS."

Jock Lennox
Chairman

EnQuest performance overview

In 2018, EnQuest took a further significant step forward in strengthening the business and adding to its potential. The exercise of the Magnus Option, which received very strong support from our shareholders to acquire the remaining 75% equity interest in Magnus, provided the Group with an immediate and material increase to its 2P reserves, production and cash flow. Magnus performance has been strong since EnQuest assumed operatorship in December 2017 and the application of the Group's differential capabilities saw production increase significantly in late 2018.

While production from Kraken was below our expectations, primarily reflecting FPSO performance and weather-related outages, the strong production performance across the Group elsewhere saw EnQuest meet its production growth target. The Group's improved cash-generating capability and the execution of the Kraken financing agreement enabled the Group to make material repayments on its bank debt. Debt reduction remains a priority for EnQuest.

The Group's net 2P reserves were up approximately 17% after accounting for the increased production in 2018, driven by the additional 75% interest in Magnus. By the end of 2018, EnQuest had a net 2P reserves base of 245 MMboe, which represents average growth of approximately 13% per annum since EnQuest's formation nine years ago and a reserves life of around 13 years.

Industry context

For much of 2018, we saw a steady improvement in the oil price, reflecting a combination of strong growth in global demand coupled with increasing constraints on supply. However, during the fourth quarter, concerns over a weakening demand outlook and expectations of over-supply saw a rapid deterioration in the oil price, which dipped to around $50/bbl in late December. Since then, the price has quite quickly recovered to within the range of c.$65/bbl and c.$68/bbl. Throughout this period of volatility, we have remained focused on achieving our targets, maintaining and enhancing production while controlling costs and capital expenditure. It is vital we continue to keep this focus through 2019 with ongoing oil price uncertainty.

The Directors believe that the UK Continental Shelf remains an attractive investment proposition. While there may be some disruption to the supply chain from the impacts of the UK's proposed exit from the European Union, the Directors are confident that such issues can be overcome. The industry has worked hard in recent years to reduce its operating and capital costs, facilitating delivery on the UK Government's strategy of Maximising Economic Recovery of the significant hydrocarbons that remain in place. This competitive regulatory structure is further supported by a competitive fiscal regime, an extensive installed infrastructure base, access to a world-leading supply chain and a highly skilled workforce. EnQuest has been successful in replicating its UK operating model in Malaysia, another maturing region with significant hydrocarbons in place, and where the Group has a strong partnership with PETRONAS.

EnQuest's Board

As previously noted in EnQuest's 2017 Annual Report and Accounts, we were extremely pleased to welcome Laurie Fitch to the Board. Laurie joined the Company on 8 January 2018 and became a member of both the Risk and Remuneration Committees. In January 2019, as planned, Laurie succeeded Helmut Langanger as the Chair of the Remuneration Committee. Helmut has chaired the Committee for nine years, developing open and transparent communications with our investors as we have shaped an effective remuneration policy. I would like to take this opportunity to thank Helmut for his valuable leadership over this period. We are pleased he will continue to be a member of the Remuneration Committee to aid Laurie's transition into the role.

As a Board, we remain conscious of the need to have an effective succession plan that ensures the Board has the correct composition of skills and experience to continue its support of the executive management team in executing the Group's strategy. We are therefore very pleased that, subject to shareholder approval at the annual general meeting, Howard Paver will join the Board. Howard is a petroleum engineer by background and has 40 years of oil and gas experience working for Hess, BHP Petroleum, Mobil and Schlumberger in various senior leadership positions. His significant knowledge in production and development, as well as experience of managing complex assets in various parts of the globe, will bring technical and commercial skills to the Board. This is of particular relevance as Helmut Langanger, who has over 40 years of industry experience, will be rotating off the Board in due course.

In 2019, both Helmut and I will have served as Directors of the Company for nine years. With the completion of the Magnus option and following on from the Company's financial restructuring in late 2016, the Company is positioned to pursue its strategic goals and, as is now appropriate, Helmut, as Senior Independent Director, is leading a process to identify a candidate to replace me as Chairman and take the Company forward to the next phase of its development. It is envisaged that after my succession process has completed, Helmut will retire from the Board.

EnQuest's people

In 2018, the Group was focused on meeting its operational and financial targets and maintaining cost and capital discipline in a volatile macro environment. The capital raise, via a rights issue, to facilitate the strategically important acquisition of additional interests in Magnus, the Sullom Voe Terminal and associated infrastructure from BP, and the financing associated with Kraken, all required significant amounts of the Board's and management's time and attention. Additionally, achieving all of these objectives has only ultimately been possible due to EnQuest's people. The Board and I would like to express our gratitude to everyone, both new and old, at EnQuest for their drive, commitment and professionalism in delivering Safe Results, meeting our targets and completing the acquisition of assets from BP to give the Company an even stronger base upon which to build for the future.

Following the results of our culture survey in 2017, the Group's Values were refreshed through a series of group-wide focus groups and workshops. This process has ensured that our Values embody everything the Company stands for and align with the aspirations of our people, acting as a guide in the pursuit of EnQuest's strategy. Through 2019, the refreshed Values will be incorporated into a number of the Group's processes, including those in Human Resources and Health, Safety, Environment and Assurance.

In early 2019, the Board approved the establishment of an Employee Forum to improve engagement and interaction between the workforce and the Board. This supplements the Group's existing employee engagement activities and is in line with the revised Corporate Governance Code published in July 2018.

Strategy and governance

The Directors provide strategic guidance and challenge to executive management and take key decisions on the implementation of the Group's strategy. EnQuest's governance framework also contains several non-Board Committees, which provide advice and support to the Chief Executive, including an Executive Committee, Investment Committee and HSE&A Committee.

"BOARD SUCCESSION PLANNING HAS REMAINED AN AREA OF FOCUS THROUGHOUT 2018."

The Group welcomes the drive for increased governance and transparency in general, and specifically in relation to climate change. The Board recognises the increasing societal, media and investor focus on climate change and the desire to understand its potential impacts on the oil and gas industry through improved disclosure, utilising mechanisms such as those proposed by the Task Force on Climate-related Financial Disclosures. Through the Risk and Audit Committees, the Board has continued to review the potential risk of climate change on the effective execution of the Group's strategy and has concluded that, on a standalone basis, climate change is not a principal risk but one factor amongst others influencing our assessment of the Group's principal risks, the details of which can be found on pages 36 to 43. The Risk Committee will continue to undertake detailed analyses of specific risk areas to ensure that the potential effects of climate change continue to be identified, considered and assessed appropriately within the Group's Risk Management Framework. Further, the Board, in particular through the work of the Risk Committee, has been active in supporting the continued evolution of the Group's Risk Management Framework to enhance effective risk management within the Board-approved risk appetite of the Company. Through this process, the Risk Committee reviewed all risk areas faced by the Group and identified the causes of risk and their associated impacts and mapped these to the preventative and containment controls used to manage such risks to acceptable levels.

Ensuring that the Board works effectively remains a key focus of the Company. During the year, an external evaluation of the Board was held which recognised the improvements made in the Group's governance since the last external evaluation in 2016. It also identified additional areas for consideration to drive continuous improvement in this area. The most important area discussed related to Board succession planning, which I have already outlined. More details are provided on pages 77 and 78. The Board is committed to delivering the highest standards of corporate governance. Activities are already under way in relation to the changes to the Corporate Governance Code announced in July 2018 and the Board is actively engaged in the implementation of the necessary processes and procedures that will enable continued compliance.

The Board believes that the manner in which the Group conducts its business is important. In the execution of our strategy, we are committed to working responsibly for the benefit of all our stakeholders. The Board has approved the Company's overall approach to corporate responsibility, which is focused on five main areas. These are: Health and Safety; People; Environment; Business Conduct; and Community. The Board receives regular information on the performance of the Company in these areas, and specifically monitors health, safety and environmental reporting at each Board meeting. The Company's Health, Safety, Environment & Assurance ('HSE&A') Policy is reviewed by the Board annually and all incidents, forward-looking indicators and significant HSE&A programmes are discussed by the Board. Specific developments and updates in all areas are brought to the Board's attention when appropriate. Having undertaken a detailed review of the Group's HSE&A processes, the Risk Committee recommended the addition of HSE&A oversight and review within its scope of work to supplement and assist the Board in reviewing such matters.

The Group has a Code of Conduct that it requires all personnel to be familiar with as it sets out the behaviour which the organisation expects of its Directors, managers and employees, as well as suppliers, contractors, agents and partners.

Dividend

The Company has not declared or paid any dividends since incorporation and does not plan to pay dividends in the immediate future. However, the Board anticipates reviewing the policy when appropriate, the timing of which will be subject to the oil price environment, the capital structure of the Company and its expected future cash flows.

2019: continued focus on delivery and debt reduction

We have made significant progress in 2018, meeting our targets and making substantial repayments of our bank debt. The acquisition of Magnus diversifies our production portfolio and, along with Kraken and PM8/Seligi, provides the Group with material future production opportunities. In 2019, we must continue to focus on delivering on our targets to facilitate the effective management of our liquidity position and capital structure. With the oil price environment remaining volatile, we recognise that we must maintain our focus on financial discipline, cost efficiencies and managing Group liquidity. We will continue to prioritise our resources to those projects which maximise cash flow to facilitate debt reduction, continuing the Company's progress towards a more sustainable balance sheet which will enable the long-term growth of the business.

CHIEF EXECUTIVE'S REPORT

"IN 2018, THE GROUP MET ITS FINANCIAL AND OPERATIONAL TARGETS, GROWING PRODUCTION BY 48% AND REDUCING NET DEBT."

Amjad Bseisu
Chief Executive

PRODUCTION
(BOEPD)

+48.2%

Overview

During 2018, the Group was focused on meeting its financial and operational targets and facilitating debt reduction. The successful acquisition of Magnus, the Sullom Voe Terminal and related infrastructure assets from BP was a great testament to our people's focus on delivery and excellent team collaboration. The Group's collective efforts delivered a set of assets with a strong strategic fit into the portfolio. EnQuest's cash-generation capability has improved through the acquisition of Magnus in particular and we are well positioned to meet our debt repayment schedule and capital programme in 2019 and beyond.

Operational performance

EnQuest's average production increased by 48.2% to 55,447 Boepd, above the mid-point of the Group's guidance. The increase reflected the contributions from Kraken and Magnus, along with a better than expected performance at Heather, Alma/Galia and Scolty/Crathes, partially offset by natural declines.

Following strong shareholder support for the rights issue undertaken in October, EnQuest completed the acquisition of additional interests in Magnus, the Sullom Voe Terminal and related infrastructure in December. The additional interest in Magnus and the success of plant debottlenecking and well intervention work drove a substantial and better than expected increase in production.

The acquisition of Magnus also drove a material increase in net 2P reserves to 245 MMboe at the end of 2018, up 17% on the 210 MMboe at the end of 2017, and was a key component in the Group achieving a reserves replacement ratio of 184%. While production at Kraken has been below expectations, with FPSO performance the main limiting factor, the Group's reserves position for Kraken remains materially unchanged. Since the Company was formed with around 81 MMboe of 2P reserves, the Group has achieved a compound average reserves growth of 13%, with remaining 2P reserves representing a current production life of around 13 years.

Financial performance

The combination of increased production and higher realised prices drove an improved financial performance in 2018. Both EBITDA and cash generated by operations more than doubled, to $716.3 million and $788.6 million respectively. The Group's ongoing focus on cost control kept operating expenditure to $465.9 million, with unit operating costs reduced to around $23.0/Boe. Capital expenditure was also significantly lower year on year, down $147.4 million to $220.2 million, primarily driven by the reduced programme at Kraken.

EnQuest reviewed a number of potential opportunities to realise value from the Kraken asset. Having reviewed the various options available to the Group, the Board approved the financing arrangement for $175 million, ring-fenced on a 15% interest in the Kraken oil field, with funds managed by Oz Management, as the preferred economic option at the time. We continue to keep a future potential equity farm-down at Kraken under review.

The combination of this financing agreement and strong underlying business performance facilitated accelerated repayments of the Group's credit facility, which reduced by $340.0 million, from $1,125.0 million to $785.0 million, excluding the revolving credit facility. The Group ended the year with net debt of $1,774.5 million, down from $1,991.4 million at the end of 2017 and further debt reduction remains a near-term priority for the Group.

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

As always, Safe Results is our number one priority and we have had excellent results in many areas, meeting the majority of our performance targets. In Malaysia, we again had zero lost-time incidents ('LTI'), with PM8/Seligi achieving eight years LTI free, and we reduced the number of hydrocarbon release events. This strong performance came against a backdrop of high activity levels offshore. In the UK North Sea, our colleagues on the Kittiwake platform recorded their 13th year without an LTI with many of our other assets also delivering an LTI-free year. However, we saw an increase in the number of hydrocarbon release events and had a high-potential dropped-object incident on Magnus associated with lifting operations. These serve to highlight that we must remain focused on safety at all times and aim for continuous improvement in all that we do.

The main sources of atmospheric emissions from EnQuest assets are derived from combustion plant associated with power generation and flaring. As such, while overall extraction emissions increased in 2018, largely as a result of the addition of Magnus to our portfolio, our improved production performance drove our extraction-related greenhouse gas emissions intensity ratio lower by 17.6%. In Malaysia, the team's focus on minimising emissions resulted in flaring at PM8/Seligi being maintained at around 35% below the annual flare consent from the regulator.

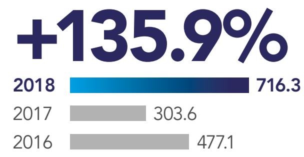
While hydrocarbons are expected to remain a key element of the UK and global energy mix, the Group recognises that it must endeavour to minimise carbon emissions from its operations as far as practicable as it seeks to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner. Our strategy of acquiring assets and extending their economic life facilitates the industry's move from long-term, 'full-cycle' expenditure to lower-carbon energy supply sources while helping to fulfil energy demand requirements during this transition period.

UK North Sea operations

Production from the UK North Sea was materially higher in 2018 than in 2017. This increase was driven by a combination of additional production from Kraken and Magnus and the successful execution of our planned work programmes.

At Magnus, the team successfully undertook plant de-bottlenecking and water injection system improvements. Two new wells were drilled and brought online, with further production improvements driven by successful well intervention activities. Following our two-well drilling campaign in 2018, a further two-well programme will commence in 2019, along with additional intervention and plant improvement activities. Future material infill drilling opportunities continue to be refined and assessed to maximise recovery from the significant remaining resources in place.

EBITDA[1]
($ MILLION)



Note:
1 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, foreign exchange movements, inventory revaluation and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure

ENQUEST VALUES

DRIVING A FOCUSED BUSINESS

"EnQuest's cohesive culture with in-depth niche skills is driving a focused business working environment."

Hadiani Haron
Planning Analyst, Malaysia

CHIEF EXECUTIVE'S REPORT CONTINUED

NET 2P RESERVES
(MMBOE)

+16.6%

Year	MMBOE
2018	**245**
2017	210
2016	215

Further drilling successes were achieved at Heather, Thistle and Alma/Galia. The H-67 well at Heather delivered above the Group's pre-drill expectations and the Group began its well abandonment campaign at Heather in December following the successful execution of six well abandonments at Thistle. The replacement of three Electric Submersible Pumps at Alma/Galia resulted in production restoration in line with the Group's plans.

At both Alma/Galia and Scolty/Crathes, production was better than expected as a result of improved production efficiency and the successful management of wax deposition, respectively. The successful production optimisation strategy at Scolty/Crathes has resulted in the project achieving payback just over two years after start-up, despite the wax deposition challenges meaning only the Crathes reservoir has delivered production and revenues.

During the year, we sanctioned the Scolty/Crathes pipeline replacement project, to remedy the wax deposition-related production restrictions, and the Dunlin bypass, which will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal. Both projects help underpin longer-term production from these assets. Elsewhere, the Group continues to assess development options for the Eagle Discovery and at Dons North East.

Production at Kraken was below expectations, reflecting a number of FPSO and weather-related outages throughout the year. Our clear operational priority in 2019 is to improve FPSO uptime and efficiency. We are working with the FPSO operator on a number of improvement initiatives to maximise facility uptime to enable stable production. Reservoir performance has been strong and remains broadly in line with the Group's expectations. We have seen excellent communication between producer and injector wells and our improving management of reservoir voidage following repairs to the water injection system also supported reservoir deliverability.

The delayed arrival of the drilling rig at Drill Centre 4 ('DC4') resulted in drilling commencing later than planned with first production from the wells being rephased accordingly. Drilling at DC4 is nearing completion, with the first two of three wells now onstream. We continue to assess future opportunities at Kraken that have material volumes of oil in place for future development, such as the Western Flank.

At the Sullom Voe Terminal, the Group reduced terminal operating costs by around 25%, to approximately £150.0 million, through the implementation of a number of efficiency initiatives. We also assisted in three ship-to-ship transfers of oil in the Port of Sullom Voe, and the Group continues to explore opportunities to maximise the long-term value of the terminal.

Malaysia operations

Production in 2018 was slightly lower than in 2017, primarily reflecting natural decline at Tanjong Baram. Our focus on asset integrity, which included underwater structural integrity assessments and gas compressor rejuvenation, helped drive continued high levels of production efficiency at PM8/Seligi. The regulator recognised the Group's efforts with an award for the 'Highest Improvement' in relation to offshore self-regulation. Our programme of well interventions continues to be successful in arresting the field's decline, and we successfully concluded EnQuest's first ever drilling campaign at PM8/Seligi, with aggregate production from the two new wells in line with expectations.

"2019 PRODUCTION IS EXPECTED TO GROW BY AROUND 20% TO BETWEEN 63,000 AND 70,000 BOEPD."

EnQuest will continue its asset life extension activities in 2019 through further investment in two new wells, idle well restoration and facility improvements and upgrades. Technical studies to support future development drilling and secondary recovery projects to increase ultimate recovery from the material volumes in place in PM8/Seligi are also under way.

2019 performance and outlook

Following effective reservoir management and well intervention work at Magnus, performance has remained strong through the first two months of the year. FPSO performance has continued to limit production performance at Kraken. All DC4 wells are now onstream and, as FPSO maintenance activities are completed, production is expected to significantly improve. We continue to expect to deliver gross production of between 30,000 and 35,000 Bopd from Kraken. Elsewhere across the portfolio, aggregate production has been broadly in line with the Group's expectations.

2019 production is expected to grow by around 20% to between 63,000 and 70,000 Boepd, primarily driven by Magnus. Production from DC4 at Kraken, where all three wells are now onstream, and the anticipated improvement in performance at Scolty/Crathes following the pipeline replacement project scheduled for the third quarter of 2019 are expected to offset natural declines elsewhere across the portfolio.

The successful delivery of the capital programme, which includes drilling at Kraken, Magnus and PM8/Seligi combined with project-related expenditures at Scolty/Crathes and Thistle/Deveron and the Dons, will underpin production during 2019 and beyond.

Debt repayment remains the priority for the Group, and will be enabled through its improved cash-generation capability combined with our focus on cost control and capital discipline. In March, the Group reduced its credit facility by $55.0 million to $730.0 million, ahead of the scheduled amortisation due in April, which now has a balance due of $50.0 million. At the end of 2019, the Group expects overall net debt to EBITDA to be approaching 2x, with the Group intending to operate between 1x and 2x in the future.

Longer-term development

In the near term, we remain focused on delivering on our plans to reduce our debt. We also have the opportunity for material growth where our portfolio has significant potential for near-field, short-cycle development, particularly at Magnus, PM8/Seligi and Kraken.

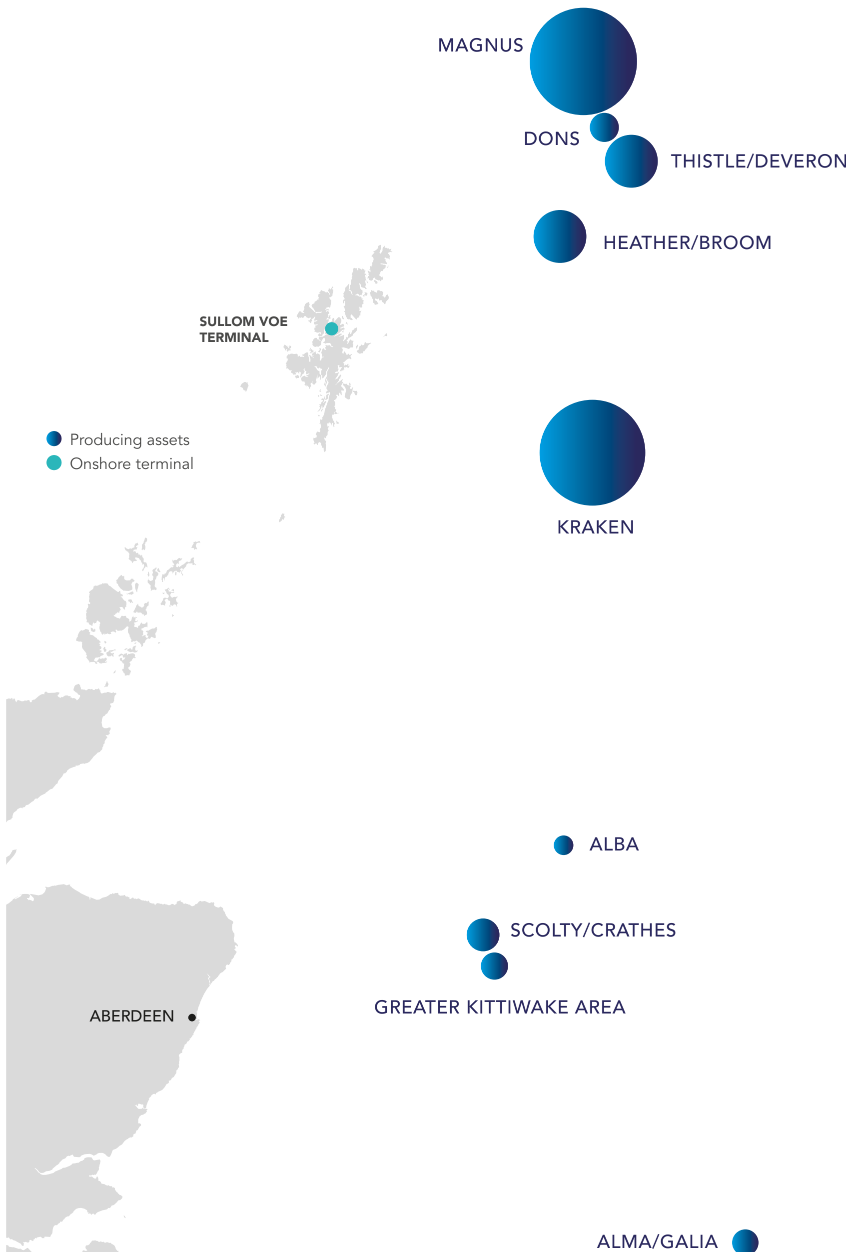
After we have reduced our debt to sustainable levels, and dependent on price conditions and company performance, our capital allocation will balance investment to develop our asset base, returns to shareholders and the acquisition of suitable growth opportunities. The application of our proven capabilities in enhancing hydrocarbon recovery from mature and underdeveloped assets means we are well placed to pursue long-term sustainable growth.

OPERATING REVIEW

During 2018, Faysal Hamza stepped down as Interim Head of North Sea and Managing Director – North Sea, returning to his previous role as Managing Director, Corporate Development.

"OUR PRODUCTION PERFORMANCE IS NOW UNDERPINNED BY TWO MATERIAL ASSETS IN MAGNUS AND KRAKEN, BOTH WITH SIGNIFICANT DEVELOPMENT OPPORTUNITIES."

Bob Davenport
Managing Director – North Sea



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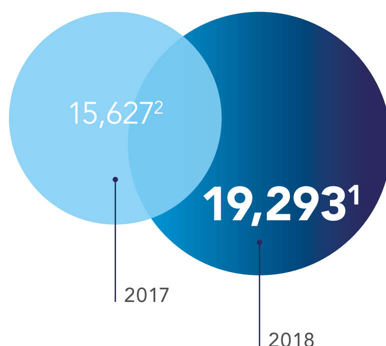
NORTHERN NORTH SEA OPERATIONS

DAILY AVERAGE NET PRODUCTION:
(Boepd)



Notes:
1 Includes net production related to 25% interest in Magnus until 30 November 2018 and 100% interest of Magnus from 1 December 2018, averaged over the 12 months to the end of December 2018
2 Includes net production from the initial 25% interest in Magnus since the acquisition on 1 December 2017, averaged over the 12 months to the end of December 2017

2018 performance summary

Production in 2018 of 19,293 Boepd was 23.5% higher than in 2017, primarily reflecting a full year's contribution from Magnus and better than expected performance from the H-67 well at Heather, which came online in March, partially offset by natural declines across the area. Good production and water injection efficiency performance was achieved at Heather/Broom, Thistle and the Dons, with production efficiency at each of these fields above 80%.

Magnus performance has been strong throughout 2018, also achieving production efficiency above 80%. Successful plant de-bottlenecking, completion of the planned maintenance shutdown and additional production following the two well drilling campaign were complemented by successful well intervention activities. Water injection performance has been strong, with high levels of uptime throughout the year, reflecting the Group's analysis of historical power generation reliability and a focus on alleviating downtime issues.

EnQuest continued to pursue a series of partner-funded idle well reservoir abandonments as part of the Group's asset life extension strategy, improving asset integrity and reducing longer-term decommissioning costs. At Thistle, six well abandonments were successfully concluded ahead of schedule and at a lower cost than budgeted, with the team subsequently mobilised to Heather to undertake abandonment work on two wells.

In June, the Dunlin bypass export project was sanctioned which, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal.

At the Sullom Voe Terminal, the Group made excellent progress in the optimisation of its planned work programme and identified and implemented a number of cost-saving initiatives. The Group was successful in reducing terminal operating costs by around 25% to approximately £150.0 million through focused supply chain management, efficient project delivery and simplifying and improving utilisation of the resources on site. These savings were achieved while delivering a strong safety performance and high levels of site availability. In line with the Group's aim to maximise the long-term value of the terminal, the Group has worked with the Shetland Islands Council and other stakeholders to deliver three ship-to-ship transfers of crude oil at the terminal.

2019 performance and outlook

Strong production performance at Magnus has continued, with aggregate production elsewhere broadly in line with the Group's plans.

At Magnus, the Group is focused on maintaining and improving production through a combination of drilling two new wells, further well intervention activity and increases in the facility's water injection capacity by returning to service the second of two deaeration towers on the asset and improving pump operations. EnQuest will continue to optimise the volumes and placement of both injected water and gas to maintain production. A three-week shutdown is planned for the second quarter.

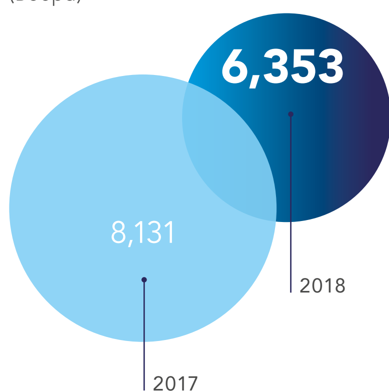
The planned two-week maintenance shutdowns at Thistle and the Dons are expected to take place in the summer and have been coordinated with the operator of the existing third-party export route and the timing of the installation of the Dunlin bypass pipeline to minimise downtime during the pipeline's commissioning phase. Drilling of the Dons North East prospect continues to be evaluated.

At Heather/Broom, further well abandonments are expected to be executed during the year along with a scheduled three-week shutdown in the third quarter. Further well intervention and drilling opportunities are being developed.

OPERATING REVIEW CONTINUED

CENTRAL NORTH SEA OPERATIONS

DAILY AVERAGE NET PRODUCTION:
(Boepd)



2018 performance summary

Production in 2018 of 6,353 Boepd was 21.9% lower than in 2017. The reduction was primarily driven by the expected performance at both Scolty/Crathes and Alma/Galia, although production at both assets was slightly better than anticipated with production efficiency at both fields above 80%.

At Alma/Galia, three failed Electric Submersible Pumps ('ESP') were successfully replaced during the third quarter, restoring aggregate production in line with plans. Production and water injection efficiency were strong, although partially offset by the end of production from the Galia reservoir following the cessation of the originally installed ESP.

Good management of wax deposition at Scolty/Crathes drove a better than expected performance and the installation of the new pipeline was sanctioned in June. Wax restrictions on production will continue to be managed until the pipeline is operational.

Aggregate production from Kittiwake and Alba was slightly ahead of expectations. Anticipated natural declines were partially mitigated by better than expected production and water injection efficiency. The team at Kittiwake delivered production efficiency of around 80% while also achieving another strong HSE&A performance, reaching 13 years without a lost-time incident.

2019 performance and outlook

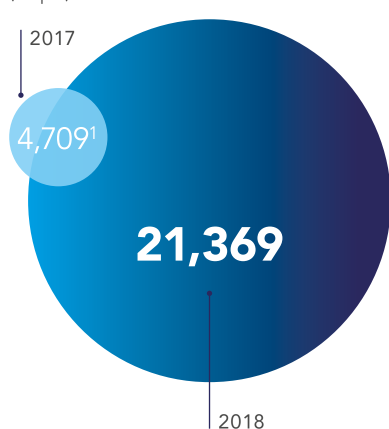
Performance to the end of February has been broadly in line with the Group's expectations.

The Scolty/Crathes pipeline is expected to be installed during the third quarter. To facilitate annual maintenance and the required pipeline installation and commissioning activities, a shutdown of approximately six weeks has been planned. Once complete, production levels at Scolty/Crathes are expected to improve significantly. At Kittiwake, production optimisation activities and development options for the Eagle discovery continue to be evaluated. Following an extensive asset integrity campaign across the Greater Kittiwake Area in 2018, a short shutdown is planned during the third quarter.

With Alma/Galia expected to cease production early in the next decade, the focus is on production optimisation and cost control, with preparatory decommissioning plans now under way. A two-week scheduled shutdown is planned for the second quarter.

THE KRAKEN DEVELOPMENT

DAILY AVERAGE NET PRODUCTION:
(Bopd)



Note:
1 Net production since first oil on 23 June, averaged over the 12 months to the end of December 2017

2018 performance summary

Average gross production for 2018 was below expectations. Throughout 2018, production was limited by a number of FPSO system and weather-related outages which required additional maintenance activities to resolve. Following repairs to the water injection system, injection rates were significantly increased to manage reservoir voidage, which in turn supported improved reservoir deliverability. Reservoir performance remains on track with well testing and reservoir modelling showing excellent communication between producer and injector wells. Net lease charter payment credits arising from the non-availability of the Kraken FPSO in 2018 were approximately $45 million, which partially mitigated the loss of revenue associated with lower production performance.

At DC4, the subsea infrastructure was installed in line with plans. Drilling commenced in November after the delayed arrival of the Transocean Leader drilling rig, with first production from the wells being rephased to the end of the first quarter 2019. As a result of improved reservoir understanding, the Group gained approval for developing DC4 with three wells instead of the four originally planned, saving approximately $23 million with no material impact on oil production rates or recovery anticipated.

2019 performance and outlook

FPSO performance has continued to limit production performance at Kraken. All DC4 wells are now onstream and performing in line with expectations. As FPSO maintenance activities are completed, production is expected to significantly improve. We continue to expect to deliver gross production of between 30,000 and 35,000 Bopd from Kraken.

A three-week maintenance shutdown is scheduled for the third quarter.

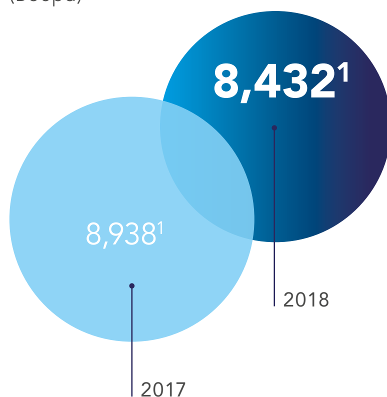
The Group continues to pursue opportunities for production optimisation through improving facility uptime and reservoir management activities, including well tests, water injection and reservoir voidage. Assessment of additional near-field, low-cost drilling opportunities within the existing producing reservoir and the Western Flank, which combined contain around 115 MMbbls of stock tank oil initially in place, is ongoing.

"THE FIRST TWO WELLS ENQUEST HAS DRILLED AT PM8/SELIGI DELIVERED AGGREGATE PRODUCTION IN LINE WITH THE PRE-DRILL ESTIMATES, WHILE THE GROUP'S IDLE WELL INTERVENTION PROGRAMME CONTINUES TO ARREST THE FIELD'S NATURAL DECLINE."

John Penrose
Managing Director, Malaysia

For illustrative purposes only, not to scale

DAILY AVERAGE NET PRODUCTION:
(Boepd)



Note:
1 Working interest. 2018 entitlement: 5,631 Boepd; 2017 entitlement: 5,884 Boepd

MALAYSIA OPERATIONS

2018 performance summary

Production in 2018 of 8,432 Boepd was 5.7% lower than in 2017, primarily reflecting natural decline at Tanjong Baram. Production efficiency has remained high at PM8/Seligi, with the planned shutdown activities in September and October successfully concluded ahead of budget and schedule. During the year, the Group undertook a significant low-cost idle well intervention programme at PM8/Seligi. In total, 12 idle wells were returned to service ahead of schedule and below budget, delivering production improvements above the Group's plans. Such programmes have been fundamental to arresting natural declines at the field since EnQuest took on operatorship. The Group also drilled its first new wells in the field, with aggregate production broadly in line with the Group's expectations. Asset integrity activities included underwater structural inspections for a number of assets, gas compressor rejuvenation and improving satellite facility monsoon reliability performance through the upgrade of control and shutdown systems. The installation of multi-phase flow meters at PM8/Seligi platforms B, E and Raya-A and remote well monitoring and testing at the satellite facilities will facilitate improved well optimisation. The team received an award for the 'Highest Improvement' in relation to offshore self-regulation, reflecting the Group's focus on safety and continuous improvement.

At Tanjong Baram, the focus remained on steady, safe and low-cost operations. Third-party export facility outages limited production efficiency and uptime throughout the year.

2019 performance and outlook

Aggregate production from PM8/Seligi and Tanjong Baram has been in line with the Group's expectations for the first two months of 2019, with the Group receiving an award for meeting domestic demand fluctuations for natural gas.

At PM8/Seligi, a two-well drilling campaign is expected to be executed in the third quarter of 2019, with first production from both wells around the end of the quarter. Further subsurface studies will be completed to enable the Group to continue to develop and optimise its future drilling opportunities to further increase recovery from the significant hydrocarbons in place, targeting an increase in production over time.

Further idle well intervention activities are planned throughout the year, with the Group planning to return to service around ten wells in order to mitigate natural decline in the reservoir.

2019 will also benefit from asset rejuvenation activity, including idle piping isolation, pipework maintenance, glycol dehydration unit rejuvenation and a compressor turbine control panel upgrade. A minimal shutdown is planned this year and is aligned with the third-party operated oil export pipeline and terminal maintenance activities to minimise downtime.

Longer term, EnQuest will extend field life through further investment in idle well restoration, facility improvements and upgrades and technical studies supporting development drilling and secondary recovery projects to increase ultimate recovery.

At Tanjong Baram, the focus is on maintaining safe operations, with production expected to continue to decline.

RESERVES AND RESOURCES

EnQuest oil and gas reserves and resources at 31 December 2018

	UKCS		Other regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and probable reserves (notes 1, 2, 3, 6 and 8)					
At 31 December 2017		190		21	210
Revisions of previous estimates		(3)		1	(2)
Acquisitions and disposals (note 7)		55		–	55
Production:					
Export meter	(17)		(3)		
Volume adjustments (note 5)	0		1		
		(17)		(2)	(19)
Total at 31 December 2018 (note 8)		**225**		**20**	**245**
Contingent resources (notes 1, 2 and 4)					
At 31 December 2017		98		67	164
Revisions of previous estimates		4		1	5
Acquisitions and disposals (note 7)		36		–	36
Promoted to reserves		(6)		–	(6)
Total contingent resources at 31 December 2018		**131**		**68**	**198**

Notes:
1 Reserves are quoted on a net entitlement basis, resources are quoted on a 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 profiles have been audited by a recognised Competent Person in accordance with the definitions set out under the 2018 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 Correction of export to sales volumes
6 All UKCS volumes are presented pre-SVT value adjustment
7 Proven and probable reserves: Acquisition of 75% equity in Magnus
Contingent resources: Acquisition of 75% equity in Magnus largely offset by relinquishment of the Group's equity interests in the Kildrummy and Torphins licences
8 The above proven and probable reserves include 6 MMboe that will be consumed as lease fuel on the Kraken FPSO and fuel gas on Heather, Broom, West Don, Don SW, Conrie and Ythan
9 The above table excludes Tanjong Baram in Malaysia

The Group's net 2P reserves at the end of 2018 were 245 MMboe, up 16.6% from 210 MMboe at the end of 2017. This increase was primarily driven by the acquisition of the additional 75% interest in Magnus, partially offset by production of 19 MMboe.

Contingent resources at the end of 2018 were 198 MMboe, up 20.7% from 164 MMboe at the end of 2017. This increase was driven by the acquisition of the additional 75% interest in Magnus, partially offset by the relinquishment of the Group's Kildrummy and Torphins licences.

For more details
Read more on pages 10 to 19

HYDROCARBON ASSETS

EnQuest's asset base as at 31 December 2018

Licence	Block(s)	Working interest (%)	Name	Decommissioning obligation
North Sea production and development				
P073	21/12a	50.0	Goosander	As per working interests
P193	211/7a & 211/12a	100.0[1]	Magnus	30.0%[2]
P213[3]	16/26a	8.0	Alba	As per working interests
P236	211/18a	99.0	Thistle & Deveron	7.5%[4]
P236	211/18a	60.0	Don SW & Conrie	As per working interests
P236/P1200	211/18b & 211/13b	78.6	West Don	As per working interests
P238	21/18a, 21/19a & 21/19b	50.0	Kittiwake Mallard Grouse & Gadwall Eagle[5]	25.0% 30.5% As per working interests n/a
P242	2/5a	100.0	Heather	37.5%
P242/P902	2/5a & 2/4a	63.0	Broom	As per working interests
P475	211/19s	99.0	Thistle	7.5%[4]
P1077	9/2b	70.5	Kraken & Kraken North	As per working interests
P1107/P1617	21/8a, 21/12c & 21/13a	50.0	Scolty & Crathes	As per working interests
P1765/P1825	30/24c & 30/25c, 30/24b	65.0	Alma & Galia	As per working interests
P2137	211/18e, 211/19a & 211/19c	60.0	Ythan	As per working interests
Other North Sea licences				
P90[3]	9/15a	33.33		n/a
P2177	21/14b, 21/19c & 21/20b	50.0		n/a
P2334	211/13c & 211/18h	60.0		n/a
Malaysia production and development				
Tanjong Baram SFRSC[6]	Tanjong Baram	70.0	Tanjong Baram	n/a
PM8/Seligi[7]	PM8 Extension	50.0	Seligi, North & South Raya, Lawang, Langat, Yong and Serudon	50.0%

Notes:
1 BP has a security over the Magnus asset (and related infrastructure assets) and is entitled to 37.5% of free cash flow from the assets subject to the terms of the transaction documents between BP and EnQuest
2 BP has retained the decommissioning liability in respect of the existing Magnus wells and infrastructure. EnQuest will pay BP additional deferred consideration by reference to 30% of BP's actual decommissioning costs on an after-tax basis, which EnQuest estimates will result in a payment equivalent to approximately 9% of the gross estimated decommissioning costs. The additional consideration payable is capped at the amount of cumulative positive cash flows received by EnQuest from Magnus, SVT and the associated infrastructure assets
3 Non-operated
4 EnQuest is liable for the decommissioning costs associated with investment since it assumed operatorship, with the balance remaining with the former owners. Following the exercise of the Thistle decommissioning options in January and October 2018, EnQuest will undertake the management of the physical decommissioning of Thistle and Deveron and is liable to make payments to BP by reference to 7.5% of BP's decommissioning costs of Thistle and Deveron
5 2016 discovery (100% EnQuest)
6 Small Field Risk Service Contract. PETRONAS remains the asset owner
7 Official reference PM-8 Extension PSC, commonly referred to elsewhere as PM8/Seligi

FINANCIAL REVIEW

"THE CASH-GENERATING CAPABILITY OF THE GROUP HAS BEEN MATERIALLY ENHANCED THROUGH THE ACQUISITION OF THE ADDITIONAL INTEREST IN MAGNUS."

Jonathan Swinney
Chief Financial Officer

Financial overview

All figures quoted are in US Dollars and relate to Business performance unless otherwise stated.

The Group made significant progress in 2018, meeting our targets, maintaining financial discipline and making substantial repayments of our bank debt. Significant time and attention were devoted to completing the acquisition of assets from BP and executing the financing agreement for a 15% share of Kraken, which have strengthened the balance sheet and enhanced liquidity.

Production on a working interest basis increased by 48.2% to 55,447 Boepd, compared to 37,405 Boepd in 2017. The full year's contribution from Magnus, including the post-acquisition impact of an additional 75% equity interest in December, increased volumes at Kraken and the strong performance at Heather were partially offset by anticipated lower production at Alma/Galia and Scolty/Crathes, along with natural declines across the portfolio.

Revenue for 2018 was $1,201.0 million, 89.1% higher than in 2017 ($635.2 million) reflecting the material increase in volumes and higher realised prices. The Group's commodity hedge programme resulted in realised losses of $93.0 million in 2018 (2017: losses of $20.6 million) as a result of the timing at which the hedges were entered into and the increase in market prices during the first half of 2018 in particular.

The Group's operating expenditures of $465.9 million were 33.4% higher than in 2017 ($349.3 million) reflecting the full year contribution of the Kraken and Magnus assets. Unit operating costs decreased by 10.2% to $23.0/Boe (2017: $25.6/Boe) as a result of increased production.

EBITDA for 2018 was $716.3 million, up 135.9% compared to 2017 ($303.6 million), primarily as a result of increased revenue.

	2018 $ million	2017 $ million
Profit from operations before tax and finance income/(costs)	**290.0**	47.3
Depletion and depreciation	**442.4**	227.6
Inventory revaluation	**5.8**	–
Net foreign exchange (gain)/loss	**(21.9)**	23.9
Realised (gain)/loss on FX derivatives related to capital expenditure[1]	**–**	4.8
EBITDA	**716.3**	303.6

Note:
1 Realised (gain)/loss on FX derivatives is recorded within cost of sales. Where the derivative hedges capital expenditure, the (gain)/loss is added back when calculating EBITDA in order to reflect the underlying result of operating activities

EnQuest's net debt decreased by $216.9 million to $1,774.5 million at 31 December 2018 (31 December 2017: $1,991.4 million). This includes $132.0 million of interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing ('Payable in Kind' or 'PIK') (31 December 2017: $90.5 million) (see note 19 for further details). Excluding PIK capitalised in 2018, net debt reduced by $258.4 million.

	Net debt/(cash)	
	31 December 2018 $ million	31 December 2017 $ million
Bonds[1]	**965.1**	944.9
Multi-currency revolving credit facility[2] ('RCF')	**799.4**	1,100.0
Oz Management facility	**178.5**	–
Tanjong Baram Project Finance Facility	**31.7**	8.5
Mercuria Prepayment Facility	**22.2**	75.5
SVT Working Capital Facility	**15.7**	25.6
Other loans	**2.5**	10.0
Cash and cash equivalents	**(240.6)**	(173.1)
Net debt	**1,774.5**	1,991.4

Notes:
1 Stated excluding accrued interest and accounting adjustment on adoption of IFRS 9 Financial Instruments of $33.4 million, and excluding the net-off of unamortised fees. Includes $117.5 million of PIK (2017: $85.7 million)
2 Stated excluding accrued interest and excluding the net-off of unamortised fees. Includes $14.4 million of PIK (2017: $4.8 million)

During the year, the Group's improved cash generation and the Kraken financing agreement facilitated cancellation and repayment of $340.0 million of the RCF, more than the scheduled amortisation requirement. In March 2019, EnQuest repaid an additional $55.0 million early with further scheduled amortisation reductions under the facility due in April 2019 ($50.0 million) and October 2019 ($100.0 million).

As at 31 December 2018, total cash and available facilities totalled $309.0 million, including ring-fenced accounts associated with Magnus, the Oz Management facility and other joint venture accounts totalling $107.3 million (2017: $270.9 million including ring-fenced accounts associated with Magnus and other joint venture accounts totalling $71.9 million). Undrawn available facilities amounted to $68.4 million at the end of 2018 (2017: $97.8 million).

UK corporate tax losses at the end of the year remained broadly in line with 2017 at $3,225.3 million (2017: $3,121.3 million). The Group generated taxable profits as production from Kraken increased and completed the acquisition of 75% of the Magnus field and associated infrastructure. Both utilised existing tax losses, which were largely offset by additional Ring Fence Expenditure Supplement ('RFES') generated in the period.

In the current environment, no significant corporation tax or supplementary corporation tax is expected to be paid on UK operational activities for the foreseeable future. During 2018, cash tax has been paid on the profits generated from Magnus and associated infrastructure assets prior to the completion of the acquisition of the additional interests. As part of this transaction, the assets were transferred to EnQuest Heather Ltd from EnQuest NNS Ltd, which allows profits generated by these assets to be offset against tax losses. Post-transfer, no taxes are expected to be payable in respect of these assets for the foreseeable future. The Group also paid cash corporate income tax on the Malaysian assets which will continue throughout the life of the Production Sharing Contract.

Income statement

Production and revenue

Production on a working interest basis increased by 48.2% to 55,447 Boepd, compared to 37,405 Boepd in 2017. The full year's contribution from Magnus, including the post-acquisition impact of an additional 75% equity interest in December, increased volumes at Kraken and the strong performance at Heather were partially offset by anticipated lower production at Alma/Galia and Scolty/Crathes, along with natural declines across the portfolio.

On average, market prices for crude oil in 2018 were higher than in 2017. The Group's blended average realised oil price excluding the impact of hedging was $66.2/bbl, 22.8% higher than in 2017 ($53.9/bbl). Revenue is predominantly derived from crude oil sales which totalled $1,237.6 million, 94.3% higher than in 2017 ($637.0 million), reflecting the material increase in volumes and higher realised prices. Revenue from the sale of condensate and gas was $43.1 million (2017: $2.8 million) as a result of sales of gas from Magnus, which includes the combination of produced gas sales and the onward sale of third-party gas purchases not required for injection activities, for which the costs are included in other cost of sales. Tariffs and other income generated $13.4 million (2017: $16.0 million). The Group's commodity hedges and other oil derivatives generated $93.0 million of realised losses (2017: $20.6 million), including losses of $17.2 million of non-cash amortisation of option premiums (2017: losses of $10.4 million) as a result of the timing at which the hedges were entered into and the increase in market prices during the first half of 2018 in particular. The Group's blended average realised oil price including the impact of hedging was $61.2/bbl in 2018, 17.2% higher than 2017 ($52.2/bbl).

Cost of sales

	2018 $ million	2017 $ million
Production costs	**396.9**	287.1
Tariff and transportation expenses	**68.4**	62.2
Realised (gain)/loss on FX derivatives related to operating costs	**0.6**	–
Operating costs	**465.9**	349.3
Realised (gain)/loss on FX derivatives related to capital expenditure	**–**	4.8
(Credit)/charge relating to the Group's lifting position and inventory	**(25.1)**	(20.4)
Depletion of oil and gas assets	**437.1**	223.1
Other cost of sales	**48.1**	12.7
Cost of sales	**926.0**	569.5
Operating cost per barrel[1]	**$/Boe**	$/Boe
– Production costs	**19.6**	21.0
– Tariff and transportation expenses	**3.4**	4.6
	23.0	25.6

Note:
1 Calculated on a working interest basis

Cost of sales were $926.0 million for the year ended 31 December 2018, 62.6% higher than in 2017 ($569.5 million). Operating costs increased by $116.6 million, reflecting the full year contribution of Kraken and Magnus partly offset by the benefit of a weaker Sterling exchange rate. The Group's average unit operating cost decreased by 10.2% to $23.0/Boe as a result of increased production.

Depletion expense of $437.1 million was 95.9% higher than in 2017 ($223.1 million), mainly reflecting the contribution from Kraken and Magnus in 2018. Other cost of sales of $48.1 million were higher than in 2017 ($12.7 million), principally reflecting the cost of additional Magnus related third-party gas purchases not required for injection activities.

General and administrative expenses

General and administrative expenses were $4.0 million (2017: $0.8 million), reflecting the Group's personnel and property costs.

Other income and expenses

Net other income of $19.1 million (2017: net other expenses of $17.6 million) primarily comprises net foreign exchange gains, which relate to the revaluation of Sterling-denominated amounts in the balance sheet following the weakening of Sterling against the Dollar. The prior year expense comprised net foreign exchange losses, offset by one-off general and administration recovery impacts.

Finance costs

Finance costs of $236.1 million were 58.5% higher than in 2017 ($149.0 million). The increase was primarily driven by a $40.8 million reduction in capitalised interest as a result of the Kraken project coming onstream in 2017 (2018: $1.5 million; 2017: $42.3 million), an additional $24.5 million in finance lease interest (2018: $55.8 million; 2017: $31.3 million), $19.7 million additional bond and loan interest charges (2018: $157.7 million; 2017: $137.9 million) and an additional $0.5 million relating to the unwinding of discount on provisions and liabilities, largely in respect of decommissioning (2018: $14.0 million; 2017: $13.5 million). Other finance costs included $8.5 million amortisation of arrangement fees for financing facilities and bonds (2017: $2.8 million) and other financial expenses of $1.7 million (2017: $5.9 million), primarily the cost for surety bonds principally to provide security for decommissioning liabilities.

Finance income

Finance income of $3.4 million (2017: $2.2 million) includes $1.8 million of bank interest receivable (2017: $0.4 million) and $1.5 million from the unwind of the discount on financial assets (2017: $1.8 million).

Taxation

The tax credit for 2018 of $20.9 million (2017: $66.0 million tax credit), excluding exceptional items, is mainly due to the RFES on UK activities.

Earnings per share

The Group's Business performance basic profit per share was 6.4 cents (2017: loss per share of 2.5 cents, restated for bonus element of rights issue) and Business performance diluted profit per share was 6.2 cents (2017: loss per share of 2.5 cents, restated for bonus element of rights issue).

Remeasurement and exceptional items

Revenue included unrealised gains of $97.4 million in respect of the mark to market movement on the Group's commodity contracts (2017: unrealised loss of $7.7 million).

Non-cash impairment charge on the Group's oil and gas assets arising from changes in assumptions combined with change in production profiles in the North Sea totalled $126.0 million (2017: $172.0 million).

FINANCIAL REVIEW CONTINUED

Other income and expense included a $1.3 million loss on fair value in relation to the revaluation of the option to purchase the remaining 75% of Magnus and other interests and the fair value uplift of the initial acquisition assets on the accounting step acquisition of $74.3 million. It also includes the reversal of a contingent provision of $5.3 million.

A tax credit of $12.4 million (2017: credit of $117.0 million) has been presented as exceptional, representing the tax impact of the above items.

Earnings per share

The Group's reported basic profit per share was 10.4 cents (2017: loss per share of 4.6 cents, restated for bonus element of rights issue) and reported diluted profit per share was 10.1 cents (2017: loss per share of 4.6 cents, restated for bonus element of rights issue).

Cash flow and liquidity

Net debt at 31 December 2018 amounted to $1,774.5 million, including PIK of $132.0 million, compared with net debt of $1,991.4 million at 31 December 2017, including PIK of $90.5 million. The Group has remained in compliance with financial covenants under its debt facilities throughout the year. The movement in net debt was as follows:

	$ million
Net debt 1 January 2018	**(1,991.4)**
Operating cash flows	794.4
Cash capital expenditure	(220.2)
Finance lease payments	(144.8)
Net cash proceeds from rights issue	128.9
Magnus acquisition consideration	(100.0)
Vendor loan repayments on Magnus financing	(48.6)
Net interest and finance costs paid	(155.3)
Non-cash capitalisation of interest	(45.0)
Other movements, primarily net foreign exchange on cash and debt	7.5
Net debt 31 December 2018	**(1,774.5)**

Note:
1 Stated including $117.5 million of bond PIK (2017: $85.7 million) and $14.4 million of facility PIK (2017: $4.8 million). Capitalised interest on Oz Management facility of $3.5 million (2017: $nil)

The Group's reported operating cash flows for the year ended 31 December 2018 were $794.4 million, up 163.2% compared to 2017 ($301.8 million). The main drivers for this increase were the material increase in volumes and higher realised prices, partly offset by commodity price hedges.

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

	Year ended 31 December 2018 $ million	Year ended 31 December 2017 $ million
North Sea	**200.2**	355.3
Malaysia	**19.5**	3.1
Exploration and evaluation	**0.5**	9.2
	220.2	367.6

Cash capital expenditure primarily relates to Kraken activities and well drilling on Heather/Broom and PM8/Seligi.

Balance sheet

The Group's total asset value has increased by $642.6 million to $5,681.1 million at 31 December 2018 (2017: $5,038.5 million), mainly attributable to the acquisition of the remaining 75% of Magnus and associated assets. Net current liabilities have decreased to $301.2 million as at 31 December 2018 (2017: $377.9 million).

Property, plant and equipment ('PP&E')

PP&E has increased by $501.3 million to $4,349.9 million at 31 December 2018 from $3,848.6 million at 31 December 2017 (see note 10). This increase is explained by the capital additions to PP&E of $181.5 million, additions of $745.4 million for the acquisition of the remaining 75% interest in Magnus and additional interests in associated assets, additions of $123.9 million on the uplift of the original 25% acquisition, a net increase of $19.0 million for changes in estimates for decommissioning and other provisions, including the KUFPEC cost recovery provision, offset by depletion and depreciation charges of $442.4 million and non-cash impairments of $126.0 million.

The PP&E capital additions during the period, including capitalised interest, are set out in the table below:

	2018 $ million
Kraken	**70.3**
Northern North Sea	**53.8**
Central North Sea	**41.6**
Malaysia	**15.8**
	181.5

Intangible oil and gas assets

Intangible oil and gas assets marginally decreased to $51.8 million at 31 December 2018 (31 December 2017: $52.1 million).

Trade and other receivables

Trade and other receivables have increased by $48.0 million to $275.8 million at 31 December 2018 compared with $227.8 million at 31 December 2017 (see note 15).

Cash and net debt[1]

The Group had $240.6 million of cash and cash equivalents at 31 December 2018 and $1,774.5 million of net debt, including PIK and capitalised interest of $135.5 million (2017: $173.1 million of cash and cash equivalents and $1,991.4 million of net debt, including PIK of $90.5 million).

Net debt[1] comprises the following liabilities:

- $218.9 million principal outstanding on the £155 million retail bond, including interest capitalised as an amount PIK of $21.5 million in the year (2017: $224.1 million and $14.9 million, respectively);
- $746.1 million principal outstanding on the high yield bond, including PIK of $96.1 million in the year (2017: $720.8 million and $70.8 million, respectively);
- $799.4 million carrying value of credit facility, comprising amounts drawn down of $785.0 million and PIK interest of $14.4 million (2017: $1,100.0 million comprising amounts drawn down of $1,095.2 million and PIK interest of $4.8 million);
- $178.5 million carrying value of Oz Management facility, comprising amounts drawn down of $175.0 million and capitalised interest of $3.5 million (2017: $nil);
- $15.7 million relating to the SVT Working Capital Facility (2017: $25.6 million);
- $22.2 million relating to the Mercuria Prepayment Facility (2017: $75.5 million);
- $2.5 million outstanding from a trade creditor loan (2017: $10.0 million); and
- $31.7 million principal outstanding on the Tanjong Baram Project Finance Facility (2017: $8.5 million).

Note:
1 Net debt excludes accrued interest, accounting adjustment on adoption of IFRS 9 Financial Instruments and the net-off of unamortised fees (see note 19)

Provisions
The Group's decommissioning provision increased by $32.4 million to $671.7 million at 31 December 2018 (2017: $639.3 million). The movement is explained by an increase of $29.9 million due to changes in estimates (including the impact of oil prices and foreign exchange rates) and $12.6 million unwinding of discount, partially offset by reductions of $10.0 million for decommissioning carried out in the period.

Other provisions increased by $605.4 million in 2018 to $715.4 million (2017: $110.0 million). Key movements during the period primarily related to the remaining acquisition of 75% of Magnus and additional interests in SVT and associated infrastructure assets from BP. An addition of $625.3 million reflects the discounted amounts expected to be due under the terms of the Magnus vendor loan and long-term profit sharing agreement associated with the 75% interest. In 2018, EnQuest repaid $48.6 million of the outstanding vendor loan associated with the initial 25% interest, and recognised a change in estimate of $12.8 million on the outstanding contingent consideration (see note 29). Other provisions also includes EnQuest's obligation to make payments to BP by reference to 7.5% of BP's decommissioning costs of the Thistle and Deveron fields. $5.3 million of the movement relates to the utilisation of PM8/Seligi cost recovery.

Income tax
The Group had a UK corporation tax or supplementary corporation tax liability at 31 December 2018 of $12.2 million (2017: $nil), primarily reflecting tax payable on Magnus and associated infrastructure assets prior to the completion of the acquisition of additional interests and the transfer of these assets to EnQuest Heather Limited. Following transfer of the assets, no further tax is expected to be payable for the foreseeable future. The remainder of the income tax liability of $3.7 million related to corporate income tax on Malaysian assets (see note 7).

Deferred tax
The Group's net deferred tax asset has decreased from $335.6 million at 31 December 2017 to a net deferred tax asset of $258.9 million at 31 December 2018. The decrease is mainly due to the deferred tax liability generated as part of the business combination accounting for the Magnus acquisition during the period.

Total UK tax losses carried forward at the year end amount to $3,225.3 million (2017: $3,121.3 million) (see note 7).

ENQUEST VALUES

WORK COLLABORATIVELY

"Collaborative working creates great teams, promotes creative thinking and gives a shared purpose."

Duncan Macdonald
IS Project Portfolio Manager, UK

FINANCIAL REVIEW CONTINUED

Trade and other payables

Trade and other payables of $502.0 million at 31 December 2018 are $55.9 million higher than at 31 December 2017 ($446.1 million). $483.8 million are payable within one year (2017: $367.3 million) and $18.2 million are payable after more than one year (2017: $78.8 million). The increase in current payables mainly reflects VAT payments due at year end combined with other working capital movements (see note 23).

Obligations under finance leases

As at 31 December 2018, the Group held a finance lease liability of $709.0 million associated with the Kraken FPSO of which $93.2 million is classified as a current liability.

Other financial liabilities

As at the end of 2018, the Group had no other financial liabilities (2017: $68.3 million). The decrease primarily relates to the cash payment associated with waiver fees due to credit facility lenders and mark to market movements on the Group's commodity derivatives following the weakening of the oil price in late 2018.

Financial risk management

Oil price

The Group is exposed to the impact of changes in both Brent crude oil prices and gas prices on its revenue and profits. EnQuest's policy is to manage the impact of commodity prices to protect against volatility and allow availability of cash flow for repayment of debt and investment in capital programmes.

During the year ended 31 December 2018, commodity derivatives generated a total gain of $4.4 million, with revenue and other operating income including a realised loss of $93.0 million. The losses were mostly in respect of the settlement of swaps and calls, and the amortisation of premiums on calls.

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.

EnQuest continually reviews its currency exposures and, when appropriate, looks at opportunities to enter into foreign exchange hedging contracts. During the year ended 31 December 2018, losses totalling $0.4 million (2017: gain of $0.4 million) were recognised in the income statement. This included losses totalling $0.6 million realised on contracts maturing during the year (2017: $nil).

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 that 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 project timing and costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also continued to take action to implement cost-saving programmes to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2018 and 2019. At 31 December 2018, the Group had total cash and available facilities of $309.0 million, including ring-fenced accounts associated with Magnus, the Oz Management facility and other joint venture accounts totalling $107.3 million.

The Group's business plan ('Base case'), which underpins this going concern assessment, assumes Kraken production rates are in line with the Group's production guidance. The Base case has been updated for the forward curve and uses an oil price assumption of c.$61.9/bbl throughout 2019 and c.$60.7/bbl for first quarter 2020. This has been further stress tested under a plausible downside case ('Downside case') as described in the viability statement. Both cases reflect the bank debt amortisation profile due in the going concern period. The Directors consider the Base case and Downside case to be an appropriate basis on which to make their assessment.

The Base case and Downside case indicate that the Company is covenant compliant and 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.

Should circumstances arise that differ from the Group's projections, the Directors believe that a number of mitigating actions, including asset sales or other funding options, can be executed successfully in the necessary timeframe to meet debt repayment obligations as they become due and in order to maintain liquidity.

After making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group can continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Viability statement

The Directors have assessed the viability of the Group over a three-year period to March 2022. This assessment has taken into account the Group's financial position as at March 2019, the future projections and the Group's principal risks and uncertainties. The Directors' approach to risk management, their assessment of the Group's principal risks and uncertainties, and the actions management are taking to mitigate these risks are outlined on pages 36 to 43. The period of three years is deemed appropriate as it is the time horizon across which management constructs a detailed plan against which business performance is measured and also covers the period within which the Group's term loan and revolving credit facility is expected to be repaid. Based on the Group's projections, the Directors have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due over the period to March 2022.

The Group's business plan process has underpinned this assessment and has been used as the Base case. The business plan process takes account of the Group's principal risks and uncertainties, and has further been stress tested to understand the impact on the Group's liquidity and financial position of reasonably possible changes in these risks and/or assumptions.

The forecasts which underpin this assessment use the same oil price assumption as for the going concern assessment, with a longer term price assumption for the viability period being aligned to the current forward curve.

For the current assessment, the Directors also draw attention to the specific principal risks and uncertainties (and mitigants) identified below, which, individually or collectively, could have a material impact on the Group's viability during the period of review. In forming this view, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The impact of these risks and uncertainties, including their combined impact, has been reviewed by the Directors and the effectiveness and achievability of the potential mitigating actions have been considered.

Oil price volatility

A decline in oil and gas prices would adversely affect the Group's operations and financial condition. To mitigate oil price volatility, the Directors have hedged approximately 6.5 MMbbls of collar options at an average floor price of around $66/bbl in the first half of 2019. In accordance with the Oz Management facility agreement, the Group has a further approximately 1.5 MMbbls hedged across 2019 with an average floor price of around $56/bbl. The Directors, in line with Group policy, will continue to pursue hedging at the appropriate time and price.

Kraken production

All production and injector wells on Drilling Centres ('DC') DC1, DC2, DC3 and DC4 are onstream. Both production processing trains are also online and production and injection wells are operating in line with expectations in aggregate. On the basis of this performance, and subject to delivering on the Group's plans to further optimise production and improve plant uptime, EnQuest expects to deliver planned production rates.

Access to funding

The Group's credit facility contains certain covenants (based on the ratio of indebtedness incurred under the term loan and revolving credit facility to EBITDA, finance charges to EBITDA, and a requirement for liquidity testing). Prolonged low oil prices, cost increases and production delays or outages could further threaten the Group's liquidity and/or ability to comply with relevant covenants.

The Directors recognise the importance of ensuring medium-term liquidity and in particular to protect against potential future declines in the oil price. EnQuest has a committed $785 million Tranche A Term Loan and a further Tranche B $75 million revolving credit facility (collectively the 'Facility'). Across the Facility, $68 million remains available at 31 December 2018.

In addition, the maturity dates of the existing $746 million High Yield Bond and the £172 million Retail Notes (both figures inclusive of the PIK notes) is April 2022, with an option exercisable by the Group (at its absolute discretion) to extend the maturity date to October 2023 if the existing Facility is not fully repaid or refinanced by October 2020.

A further condition to the payment of interest on both the High Yield Bond and Retail Notes in cash is based on, amongst other things, the average prevailing oil price (dated Brent Futures benchmark as published by Platts) for the six-month period immediately preceding the day which is one month prior to the relevant interest payment date being at least $65 per barrel; otherwise interest payable is to be capitalised.

In conducting the viability review, these risks have been taken into account in the stress testing performed on the Base case described above.

Specifically the Base case has been subjected to stress testing by considering the impact of the following plausible downside risks:

- a 10.0% discount to the oil price forward curve;
- a 3.5% decrease in 2019 production and a 5.0% decrease from 2020 onwards;
- a 2.5% increase in operating costs except for fixed costs related to the Kraken FPSO; and
- a 2.5% increase in capital expenditure from 2020 onwards.

A scenario has been run illustrating the impact of the above risks on the Base case. This plausible Downside case indicates that mitigating actions, including asset sales or other funding options, would need to be undertaken for the Group to be viable for in some parts of the three-year period.

Notwithstanding the principal risks and uncertainties described above, after making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group can continue in operation and meet its commitments as they fall due over the viability period ending March 2022. Accordingly, the Directors therefore support this viability statement.

CORPORATE RESPONSIBILITY REVIEW

"WITH SAFETY AT THE HEART OF PERFORMANCE, ENQUEST IS COMMITTED TO DELIVER SAFE RESULTS THROUGH CONTINUOUS IMPROVEMENT."

Sandy Fettes
Technical Services and HSE&A Director

NON-FINANCIAL INFORMATION STATEMENT

The following information is prepared in accordance with section 414CB(1) of the Companies Act 2006.

Safe Results is not just a goal, but what we expect to achieve every day.

OUR PEOPLE

- We are committed to ensuring that EnQuest is a great place to work
- Through an integrated and collaborative approach we undertook a Values refresh during 2018
- We revised our Diversity and Inclusion Policy
- The Board approved the establishment of an Employee Forum as part of its workforce engagement activities, in line with the revised Corporate Governance Code published in July 2018

For more details
See pages 09, 11 and 32 to 34

The Group's risks and uncertainties are outlined on pages 36 to 43.

ENVIRONMENT

- EnQuest's priority is delivering Safe Results, with no harm to our people and respect for the environment
- Our Environmental Management System ensures our activities are conducted in such a way that we manage and mitigate our impact on the environment, which includes permitted hydrocarbon releases and discharges. Non-compliant releases and discharges from the Group's operations carry adverse reputational, financial and other consequences
- The Group acknowledges that a reduction in carbon emissions is of primary importance if the objectives of the UK Climate Change Act (2008) and the 2015 Paris Agreement are to be met. The Group endeavours to minimise carbon emissions from its operations as far as reasonably practicable
- EnQuest has reported on all of the emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013

For more details
See pages 30 to 31

COMMUNITY

- EnQuest is fully committed to active community engagement programmes and encourages and supports charitable donations in the areas of improving health, education and welfare within the communities in which it works
- In EnQuest's first full year of operatorship at the Sullom Voe Terminal ('SVT') in December 2017, the Group has continued its charitable support on Shetland and its support of the Shetland Oil Terminal Environmental Advisory Group
- In Malaysia, EnQuest has provided educational support for university students and continued its support for underprivileged and orphaned children of the Good Samaritan House

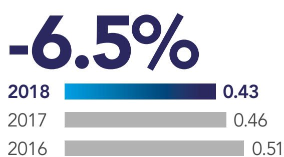
For more details
See page 34

BUSINESS CONDUCT

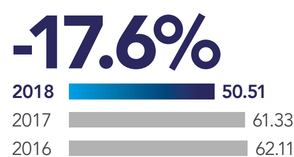
- The Group has a Code of Conduct that sets out the behaviour which the organisation expects of its Directors, managers and employees, and of our suppliers, contractors, agents and partners
- This code addresses the Group's requirements in a number of areas, including the importance of health and safety and environmental protection, compliance with applicable law, anti-corruption, anti-facilitation of tax evasion, anti-slavery, addressing conflicts of interest, ensuring equal opportunities, combatting bullying and harassment and the protection of privacy

For more details
See pages 34 and 35

GROUP LOST TIME INCIDENT FREQUENCY RATE[1]



GREENHOUSE GAS EMISSIONS INTENSITY RATIO[2]



Notes:
1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and 8 hours for onshore)
2 Ratio expressed in terms of kilogrammes of CO_2 emissions per EnQuest-produced barrel of oil equivalent and represents combined Scope 1 and Scope 2 extraction related emissions. See page 82 for more information

ENQUEST VALUES

RESPECT AND OPENNESS

"We have a great open culture at EnQuest. We communicate freely and engage at all levels across the organisation."

Lisa Proctor
Senior Reward Advisor, UK

CORPORATE RESPONSIBILITY REVIEW CONTINUED

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

The key components of EnQuest's HSE&A policy (which can be found on the Group's website, www.enquest.com, under Corporate Responsibility) are that the Company is committed to operating responsibly and will not compromise its health, safety or environmental standards to meet its business objectives. The EnQuest Board continues to receive regular information on the HSE&A performance of the Company, and specifically monitors health, safety, environmental and assurance reporting at each Board meeting and meetings of the Risk Committee, conscious that the Company may face reputational and/or financial risks should an incident occur.

The Group delivered on its commitment of continual improvement in HSE&A performance, witnessing excellent results in many areas and meeting the majority of performance targets.

In occupational safety, our Lost Time Incident ('LTI') performance remained strong in both the UK and Malaysia. During 2018, our teams at Kittiwake and PM8/Seligi recorded 13 and eight years, respectively, LTI free, while our Thistle, Northern Producer, EnQuest Producer and Heather assets in the UK North Sea and Tanjong Baram in Malaysia all recorded an LTI-free year. These milestones were achieved against a backdrop of ongoing high levels of activity on the assets.

With regard to HSE performance, in Malaysia the number of reportable hydrocarbon releases reduced to four and the team received positive feedback from the regulator, Malaysia Petroleum Management, with regard to the high levels of improvement from the Integrated Operational Asset Integrity Assurance ('IOAIA') process. They also received an award for the 'Highest Improvement' in relation to offshore self-regulation. On average, PM8/Seligi maintained flaring levels around 35% below the annual flare consent. In the UK, the teams delivered significant reductions in spills to sea compared to 2017. However, reportable hydrocarbon releases across the Group's UK operated assets increased slightly to six and we had a high-potential dropped-object incident associated with lifting operations at Magnus. We continue to learn from these events through extensive root cause analysis and the subsequent development and sharing of any required improvements across EnQuest's assets in an effort to limit the chance of reoccurrence.

Across the Group, good progress was made with the leading metrics in areas such as safety-critical maintenance deferrals, leadership site visits and close out of actions from incidents and audits, demonstrating our commitment to be proactive with regard to HSE&A. In both Malaysia and the UK, positive feedback from the respective regulators was received regarding the levels of transparency and trust that have been generated. This has allowed for better dissemination of learnings within EnQuest and across the industry.

EnQuest welcomes the drive for increased governance and transparency in relation to climate change, and discloses its assessment of associated potential risks to the execution of its strategy within the risks and uncertainties section of this report (see page 36). While hydrocarbons are expected to remain a key element of the UK and global energy mix for many years, the Group recognises that it must endeavour to minimise carbon emissions from its operations as far as practicable if the objectives of the UK Climate Change Act (2008) and the 2015 Paris Agreement are to be met. The Group endeavours to minimise carbon emissions from its operations through improving operational performance and the application of appropriate improvement initiatives, noting the ability to reduce carbon emissions is constrained by the original design of our later-life assets. The main sources of atmospheric emissions from EnQuest assets are from combustion plant associated with power generation and flaring.

Greenhouse gases are reported as appropriate. Attempts to minimise the quantity of CO_2 continued through optimisation of plant efficiencies and minimisation of flaring and venting where possible. The acquisition of Magnus and SVT has inevitably increased the quantity of CO_2 emitted by EnQuest in 2018.

"WE RECOGNISE OUR PEOPLE ARE CRITICAL TO OUR SUCCESS AND ARE COMMITTED TO ENSURING ENQUEST IS A GREAT PLACE TO WORK."

SVT operates under a Pollution Prevention and Control ('PPC') permit, granted by the Scottish Environmental Protection Agency ('SEPA'). SEPA's Compliance Assessment Scheme is designed to demonstrate the level of compliance associated with specific PPC permit conditions. EnQuest acknowledges the environmental sensitivities at SVT and the surrounding area and have employed a specialist third-party oil spill response company which is based on site.

During 2018, a greater level of collaboration has been witnessed between the UK and Malaysia and this will continue into 2019. Evidence of our continued commitment to improvement was demonstrated through the following activities:

UK North Sea:

- Continued with workforce awareness of SAFE behaviours and control of Major Accident Hazards via workshops, which provide a lasting demonstration of the potential consequences of hydrocarbon releases;
- Further developed the capabilities of Elected Safety Representatives and Environment Representatives through on and offshore engagement sessions allowing collaboration and sharing of learnings;
- Delivered the Level 1-3 Assurance Plan that focuses on the audit of the Safety and Environmental Management System, identifying findings that have been factored into asset and business improvement plans as part of the Group's commitment to continuous improvement;
- Continued with the roll-out of Life Saving Rules to underline the importance of maintaining standards and encouraging procedural compliance in our high-risk activities; and;
- Supported industry groups such as Step Change in Safety and Oil & Gas UK with our ongoing commitment to simplification initiatives and contributed to the industry 'Boots on for Safety' campaign to improve leadership visibility and workforce engagement.

Malaysia:

- Roll-out of HSE case during the first quarter of 2018;
- Major Accident Awareness training continued throughout the year;
- Completed the 2018 IOAIA audit by the regulator on ten assets with significantly fewer findings and a reduction in the severity of those findings compared to the previous audit. The teams reached 98% closure on the 2016 IOAIA findings, with all serious findings closed out;
- Completed external audits of the HSE Management System with no significant findings;
- Continued the internal audit programme throughout the year while managing zero overdue safety-critical actions;
- Second contractor HSE event completed with increased attendance indicating increased commitment and collaboration;
- Continued implementation of quarterly HSE reviews with key contractors; and
- Completed oil spill response training for all offshore crews.

We also completed comprehensive UK and Malaysian HSE&A audit programmes, with outcomes fed into our 2019 Continual Improvement Programme. This underlines our focus upon improvement through the early detection and resolution of issues.

CORPORATE RESPONSIBILITY REVIEW CONTINUED

People

Rewarding work environment

We recognise our people are critical to our success and are committed to ensuring that EnQuest is a great place to work. In 2018, we worked with our teams to develop a refreshed set of Values. This was an integrated and collaborative approach, with contributions from teams across the Group, to ensure we captured the essence of what makes EnQuest great. Our Values are outlined on page 9 and are being incorporated into a number of our processes, such as those in Human Resources and Health, Safety, Environment and Assurance. We remain committed to ensuring that staff can optimise their performance through a combination of cascaded objectives at the beginning of the year that align to our wider Group goals, followed by regular line management feedback and conversations to measure progress towards these goals. We also developed a process to identify the Group's high performing individuals and provide them with relevant exposure to senior management and members of the Board.

In line with our aim of providing a rewarding work environment, with opportunities for growth and learning while contributing to the delivery of our strategy, we undertook a review of our UK offshore organisation to ensure that we have the right structures in place. This process, which was undertaken in consultation with the EnQuest workforce and relevant trade unions, involved assessing the optimal crew size and skill dispersion across our assets and the benefits of insourcing operations and maintenance services on assets for which EnQuest is duty holder. In addition, following feedback from our teams and cognisant of the wider industry, changes that standardised our offshore rota patterns for all EnQuest offshore operations and maintenance core positions were proposed. We believe these changes combined facilitate a better work-life balance and make competency development and personnel movements easier to manage.

In our Malaysian offshore organisation, ensuring that we have appropriate competency levels remained a priority and led to job levels being redefined, creating growth and learning opportunities for our employees. Significant efforts were also undertaken with regard to succession planning and long-term employee retention, in conjunction with our efforts to enhance our workforce compliance further under the Production Sharing Contract agreement with PETRONAS. The process for identifying high-potential Malaysian talent and supporting their development through targeted training and work placements is under way. EnQuest was an active sponsor of the PETRONAS training programme for graduates (PRODIGY) and has subsequently hired all trainees who were sponsored. We were also successful in recruiting or promoting qualified Malaysian nationals into leadership roles within our finance, subsurface and engineering teams, replacing expatriates in some of these roles.

Engagement

As part of the Group's employee engagement programme, we have continued to run our business briefings and town halls. In line with the updated UK Corporate Governance Code published in July 2018, the Board approved the establishment of an Employee Forum to improve engagement and interaction between the workforce and the Board. While the Code is UK specific, EnQuest sees the value in having a global forum for its employees, with up to 12 employee representatives drawn from across our geographies meeting on a quarterly basis. The Forum Chair will be rotated amongst senior leaders and will report to the Board through two designated Non-Executive Directors. The Board has nominated Laurie Fitch and Phil Holland to share the designated Non-Executive Directors accountabilities between them, which will include attending at least two of the Forum meetings each year.

Gender pay

EnQuest published its second Gender Pay Report in compliance with the UK's gender pay legislation. Both the average and median gender pay gap difference between men and women in the Company improved materially. As expected, however, the transfer of staff from BP at the end of 2017 increased the percentage of men in our UK workforce from 77% to 86%. As outlined above, with the offshore restructuring under way, it is likely that the proportion of males in the organisation will increase further.

The gender pay gap is not the same as equal pay which refers to whether a man and a woman are receiving equal pay for doing equal work and it is important to clarify this point. The gender pay gap is there to compare the average pay of all women compared to the average pay of all men in the same organisation – regardless of role, seniority, experience or contracted working hours. Our gender pay gap results are influenced by factors such as societal norms, more males than females working in the oil and gas sector (particularly offshore) and individual choices in terms of self-selected flexible working practices such as part-time working. Having a gender pay gap does not mean that the pay practices at EnQuest are unequal.

"WE ARE COMMITTED TO CONDUCTING OURSELVES ETHICALLY, WITH INTEGRITY AND TO COMPLYING WITH ALL APPLICABLE LEGAL REQUIREMENTS."

The information collected was based on the relevant pay period of:

- The month of April 2018, for the purposes of calculating salary earned; and
- The year April 2017 – March 2018 for the purposes of calculating bonus paid.

The results show that the average rate of total pay for women is 29.5% below the average rate of total pay for men, a significant improvement when compared to the 38.7% reported previously, although the average bonus gap for women widened to 53.9% (from 44.9%) below the average bonus paid for men. On the comparison of median total pay and bonus, the percentage difference is 22.9% on pay, again a substantial improvement on the 31.6% reported previously, and 33.9% on bonus, an increase from 23.1% previously. During the period April 2017 – March 2018, almost an equal percentage of women and men received a bonus (84% of women and 85% of men).

The Company conducts regular benchmarking exercises to ensure that our salaries are comparable, regardless of gender, and that our recruitment process is fair and balanced. However, we recognise that we need to work at addressing our gender pay gap over the coming years. Whilst we recognise that any improvements of this imbalance cannot be resolved immediately, we are committed to narrowing the gender pay gap in EnQuest over time.

Our people and organisational strategy is to ensure that we have the right people in the right roles driving performance and delivering efficiencies as we continue to pursue our strategy for growth. We recognise that we operate in an industry where the talent pool and labour market is predominantly male, and so we ensure our processes are open and transparent, providing equal opportunity for applicants. EnQuest recognises the value of diversity in its workforce and is committed to diversity, including diversity of skills, experience, nationality and gender in its appointments to the Board and within the executive and senior management teams and will continue to be so, recruiting individuals on merit and their suitability for the role and cognisant of the skills and experience of the rest of the executive and senior management.

Diversity and Inclusion

In 2018 and early 2019, our Diversity and Inclusion Policy was revised to incorporate our new Values in a clear policy statement, with the formal launch during 2019. We encourage a culture of respect and openness which values the diversity of all our people. We also expect to see collaborative and inclusive teamwork where we combine our collective capabilities to deliver Safe Results. We wish to create an environment where all individuals, teams and the Company as a whole can learn, develop and adapt. It is for everyone to ensure that their actions and engagement in daily interactions with colleagues and stakeholders demonstrate respect for one another, encourage inclusion and diversity, recognising the contributions that each individual makes to the workplace.

CORPORATE RESPONSIBILITY REVIEW CONTINUED

Recipients and trustees of the Sullom Voe Terminal Participants' Tenth Anniversary Education Trust

EnQuest volunteers with children and caretakers of Good Samaritan Home and their Christmas presents

EnQuest remains committed to fair treatment of people with disabilities in relation to job applications. Full consideration is given to applications from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. EnQuest is committed to ensuring that the needs of staff members with disabilities are addressed. As set out in the Equal Opportunities & Dignity at Work Policy, the Company encourages individuals with a disability, or who develop a disability at any time during their employment, to speak to their line manager about their condition. This will enable the Company to provide support and prevent unfavourable treatment. Careful consideration is given to whether any reasonable adjustments can be made in order to assist individuals with a disability in the performance of their roles.

Community

Supporting the communities in which we operate and live continues to be an important element of working at EnQuest, and we remain committed to developing strong relationships with partner organisations in the North Sea and Malaysia.

EnQuest is an active member of Oil Spill Response Limited, which was established to respond to oil spills, wherever they may occur in the world, through the provision of preparedness, response and intervention services. It is the largest international cooperative funded by industry. In Malaysia, the Group is also a member of the Petroleum Industry of Malaysia Mutual Aid Group, which provides oil spill response and associated training for its members.

North Sea

Our North Sea team supports a wide range of charities throughout the UK. Our offshore teams link their fundraising efforts to the delivery of strong safety and environmental performance. In 2018, we raised more than £74,000, with our offshore teams nominating the charities that will benefit from their efforts. Nominated charities included CLAN Cancer Support, Great North Air Ambulance Service, Highland Hospice, The Brain Tumour Charity, Lamont Farm Project, and Zoe's Place Trust.

We held a number of fundraising activities that continued to help us support Archway, an Aberdeen-based charity which supports young people and adults with learning disabilities. This programme of support will continue in 2019, alongside CLAN Cancer Support, which was nominated by our teams as our second charity to support through 2019 and beyond. CLAN is a well-established local charity providing emotional and practical support to people affected by cancer and their families, carers and friends.

As operator of the SVT, supporting local charities and fundraising events is an important element of our community engagement. Once again, the Trustees of the SVT Participants' Tenth Anniversary Education Trust made awards to local young people. The fund was established to promote and encourage the education of Shetland residents who will be studying a discipline likely to contribute to the social and/or economic development of Shetland. Ten educational awards were made for the academic year 2018/2019; five of these were recipients of scholarships the previous year. Funds were also raised for a broad range of community groups, including: Shetland Youth Volunteering Awards; Anderson High School local opportunities event; Shetland Community Bike Project; RNLI Lerwick and Aberdeen; Royal Voluntary Service; Cancer Research; and Shetland Bereavement Support Services.

We are also committed to the continuing protection of the outstanding environment around the terminal through our support of the Shetland Oil Terminal Environmental Advisory Group ('SOTEAG'). For 40 years, SOTEAG has helped to ensure that Sullom Voe's special geographical and biological features remain unspoiled through high-quality marine environmental monitoring and management.

Malaysia

In 2018, EnQuest improved the gender diversity of the Malaysia Leadership Team with the recruitment of two female members in Finance and Engineering. We also engaged five female and seven male local university students for internship placements in a variety of disciplines within EnQuest, such as operations, subsurface, HSE and supply chain management, supporting them in gaining practical experience in their chosen study area. To encourage young people to participate in higher education, particularly in the disciplines of Science, Technology, Engineering and Mathematics ('STEM'), a scholarship programme has been established and will support two undergraduate students in the fields of geoscience and engineering at Universiti Malaya and Universiti Teknologi Malaysia.

We continue to offer practical support to the Good Samaritan House with donations for the home, which in 2018 included kitchen equipment and a water dispenser. A home safety inspection was conducted by our HSE team to identify and minimise any safety hazards, which helps ensure a safer living environment for the children and caretakers of the home. Our team also helped 35 underprivileged and orphaned children through a 'Wishing Tree' gift-giving event, based on their wishes for Christmas and New Year. The children joined an end-of-year party with staff, which included career and safety talks as well as a choir performance by the children.

Business conduct

EnQuest has a Code of Conduct with which it requires all personnel to be

familiar. The EnQuest Code of Conduct sets out the behaviour which the organisation expects of its Directors, managers and employees, of our suppliers, contractors, agents and partners. We are committed to conducting ourselves ethically, with integrity and to complying with all applicable legal requirements; we routinely remind those who work with or for us of our obligations in this respect.

Our employees and everyone that we work with help to create and support our reputation, which in turn underpins our ability to succeed. This code addresses our requirements in a number of areas, including the importance of health and safety and environmental protection, compliance with applicable law, anti-corruption, anti-facilitation of tax evasion, anti-slavery, addressing conflicts of interest, ensuring equal opportunities, combatting bullying and harassment and the protection of privacy.

The Group's induction procedures cover the Code of Conduct and the Group runs both ad hoc and scheduled periodic training for personnel to refresh their familiarity with relevant aspects of the Code of Conduct and specific policies and procedures which support it (such as the Group's anti-corruption programme).

As part of the Group's Risk Management Framework, the Board is supplied annually with an 'assurance map' that provides an insight into the status of the main sources of controls and assurance in respect of the Group's key risk areas (see pages 36 to 43 for further information on how the Group manages its key risk areas). Whilst this provides some formal assurance as to how the Group reinforces its requirements in respect of business conduct, the Board also recognises the importance of promoting the right culture within the Group and this remains an area of focus for the Group.

The Code of Conduct also includes details of the independent reporting line through which any concerns related to the Group's practices or any suspected breaches of the Group's policies and procedures can be raised anonymously and encourages personnel to report any concerns to the legal department and/or the General Counsel. Where concerns are raised (whether through the reporting line or otherwise), the General Counsel, reporting for this purpose to the Chairman of the Audit Committee, is required to look into the relevant concern, investigate and take appropriate action. Concerns raised in relation to potential conflicts of interest and safety practices, as well as more routine interfaces with regulatory authorities, are also reported to the Board and addressed appropriately.

The Code of Conduct includes a confirmation of EnQuest's commitments to adhere to applicable tax laws (including the corporate offence of failure to prevent the criminal facilitation of tax evasion) as well as the Group's stance against slavery and human trafficking. The Group has zero tolerance of such practices and expects the same of all with whom it has business dealings; for example, in relation to procurement, by requiring suppliers to confirm their commitment to anti-slavery before being qualified to supply the Group. The Group has supplemented its procedures to provide further assurance that it is able to identify and manage human rights risks in its supply chain and publishes its modern slavery statement on its website at www.enquest.com, under Corporate Responsibility.

Further detail on EnQuest's corporate responsibility policies and activities, including the area of Business Conduct, is also available on the Corporate Responsibility section of EnQuest's website at www.enquest.com. This is updated as required during the year.

ENQUEST VALUES

GROWTH AND LEARNING

"EnQuest has been dynamic and flexible with my role, encouraging me to achieve my career goals."

Rebecca Young
Senior Legal Advisor, UK

RISKS AND UNCERTAINTIES

Management of risks and uncertainties

Consistent with the Company's purpose (as set out on the inside of the front cover of this report), the Board has articulated EnQuest's strategic vision to be the operator of choice for maturing and underdeveloped hydrocarbon assets. EnQuest is focused on delivering on its targets, driving future growth and managing its capital structure and liquidity.

EnQuest seeks to balance its risk position between investing in activities that can achieve its near-term targets and drive future growth with the appropriate returns, including any appropriate market opportunities that may present themselves, and the continuing need to remain financially disciplined. This combination drives cost efficiency and cash flow generation, facilitating a reduction in the Group's debt. In this regard, the Board has developed certain strategic tenets to guide the Company which link with its strategy and appetite for risk. Broadly, these reflect a focus by the Company on:

- Maintaining discipline across metrics such as financial headroom, leverage ratio and gearing;
- Enhancing diversity within our portfolio of assets, with a focus on underdeveloped producing assets and maturing assets with investment potential; and
- Ensuring the quality of the investment decision-making process.

In pursuit of its strategy, EnQuest has to manage a variety of risks. Accordingly, the Board has established a Risk Management Framework to enhance effective risk management within the following Board-approved overarching statement of risk appetite:

- We make investments and manage the asset portfolio against agreed key performance indicators consistent with the strategic objectives of enhancing net cash flow, reducing leverage, managing costs and diversifying our asset base;
- We seek to embed a risk culture within our organisation corresponding to the risk appetite which is articulated for each of our principal risks;
- We seek to avoid reputational risk by ensuring that our operational and HSE&A processes, policies and practices reduce the potential for error and harm to the greatest extent practicable by means of a variety of controls to prevent or mitigate occurrence; and
- We set clear tolerances for all material operational risks to minimise overall operational losses, with zero tolerance for criminal conduct.

The Board reviews the Company's risk appetite annually in light of changing market conditions and the Company's performance and strategic focus. The Executive Committee periodically reviews and updates the Group Risk Register based on the individual risk registers of the business. The Group Risk Register, along with an assurance mapping and controls review exercise and a risk report (focused on identifying and mitigating the most critical and emerging risks through a systematic analysis of the Company's business, its industry and the global risk environment), is periodically reviewed by the Board (with senior management), to ensure that key issues are being adequately identified and actively managed. In addition, the Group's Risk Committee (a sub-Committee of the Board) provides a forum for the Board to review selected individual risk areas in greater depth (for further information, please see the Risk Committee Report on page 79).

As part of its strategic, business planning and risk processes, the Group considers how a number of macro-economic themes may influence its principal risks. These are factors which influence long-term supply and demand trends and/or about which the Company should be cognisant in developing its strategy. They include, for example, developments in technology, demographics, climate change and how markets and the regulatory environment may respond, and the decommissioning of infrastructure in the UK North Sea and other mature basins. These themes are relevant to the Group's assessments across a number of its principal risks. The Group will continue to monitor these themes and the relevant developing policy environment at an international and national level and will adapt its strategy accordingly. For example, EnQuest remains conscious of the potential for a number of aspects of climate change to amplify certain principal risks over time (e.g. in relation to access to capital markets – see 'Financial' risk on page 40 – and oil price – see 'Oil and gas prices' risk on page 39). The Group is also conscious that as an operator of mature producing assets with limited appetite for exploration, it has limited exposure to investments which do not deliver near-term returns and is therefore in a position to adapt and calibrate its exposure to new investments according to developments in relevant markets.

As part of its evolution of the Group's Risk Management Framework, the Risk Committee has refreshed its views on all risk areas faced by the Group (categorising these into a 'Risk Library' of 18 overarching risks). For each risk area, the Committee reviewed 'Risk Bowties' that identified risk causes and impacts and mapped these to preventative and containment controls used to manage the risks to acceptable levels (see diagram below).

The Board, supported by the Audit and Risk Committees, has reviewed the Group's system of risk management and internal control for the period from 1 January 2018 to the date of this report and carried out a robust assessment of the Company's emerging and principal risks, the procedures in place to identify and mitigate principal and emerging risks and confirms 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 (identified from the 'Risk Library') 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.

Cognisant of the Group's purpose and strategy (as outlined on the inside front cover and page 4 of this report), the Board is satisfied that the Group's risk management system works effectively in assessing and managing the Group's risk appetite and has supported a robust assessment by the Directors of the principal risks facing the Group.

Set out on the following pages are:

- The principal risks and mitigations;
- An estimate of the potential impact and likelihood of occurrence after the mitigation actions, along with how these have changed in the past year; and
- An articulation of the Group's risk appetite for each of these principal risks.

Amongst these, the key risks the Group currently faces are a sustained decline in oil prices (see 'Oil and gas prices' risk on page 39), a lack of growth opportunities (see 'Production' risk on page 38 and 'Subsurface risk and reserves replacement' on page 42) and materially lower than expected production performance for a prolonged period, particularly at the Kraken field (see 'Production' risk on page 38).

RISK

HEALTH, SAFETY & 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, asset integrity issues and potential environmental harm, including those associated with the impacts of climate change.

Potential impact – Medium (2017 Medium)
Likelihood – Low (2017 Low)

There has been no material change in the potential impact or likelihood and the Group's overall record on HSE remains robust.

Related KPIs – A, B, C, D, E, F, G

APPETITE

The Group's principal aim is Safe Results with no harm to people and respect for the environment. Should operational results and safety ever come into conflict, employees have a responsibility to choose safety over operational results. Employees are empowered to stop operations for safety-related reasons.

The Group's desire is to maintain upper quartile HSE performance measured against suitable industry metrics.

MITIGATION

The Group maintains, in conjunction with its core contractors, a comprehensive programme of HSE, asset integrity and assurance activities and has implemented a continual improvement programme, promoting a culture of transparency in relation to HSE matters. HSE performance is discussed at each Board meeting and the mitigation of HSE risk has been enhanced through further emphasising the role of HSE oversight within the Risk Committee's terms of reference. During 2018, the Group continued to focus on control of Major Accident Hazards and 'Safe Behaviours'.

In addition, the Group has a positive and transparent relationship with the UK Health and Safety Executive and Department for Business, Energy & Industrial Strategy, and the Malaysian regulator, Malaysia Petroleum Management.

EnQuest's HSE 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.

RISK

REPUTATION

The reputational and commercial exposures to a major offshore incident, including those related to an environmental incident, or non-compliance with applicable law and regulation are significant.

Potential impact – High (2017 High)
Likelihood – Low (2017 Low)

There has been no material change in the potential impact or likelihood.

Related KPIs – A, C, D, E, G, H

APPETITE

The Group has no tolerance for conduct which may compromise its reputation for integrity and competence.

MITIGATION

All 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.

All EnQuest personnel and contractors are required to pass an annual anti-bribery, corruption and anti-facilitation of tax evasion course.

All personnel are authorised to shut down production for safety-related reasons.

Key Performance Indicators ('KPIs'): **A:** HSE&A (LTI) **B:** Production (Boepd) **C:** Unit opex ($/Boe) **D:** EBITDA ($ million) **E:** Cash generated by operations ($ million) **F:** Cash capex ($ million) **G:** Net debt ($ million) **H:** Net 2P reserves (MMboe)

RISKS AND UNCERTAINTIES CONTINUED

RISK

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; potential for significant unexpected shutdowns; and unplanned expenditure (particularly where remediation may be dependent on suitable weather conditions offshore).

Lower than expected reservoir performance or insufficient addition of new resources may have a material impact on the Group's future growth.

Climate change could result in more severe weather conditions over time, which could impact asset uptime.

The Group's delivery infrastructure in the UK North Sea is, to a significant extent, dependent on the Sullom Voe Terminal.

Longer-term production is threatened if low oil prices bring forward decommissioning timelines.

Potential impact – High (2017 High)
Likelihood – Low (2017 Low)

There has been no material change in the potential impact or likelihood.

The Group has delivered on its 2018 production target despite a lower performance at Kraken than originally expected. With the additional interest in the Magnus asset, EnQuest's production portfolio has been further diversified, with material growth expected as a result in 2019. However, the increased interest in Magnus also increased the Group's reliance on the Sullom Voe Terminal. Further, the Dunlin bypass export project, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System and will therefore further increase reliance on the Sullom Voe Terminal.

Related KPIs – B, C, D, E, G, H

APPETITE

Since production efficiency and meeting production targets are 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).

MITIGATION

The Group's programme of asset integrity and assurance activities provide 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 programmes 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 with losses being identified and remedial and improvement opportunities 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 uncertainties.

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. Further, EnQuest expects to be well positioned to manage potential operational risks related to the Sullom Voe Terminal having assumed operatorship of the terminal and with the workforce having transferred with the asset in 2017. Nevertheless, the Group actively continues to explore the potential of alternative transport options and developing hubs that may provide both risk mitigation and cost savings.

The Group also continues to consider new opportunities for expanding production.

RISK

OIL AND GAS PRICES

A material decline in oil and gas prices adversely affects the Group's operations and financial condition.

Potential impact – High (2017 High)
Likelihood – Medium (2017 Medium)

There has been no material change in the potential impact or likelihood.
The Group recognises that climate change concerns and related regulatory developments are likely to reduce demand for hydrocarbons over time. This may be mitigated by correlated constraints on the development of new supply.

Related KPIs – B, D, E, F, G, H

APPETITE

The Group recognises that considerable exposure to this risk is inherent to its business.

MITIGATION

This risk is being mitigated by a number of measures including hedging oil price, renegotiating supplier contracts, reducing costs and commitments and institutionalising a lower cost base.

The Group monitors oil price sensitivity relative to its capital commitments and has a policy (see page 129) which allows hedging of its production. As at 19 March 2019, the Group had hedged approximately 8 MMbbls. 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 the required investment. The Group will therefore regularly review and implement suitable policies to hedge against the possible negative impact of changes in oil prices while remaining within the limits set by its term loan and 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.

Further, as described previously, the Group's focus on production efficiency supports mitigation of a low oil price environment.

RISK

HUMAN RESOURCES

The Group's success continues to be 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 the operations of the Group.

Potential impact – Medium (2017 Low)
Likelihood – High (2017 Medium)

The impact and likelihood have increased given the increased competition in the sector, particularly in the UK.

Related KPIs – A, B, C, D, E, F, G

APPETITE

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.

MITIGATION

The Group has established an able and competent employee base to execute its principal activities. In addition to this, the Group seeks to maintain good relationships with its employees and contractor companies and 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 employees to the Group.

We recognise that our people are critical to our success and so are continually evolving our end-to-end people management processes, including recruitment and selection, career development and performance management. This ensures that we have the right person for the job and that we provide appropriate training, support and development opportunities with feedback to drive continuous improvement whilst delivering Safe Results. The culture of the Group is an area of ongoing focus and a 'Values refresh' took place during 2018.

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 Group recognises that there is a gender pay gap within the organisation but that there is no issue with equal pay for the same tasks. EnQuest aims to attract the best talent, recognising the value of diversity.

Executive and senior management retention, succession planning and development remain important priorities for the Board. It is a Board-level priority that executive and senior management possess the appropriate mix of skills and experience to realise the Group's strategy; succession planning therefore remains a key priority.

EnQuest is introducing a Group Employee Forum during 2019 to add to our employee communication and engagement strategy. This forum will improve engagement and interaction between the workforce and the Board.

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RISKS AND UNCERTAINTIES CONTINUED

RISK

FINANCIAL

Inability to fund financial commitments or maintain adequate cash flow and liquidity and/or reduce costs.

The Group's term loan and revolving credit facility contains certain financial covenants (based on the ratio of indebtedness incurred under the term loan and revolving facility to EBITDA, finance charges to EBITDA and a requirement for liquidity testing). Prolonged low oil prices, cost increases, including those related to an environmental incident, and production delays or outages could threaten the Group's liquidity and/or ability to comply with relevant covenants.

Potential impact – High (2017 High)
Likelihood – Medium (2017 Medium)

There has been no material change in the potential impact or likelihood; however, there is potential for the cost of capital to increase as factors such as climate change concerns and oil price volatility may reduce investors' acceptable levels of oil and gas sector exposure and the cost of emissions trading certificates, or their replacement in the event the UK exits the European Union, may trend higher. In addition, adhering to the term loan amortisation schedule remains partially dependent on the successful increase in the Group's aggregate production being materially in line with expectations and no significant reduction in oil prices. Further information is contained in the going concern and viability paragraphs on page 26 of the Financial Review.

Related KPIs – B, C, F, G, H

APPETITE

The Group recognises that significant leverage has been required to fund its growth as low oil prices have impacted revenues. However, it is intent on reducing its leverage levels, maintaining liquidity, enhancing profit margins, reducing costs and complying with its obligations to finance providers while delivering shareholder value, recognising that reasonable assumptions relating to external risks need to be made in transacting with finance providers.

MITIGATION

Debt reduction is a strategic priority. During the year, the Group completed a $175 million credit facility from Oz Management and raised c.$129 million (net) through a rights issue, of which $100 million was used to fund the Group's cash consideration for the acquisition of additional interests in assets from BP. The Group also paid and/or cancelled a total of $340 million of the term facility.

These steps, together with other mitigating actions available to management, are expected to provide the Group with sufficient liquidity to strengthen its balance sheet for longer-term growth.

Ongoing compliance with the financial covenants under the Group's term loan and revolving credit facility 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 continuing to enhance its financial position through maintaining a focus on controlling and reducing costs through supplier renegotiations, assessing counterparty credit risk, hedging and trading, cost-cutting and rationalisation. Where costs are incurred by external service providers, the Group actively challenges operating costs. The Group also maintains a framework of internal controls.

RISK

FISCAL RISK AND GOVERNMENT TAKE

Unanticipated changes in the regulatory or fiscal environment can affect the Group's ability to deliver its strategy/business plan and potentially impact revenue and future developments.

Potential impact – High (2017 High)
Likelihood – Medium (2017 Medium)

There has been no material change in the potential impact or likelihood, although the anticipated exit of the United Kingdom from the European Union may impact the regulatory environment going forward, for example by affecting the cost of emissions trading certificates.

Related KPIs – E, G

APPETITE

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.

MITIGATION

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 engages with government and other appropriate organisations in order to keep abreast of expected and potential changes; the Group also 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 an operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.

RISK

PROJECT EXECUTION AND DELIVERY

The Group's success will be partially dependent upon the successful execution and delivery of development projects.

Potential impact – Medium (2017 High)
Likelihood – Low (2017 Low)

The potential impact has reduced, with the likelihood remaining unchanged. As the Group focuses on reducing its debt, its current appetite is to pursue short-cycle development projects. The main project developments in 2019 are oil export pipeline projects for Thistle/Deveron (the Dunlin bypass project) and Scolty/Crathes (the pipeline replacement project).

Related KPIs – B, D, E, F, G, H

APPETITE

The efficient delivery of new project developments has been a key feature of the Group's long-term strategy. The Group's current appetite is for short-cycle development projects such as infill drilling and near-field tie-backs.

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 the efficient implementation of the project are minimised.

MITIGATION

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 the Field Development Plan 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. EnQuest also supports its partners and suppliers through the provision of appropriate secondees if required.

RISK

PORTFOLIO CONCENTRATION

The Group's assets are primarily concentrated in the UK North Sea around a limited number of infrastructure hubs and existing production (principally oil) is from mature fields. This amplifies exposure to key infrastructure (including ageing pipelines and terminals), political/fiscal changes and oil price movements.

Potential impact – High (2017 High)
Likelihood – High (2017 Medium)

The acquisition of an additional interest in the Magnus oil field has elevated this risk in the long term (by further concentrating the Group's portfolio in the UK North Sea). Further, the Dunlin bypass export project, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal.

The Group is currently focused on oil production and does not have significant exposure to gas or other sources of income.

Related KPIs – B, C, D, E

APPETITE

Although the extent of portfolio concentration is moderated by production generated internationally, the majority of the Group's assets remain relatively concentrated in the UK North Sea and therefore this risk remains intrinsic to the Group.

MITIGATION

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 manner. 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 and divesting, executing development projects, making international acquisitions, expanding hubs and potentially investing in gas assets or export capability where such opportunities are consistent with the Group's focus on enhancing net revenues, generating cash flow and strengthening the balance sheet.

Production at the Greater Kittiwake Area, Alma/Galia and Kraken reduced the Group's prior concentration to the Brent Pipeline System ('BPS') and the Sullom Voe Terminal. However, the acquisition of an additional interest in the Magnus field in December 2018 resulted in further concentration in Sullom Voe Terminal, with concentration increasing again following completion of the Dunlin bypass export project in 2019. Although the Group has concentration risk at Sullom Voe Terminal, taking operatorship of the terminal has put the Group in a position of more direct control of such risk.

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RISKS AND UNCERTAINTIES CONTINUED

RISK

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 (2017 Medium)
Likelihood – Medium (2017 Medium)

There has been no material change in the potential impact or likelihood.

Related KPIs – C, D, E, F, G

APPETITE

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.

MITIGATION

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.

RISK

SUBSURFACE RISK AND RESERVES 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 (2017 High)
Likelihood – Medium (2017 Medium)

There has been no material change in the potential impact or likelihood as oil price volatility, a focus on strengthening the balance sheet and increased competition to acquire assets continues to limit business development activity to the pursuit of reserves enhancing, selective, cash-accretive opportunities.

Low oil prices can potentially affect development of contingent and prospective resources and/or reserves certifications.

Related KPIs – B, C, D, E, F, G, H

APPETITE

Reserves replacement is an element of the sustainability of the Group and its ability to grow. 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.

MITIGATION

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 and relevant stage gate processes. All reserves are currently externally reviewed 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.

The Group continues to consider potential opportunities to acquire new production resources that meet its investment criteria.

RISK

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 – High (2017 Medium)
Likelihood – High (2017 Medium)

The potential impact and likelihood has increased due to an increase in the number of available oil and gas assets and competitors looking to acquire them.

Related KPIs – C, D, E, F, H

APPETITE

The Group operates in a mature industry with well-established competitors and aims to be the leading operator in the sector.

MITIGATION

The Group has strong technical and business development capabilities to ensure that 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.

RISK

INTERNATIONAL BUSINESS

While the majority of the Group's activities and assets are in the UK, the international business is still material. The Group's international business is subject to the same risks as the UK business (e.g. HSE&A, 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 (2017 Medium)
Likelihood – Medium (2017 Medium)

There has been no material change in the impact or likelihood.

Related KPIs – A, D, E, F, G, H

APPETITE

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. Opportunities should enhance net revenues and facilitate strengthening of the balance sheet.

MITIGATION

Prior to entering 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 with national legislation, business practices and cultural norms while 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 into 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.

RISK

IT SECURITY AND RESILIENCE

The Group is exposed to risks arising from interruption to, or failure of, IT infrastructure. The risks of disruption to normal operations range from loss in functionality of generic systems (such as email and internet access) to the compromising of more sophisticated systems that support the Group's operational activities. These risks could result from malicious interventions such as cyber-attacks.

Potential impact – Medium (2017 Medium)
Likelihood – Low (2017 Low)

Related KPIs – A, B

APPETITE

The Group endeavours to provide a secure IT environment that is able to resist and withstand any attacks or unintentional disruption that may compromise sensitive data, impact operations or destabilise its financial systems; it has a very low appetite for this risk.

MITIGATION

The Group has established IT capabilities and endeavours to be in a position to defend its systems against disruption or attack.

The Risk Committee undertook additional analyses of cyber-security risks in 2018. Recognising that it is one of the Group's key focus areas, the Group now employs a cyber-security manager. Work on assessing the cyber-security environment and implementing improvements as necessary will continue during 2019.

Stefan Ricketts
Company Secretary

The Strategic Report was approved by the Board and signed on its behalf by the Company Secretary on 20 March 2019.

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BOARD OF DIRECTORS

JOCK LENNOX
NON-EXECUTIVE CHAIRMAN

Appointed
8 September 2016 (member of the Board since 22 February 2010)

Committees
Nomination (Chairman)

Skills and experience
Jock Lennox holds a law degree and in 1980 qualified as a chartered accountant with Ernst & Young LLP ('EY'). He is a member of the Institute of Chartered Accountants of Scotland. In 1988, Jock became a partner at EY. In his time at EY, Jock gained a wide range of experience working with multinational clients, including projects in many countries and a secondment to Seattle, US in the early 1980s. He held a number of leadership positions in the UK and globally. Jock retired from EY in 2009, since when he has developed a career as an independent public company director.

Other principal external appointments
Non-executive director of Barratt Developments plc and chairman of Hill & Smith Holdings plc. Jock stepped down from the Board of Dixons Carphone plc at the end of 2018.

AMJAD BSEISU
CHIEF EXECUTIVE

Appointed
22 February 2010

Committees
Nomination

Skills and experience
Amjad Bseisu holds a BSc Honours degree in Mechanical Engineering from Duke University, an MSc and D.ENG degree in Aeronautical Engineering from Stanford University and an executive MBA from SMU. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company ('ARCO'), eventually becoming president of ARCO Petroleum Ventures. In 1998, Amjad founded and was the chief executive of Petrofac Resources International Limited which merged into Petrofac PLC in 2003. In 2010, Amjad formed EnQuest PLC, having previously been a founding non-executive chairman of Serica Energy plc and a founding partner of Stratic Energy Corporation. Amjad was chairman of Enviromena Ltd., the largest solar power engineering company in the MENA region until its sale in 2017. Amjad was British Business Ambassador for Energy from 2013 to 2015.

Other principal external appointments
Chairman of the independent energy community for the World Economic Forum since 2016 and director of the Amjad and Suha Bseisu Foundation since 2011.

JONATHAN SWINNEY
CHIEF FINANCIAL OFFICER

Appointed
29 March 2010

Committees
None

Skills and experience
Jonathan Swinney is a qualified chartered accountant and a member of the Institute of Chartered Accountants of England and Wales. He is also a qualified solicitor. Jonathan has significant merger and acquisition transactional experience, having focused on acquisition finance as a solicitor, and subsequently worked at Credit Suisse and then Lehman Brothers, advising on a wide range of transactions with equity advisory, before joining Petrofac Limited in April 2008 as head of mergers and acquisitions for the Petrofac Group. Jonathan joined EnQuest PLC in 2010 as Chief Financial Officer.

Other principal external appointments
None.

HELMUT LANGANGER
SENIOR INDEPENDENT DIRECTOR

Appointed
16 March 2010

Committees
Remuneration, Audit and Nomination

Skills and experience
Helmut Langanger holds an MSc degree in Petroleum Engineering and an MA in Economics. Between 1974 and 2010, Helmut was employed by OMV, Austria where he was a reservoir engineer until 1980. From 1981 to 1985, Helmut was an evaluation engineer for the technical and economic assessment of international E&P ventures, and from 1985 to 1989 he held the position of vice-president, planning and economics for E&P and natural gas projects. In 1989, Helmut was appointed as senior vice-president of international E&P and in 1992 became senior vice-president of E&P for OMV's global operations. From 2002, Helmut was the group executive vice-president for E&P, OMV until he retired in 2010. During his tenure, Helmut was in charge of OMV activities in 14 countries and production increased from 80,000 barrels per day to 320,000 barrels per day.

Other principal external appointments
Non-executive director of Schoeller Bleckmann Oilfield Equipment A.G. (Austria), and MND (Czech Republic).

LAURIE FITCH
NON-EXECUTIVE DIRECTOR

Appointed
8 January 2018

Committees
Risk and Remuneration (Chair)

Skills and experience
Laurie Fitch has a BA in Arabic and an MA from Georgetown University's School of Foreign Service, where she is chair of the University's Center for Contemporary Arab Studies. Laurie is currently a partner in the strategic advisory group at PJT Partners, based in London. She spent a significant part of her career as an equity analyst and portfolio manager at TIAA CREF and Artisan Partners, where she invested in the global industrials, utility and infrastructure sectors. Laurie spent four years in the global power and global industrials groups at Morgan Stanley, most recently as co-head of the global industrials group in Europe, prior to joining PJT Partners in 2016.

Other principal external appointments
Partner in the strategic advisory group of PJT Partners; non-executive director of Energias de Portugal (EDP), SA; and a member of the Audit and Finance and Operations subcommittees of the Tate Board of Trustees.

PHILIP HOLLAND
NON-EXECUTIVE DIRECTOR

Appointed
1 August 2015

Committees
Risk (Chairman) and Remuneration

Skills and experience
Philip Holland holds a BSc in Civil Engineering from Leeds University and a MSc in Engineering and Construction Project Management from Cranfield School of Management. Philip has extensive experience in managing large-scale oil and gas projects around the globe. In 1980, he joined Bechtel Corporation and managed major oil and gas projects in a wide range of international locations. In 2004, he joined Shell as vice-president of projects, Shell Global Solutions International. In 2009, Philip became executive vice-president downstream projects in Shell's newly formed projects and technology business and in 2010, he was appointed as project director for Shell's Kashagan phase 2 project in Kazakhstan, and subsequently the Shell/QP Al Karaana petrochemicals project. Since 2013, he has operated as an independent project management consultant.

Other principal external appointments
Non-executive director of Velocys plc.

CARL HUGHES
NON-EXECUTIVE DIRECTOR

Appointed
1 January 2017

Committees
Audit (Chairman), Risk and Remuneration

Skills and experience
Carl Hughes holds an MA in Philosophy, Politics and Economics, is a Fellow of the Institute of Chartered Accountants in England and Wales, and is a Fellow of the Energy Institute. Carl joined Arthur Andersen in 1983, qualified as a chartered accountant and became a partner in 1993. Throughout his professional career he specialised in the oil and gas, mining and utilities sectors, becoming the head of the UK energy and resources industry practice of Andersen in 1999 and subsequently of Deloitte in 2002. When Carl retired from the partnership of Deloitte in 2015, he was a vice-chairman, senior audit partner and leader of the firm's energy and resources business globally.

Other principal external appointments
Non-executive director and chairman of the audit committee of EN+ Group plc; member of the finance and audit committee of the Energy Institute; director and trustee of the Premier Christian Media Trust and of the Lambeth Conference Company; member of the General Synod of the Church of England and of the finance and investment committees of the Archbishops' Council.

JOHN WINTERMAN
NON-EXECUTIVE DIRECTOR

Appointed
7 September 2017

Committees
Audit, Risk and Remuneration

Skills and experience
John Winterman holds a BSc in geology from Queen Mary College, London University and is a member of the American Association of Petroleum Geologists. John has extensive leadership experience in global exploration, business development and asset management and has a strong record of exploration success globally with over two billion barrels of oil equivalent discovered in the Philippines, Indonesia, Bangladesh, Malaysia, Russia, the US and Yemen. John joined Occidental in 1981 and after a 20+ year technical career as a geologist with the company, moved into executive roles, including high-level executive leadership positions. John left Occidental in 2013 and since then he has provided strategic advice to international oil and gas companies.

Other principal external appointments
Non-executive director of CC Energy.

SENIOR MANAGEMENT

FAYSAL HAMZA
MANAGING DIRECTOR – CORPORATE DEVELOPMENT

Faysal has an MBA from Georgetown University in Washington and over 30 years of experience in oil and gas finance, business development and private equity. Faysal joined EnQuest in 2011 and prior to that was managing director, private equity at Swicorp, a financial firm operating in the Middle East and North Africa. Faysal has also held roles as a senior executive at Arab Petroleum Investment Corporation ('APICORP'), group business development manager with the Alturki Group in Saudi Arabia, and management positions at Arco International Oil & Gas Company ('ARCO') in the US, Saudi International Bank in London and the Saudi Arabian Oil Company ('Saudi Aramco').

BOB DAVENPORT
MANAGING DIRECTOR – NORTH SEA

Bob has a degree in Mineral Engineering and an MBA. He began his early career in 1984 as a field engineer with Schlumberger, then gained broad international experience in petroleum engineering, operations and management with Texaco, Shell, BP and Apache Corporation. In previous roles he has worked in Southeast Asia, the Middle East, Egypt, UK North Sea and the US Gulf Coast. Prior to joining EnQuest, Bob served as North Sea operations director for Apache and general manager, Khalda where he led the largest oil and gas producer in Egypt's western desert. He joined EnQuest in 2015 as Managing Director – Malaysia.

JOHN PENROSE
MANAGING DIRECTOR – MALAYSIA

John holds a degree in Chemical and Process Engineering and an MBA. He started his career in 1988 as a design engineer, spending over ten years working on greenfield and brownfield projects in both the UK North Sea and the Middle East. Subsequent experience was gained in an operational environment with Arco in the Southern North Sea as an engineering superintendent and in a field development capacity with Talisman Energy. Following a period of managing an oil and gas consultancy in Australia, John worked for Noble Energy as operations manager in the UK, the US and Israel. He joined EnQuest in 2013, initially as Facilities Adviser (International) before moving to Malaysia as General Manager and Development Manager for the Tanjong Baram Risk Service Contract that delivered the first oil in mid-2015. After a period of acting as Head of Engineering, Projects and Assurance, John assumed overall responsibility of the Malaysia business for EnQuest in late 2017.

MARTIN MENTIPLY
CHIEF PETROLEUM ENGINEER

Martin holds a degree in Chemical Engineering from the University of Edinburgh and a Masters degree in Petroleum Engineering from Imperial College, London. He has over 20 years of broad international oil and gas operator experience. Throughout his career he has gained significant technical and commercial expertise in field development planning, project execution, reservoir management and investment assurance across the value chain from upstream through to LNG. He joined EnQuest in 2016 from BG Group plc, where his most recent role was head of assurance, advising the board and chief executive on investment decisions. In previous roles he has worked in Indonesia, Egypt, Tunisia and the UK North Sea. As the Chief Petroleum Engineer for EnQuest, Martin has global accountability for all subsurface activities, including reserves management and resource maturation.

STEFAN RICKETTS
GENERAL COUNSEL & COMPANY SECRETARY

Stefan joined EnQuest in 2012 and is responsible for all legal, Company secretarial matters and for EnQuest's Risk Management Framework. Prior to joining EnQuest, Stefan was a partner at Fulbright & Jaworski LLP, heading its energy and natural resources practice in the Asia-Pacific region. He had previously been group general counsel at BG Group plc. Stefan, who graduated from the University of Bristol with a degree in Law, began his early career as a solicitor with Herbert Smith, has significant experience as a lawyer and in management working across the energy chain and in all phases of project development and operations. In previous roles he has been based in London, Paris, Dubai, Jakarta, Singapore and Hong Kong.

IMRAN MALIK
VICE PRESIDENT – FINANCE

Imran holds a BEng Honours in Chemical Engineering from University College London, qualified as a chartered accountant with KPMG in 1991 and is a member of the Institute of Chartered Accountants of England and Wales. He has over 25 years of broad international oil and gas experience in group and operational finance, project services, contracts and procurement, and general management across the value chain from upstream to LNG. Since joining EnQuest in 2015 as Vice President -Finance, Imran has ensured that the Company has the necessary finance capacity and capabilities in place to deliver EnQuest's strategy. This has included supporting the successful restructuring undertaken in 2016 and the more recent rights issue in 2018. He joined from BG Group plc, where he was part of the finance leadership team and his most recent role was as group head of planning and risk. His previous roles have been Project Services Director in Australia as well as senior finance leadership roles in Egypt, the Netherlands, Libya and Pakistan.

SALMAN MALIK
VICE PRESIDENT – CORPORATE FINANCE AND M&A

Salman graduated from the University of Toronto with a degree in Finance and Economics with high distinction. He is also a CFA charter holder with extensive experience in investment management, investment banking and private equity in Canada and the Middle East. Prior to joining EnQuest in 2013, Salman was a director of private equity and principal investments at Swicorp, a financial firm operating in the Middle East and North Africa, where he served on the board of several portfolio companies and was responsible for acquisitions, post-acquisition management and exits across the energy value chain. Prior to that, Salman held several sell-side positions in the investment banking industry in Canada, primarily focused on the industrial and metals and mining sectors. In his current role, Salman is responsible for the Group's strategy, corporate finance activities, and transaction structuring and execution, including acquisitions and divestments.

MICHAEL EASTON
HR DIRECTOR

Michael is a Fellow of the Chartered Institute of Personnel and Development, having held global HR leadership roles across a range of sectors, including commencing his career in the oil and gas sector. In addition to graduating in Business Studies with Personnel Management, he also holds a qualification in Media & Communication Studies. With extensive experience in the US, Asia and Europe, successfully leading the people agenda across listed global matrix organisations and privately held companies, Michael brings a diversity of experience across a wide range of sectors including medical technologies and devices, energy infrastructure, engineering and manufacturing solutions, mobile telecoms, education and the maritime industry. Michael joined EnQuest and the Executive Committee in December 2018, also advising the Board and Remuneration Committee in his role, being responsible for the people agenda and HR strategy, leading the EnQuest global HR team.

CHAIRMAN'S LETTER

"THE GROUP'S VALUES ARE A KEY PART OF ITS IDENTITY AND GUIDE THE WORKFORCE AS THEY PURSUE ENQUEST'S STRATEGY AND DELIVERY OF OUR PRIORITIES."

Jock Lennox
Chairman

Dear Fellow Shareholder

On behalf of the Board of Directors (the 'Board'), I am pleased to introduce EnQuest's Corporate Governance Report. A significant focus during the latter half of 2018 were the transactions relating to the Magnus field and the Thistle and Deveron fields. Shareholders approved both the transactions and the associated rights issue at a General Meeting of the Company held on 1 October 2018. I would especially like to thank Board members, management and staff for their efforts during the period. In addition, the Board has focused on:

- Kraken performance;
- Strategy and risk management;
- Debt reduction;
- Values refresh;
- Employee Forum;
- Updated Corporate Governance Code; and
- HSE&A.

Corporate governance

The Board believes that the manner in which it conducts its business is important and it is committed to delivering the highest standards of corporate governance for the benefit of all of its stakeholders. EnQuest has a Code of Conduct that it requires all personnel to be familiar with and which sets out the behaviours which the organisation expects of those who work at and with the Company. The Group's Values are a key part of the identity of the Group and guide the workforce as they pursue EnQuest's strategy and delivery of our key priorities and Safe Results. The following pages provide information on the operation of the Board and its Committees. A summary of their work is found on page 51 and the individual reports are on pages 53–57 (Audit), pages 58–76 (Remuneration), pages 77–78 (Nomination) and page 79 (Risk).

EnQuest's governance framework also contains several non-Board Committees which provide advice and support to the Chief Executive on the development, implementation and monitoring of the Group's strategy, including an Executive Committee, Health, Safety, Environmental and Assurance ('HSE&A') Committee and Investment Committee.

Board composition and succession planning

The Board regularly considers how it operates and whether there is an appropriate composition and mix around the Board table. Rotation of, and succession for, the Directors is kept under review by the Nomination Committee, which has this year considered not only Board succession planning but also the composition and development of, and succession planning for, the Executive Committee. As previously noted in EnQuest's 2017 Annual Report, Laurie Fitch joined the Company on 8 January 2018 and became a member of both the Risk and Remuneration Committees and she was, as planned, appointed Chair of the Remuneration Committee on 29 January 2019. In addition, Howard Paver has been invited to join the Company and his appointment as Non-Executive Director will take effect from 1 May 2019.

The Board has also considered succession planning for me as Chairman and for the Senior Independent Director ('SID'). We have served as Directors for nine years during 2019 and following the delivery of the financial restructuring in 2016 and the Magnus Option in 2018, a process for orderly succession to take the Company to the next phase of its development has been initiated. This is discussed further on page 77. More information on the work of the Nomination Committee can be found on pages 77–78.

Board evaluation

The Board held an external evaluation in 2018 and identified a number of areas for consideration, which are summarised on page 51.

Corporate responsibility

The Company's corporate responsibility is focused on five main areas. These are Health and Safety, People, Environment, Business Conduct and Community. The Board has approved the Company's overall approach to corporate responsibility and receives regular information on the performance of the Company in these areas, and specifically monitors health and safety and environmental reporting at each Risk Committee and Board meeting. The Company's HSE&A Policy is reviewed by the Board annually and all incidents, forward-looking indicators and significant HSE&A programmes are discussed by the Board. We report on these areas specifically on page 30.

Culture

The culture of the Company, underpinned by our Values, was a key consideration for the Board during 2018. We believe that engaged and committed staff are integral to the delivery of the Company's business plan and intend to conduct a staff survey in 2019 in order to continue to progress in this area. In early 2019, the Board approved the establishment of an Employee Forum as part of its workforce engagement activities, in line with the revised Corporate Governance Code published in July 2018. More details on these elements are detailed in the Corporate Responsibility Review on page 32.

Strategy and risk management

The Board continued to provide strategic guidance to executive management throughout the year, with two key strategy discussions held with executive management in 2018, in May and in October, at EnQuest's annual Board strategy day. We also spent considerable time discussing EnQuest's purpose and potential risks in the context of increased societal and investor focus on climate change.

The Board, in particular through the work of the Risk Committee, has also been active in supporting the continued evolution of the Group's Risk Management Framework. In 2019, we will continue to build on our governance processes and strategic priorities as outlined on the following pages.

Jock Lennox
Chairman
20 March 2019

CORPORATE GOVERNANCE STATEMENT

Statement of compliance

The Financial Reporting Council ('FRC') published the UK Corporate Governance Code (the 'Code') in April 2016, which was effective for accounting periods beginning on or after 17 June 2016. The Company complies with the Code and views corporate governance as an essential part of its framework, supporting structure, risk management and core Values. Detailed below is EnQuest's application of, and compliance with, the Code. EnQuest notes that the FRC introduced a revised Code in July 2018 which applies to accounting periods beginning on or after 1 January 2019. The Company will report on its compliance with the revised Code in its 2019 Annual Report and Accounts.

Key corporate governance activities in 2018	Details
Appointment of Non-Executive Directors	Laurie Fitch was appointed on 8 January 2018 and Howard Paver's appointment will take effect from 1 May 2019. See page 48 for details.
Rights issue	The rationale for the rights issue, in relation to the Magnus transaction, is detailed on page 10.
Shareholder consultation	In relation to remuneration matters.
Independent review of Board performance	Facilitated by an external adviser. See page 51 for details.
Employee workforce and staff culture	Learning and development, Values refresh and Employee Forum. See page 32 for details.
Preparation for new Code implementation	Ongoing work to ensure compliance.

Leadership

The long-term success of the Company is the collective responsibility of the Board.

The role of the Board

The Board is the custodian of the Company's Values and its long-term vision and approves the strategic direction and guidance for the Company in order to deliver long-term shareholder value.

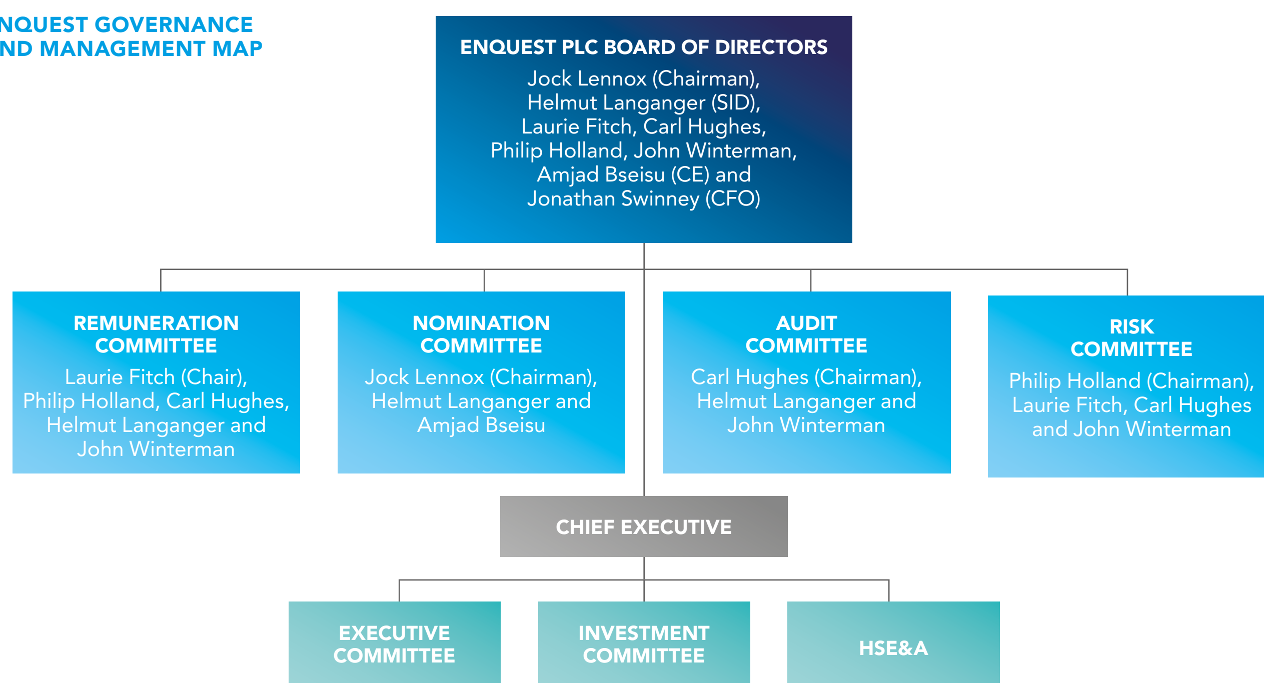
The Board is responsible for:

- The Group's overall strategy;
- Review of business plans and trading performance;
- Approval of major capital investment projects;
- Acquisition and divestment opportunities;
- Review of significant financial and operational issues;
- Review and approval of the Company's financial statements;
- Oversight of control and risk management systems (supported by the Audit and Risk Committees);
- Succession planning and appointments (supported by the Nomination Committee);
- Oversight of staff culture; and
- Health, Safety and Environment.

The Board held six scheduled Board meetings in the year ended 31 December 2018, four of which were held at the Company's registered office in London, one in the Aberdeen office and one was held offsite in conjunction with the Company's annual strategy day in October. In addition, the Board held a number of further Board meetings throughout the year. In total, there were an additional ten meetings, primarily focused on the rights issue and Magnus and Thistle transactions, which were all fully attended. All Directors are expected to attend scheduled Board and relevant Committee meetings and the Company's Annual General Meeting ('AGM'). Details of Board and Committee membership and attendance at scheduled meetings can be found on page 50.

All Directors are covered by the Company's Directors' and Officers' insurance policy.

ENQUEST GOVERNANCE AND MANAGEMENT MAP



CORPORATE GOVERNANCE STATEMENT CONTINUED

A clear division of responsibilities
There is a clear division between the role of the Chairman and the Chief Executive; this has been set out in writing and agreed by the Board. The Chairman was independent upon his appointment to the Board, and the Board continues to consider him to be an independent Non-Executive Director. The Chairman is responsible for the leadership of the Board, setting the Board agenda and ensuring the overall effective working of the Board. The Chief Executive is accountable and reports to the Board. His role is to develop strategy in consultation with the Board, to execute that strategy following presentation to, and consideration and approval by, the Board and to oversee the operational management of the business.

The role of the Non-Executive Directors
The Non-Executive Directors combine broad business and commercial experience from oil and gas and other industry sectors. They bring independence, external skills and objective judgement, and constructively challenge the actions of senior management. This is critical for providing assurance that the Executive Directors are exercising good judgement in delivery of strategy and decision making and the Chairman holds regular one-to-one and group meetings with the Non-Executive Directors, without the Executive Directors present. The Board considers that all the Non-Executive Directors continue to remain independent and free from any relationship that could affect, or appear to affect, their independent judgement. Information on the skills and experience of the Non-Executive Directors can be found in the Board biographies on pages 44 to 45.

The Board has carefully considered guidance in the revised Code relating to nine-year tenures for directors, as each of the Chairman and the Senior Independent Director ('SID') reached his nine-year milestone in early 2019. Following an independent evaluation, which considered the governance of the Company, the Board concluded that both the Chairman and SID remain independent and should remain in post to ensure an orderly process of succession as described on page 48 and the Nomination Committee Report on page 77.

The role of the Senior Independent Director
The SID is available to shareholders if they have concerns where contact through the normal channels of the Chairman, the Chief Executive or other Executive Directors has failed to resolve an issue or where such contact is inappropriate. In his role as the SID, Helmut Langanger runs the annual review of the performance of the Chairman and is responsible for succession planning and the process that is under way for the role of Chairman, in respect of which the SID has held meetings with several of the Company's leading shareholders. He continues to provide a sounding board for the Chairman as well as act as an intermediary with other Directors when necessary.

Company Secretary
The Company Secretary is responsible for advising the Board, through the Chairman, on all Board procedures and governance matters. In addition, each Director has access to the advice and services of the Company Secretary. The Company Secretary assists with the ongoing training and development of the Board and is instrumental in facilitating the induction of new Directors, most recently Laurie Fitch and, in due course, Howard Paver, who will be appointed with effect from 1 May 2019.

Effectiveness

Board composition and changes
The Nomination Committee, as one of its duties, regularly reviews the structure, size and composition of the Board. At the date of this report there are eight Directors, consisting of two Executive Directors and six Non-Executive Directors (including the Chairman). As explained in the Chairman's Statement, Laurie Fitch was appointed as Non-Executive Director on 8 January 2018 and Howard Paver will be appointed with effect from 1 May 2019. More detail on Board biographies is set out on pages 44 to 45. The work of the Nomination Committee is found on pages 77 to 78.

Directors' attendance at Board and Board Committee meetings
The table below sets out the attendance record of each Director at scheduled Board and Board Committee meetings during 2018:

	Board meetings	Audit Committee	Remuneration Committee	Risk Committee	Nomination Committee
Meetings considered by the Board	6	3	4	3	6
Executive Directors					
Amjad Bseisu	6	n/a	n/a	n/a	6
Jonathan Swinney	6	n/a	n/a	n/a	n/a
Non-Executive Directors					
Jock Lennox	6	n/a	n/a	n/a	6
Helmut Langanger[1]	6	3	4	n/a	6
Laurie Fitch[2]	6	n/a	4	3	n/a
Philip Holland	6	n/a	4	3	n/a
Carl Hughes	6	3	4	3	n/a
John Winterman	6	3	4	3	n/a

Notes:
1 Helmut Langanger stepped down as Chair of the Remuneration Committee on 29 January 2019
2 Laurie Fitch was appointed to the Board on 8 January 2018, becoming a member of the Remuneration and Risk Committees. Laurie assumed the role of Chair of the Remuneration Committee on 29 January 2019

Board activities during the year

How the Board operates
During 2018, the Board held six scheduled meetings and, as previously noted, a number of ad hoc meetings were arranged to deal with matters arising between scheduled meetings. Scheduled Board meetings are preceded by a day of Committee meetings and, when required, technical reviews which allow for an in-depth review on a particular topic of interest, such as well performance, project updates and drilling. This pattern of meetings is intended to support the Board's focus on strategic and long-term matters, while ensuring that it discharges its monitoring and oversight role effectively through intensive high-quality discussions and information flow.

All Board papers are published via an online Board portal system. This offers a fast, secure and reliable method of distribution, which helps lower the Company's environmental impact through the reduction of printing and lowers costs associated with printing and postage. Board agendas are drawn up by the Company Secretary in conjunction with the Chairman and with agreement from the Chief Executive. Board members also receive a monthly report on Company performance and updates on major projects, irrespective of a meeting taking place, which allows them to monitor performance regularly.

Board agenda and key activities throughout 2018

The table below sets out matters that the Board discuss at each meeting and the key activities that have taken place throughout this period.

Matters considered at all Board meetings	Key activities for the Board throughout 2018
• HSE&A • Key project status and progress • Responses to oil price movements • Strategy • Key transactions • Financial reports and statements • Production • Operational issues and highlights • HR issues and developments • Key legal updates • Assurance and risk management • Investor relations and capital markets update • Liquidity	• Review of plans for debt amortisation • Exercise of the Magnus and Thistle options • Rights issue • Progression of pipeline projects for Dunlin bypass and Scolty Crathes • Sullom Voe Terminal operations • Growth opportunities • Compliance with debt covenants and liquidity • Risk, going concern and long-term viability review • Strategy sessions held in May and October • Risk Management Framework • 2018 budget review and 2019 budget review • Periodic updates on corporate regulatory changes and reporting requirements • Hedging strategy and policy • Annual anti-corruption review • Continued development of Risk Committee • Staff culture and Values implementation • Review of the Group's cyber-security related process and controls • Review of climate change related risks • Succession planning

Board Committees

The Board delegates a number of responsibilities to its Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee. Membership for each Committee is found on page 50. The Chairman of each Committee reports formally to the Board on its proceedings after each meeting and makes recommendations that it deems appropriate to the Board for its consideration and approval. There are formal terms of reference for each Committee, approved by the Board. The terms of reference for each of these Committees set out the scope of authority of the Committee, satisfy the requirements of the Code and are reviewed internally on an ongoing basis by the Board. Copies of the terms of reference are available on the Company's website, www.enquest.com, under Corporate Governance.

The Committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. The appropriate person acts as secretary to the Committees, and minutes and papers of all Committee meetings are available to all Directors.

In addition to the four Board Committees, EnQuest has a number of non-Board Committees, which assist the Chief Executive in the development, implementation and monitoring of strategy. These include the Executive Committee, HSE&A Committee and Investment Committee.

Delegation of authority

Responsibility levels are communicated throughout the Group as part of the business management system and through an authority matrix which sets out, inter alia, delegated authority levels, segregation of duties and other control procedures. Changes are approved by the Board.

Board performance evaluation

Each year the Board is required to carry out an evaluation of its own effectiveness as required by the Code. The 2018 review was carried out, in an independent capacity, by an external adviser, Colin Mayer, Professor of Management Studies at the Saïd Business School at the University of Oxford. The process consisted of one-to-one structured interviews with each Director, selected senior management and representatives from amongst the Company's stakeholders, such as the Company's auditors and institutional investors, and also attendance at the Company's December Board and Committee meetings.

Key themes which arose from the evaluation included:

- Succession planning and Board composition;
- Board governance processes;
- Board performance and strategy; and
- Staff culture and Values.

The results of the evaluation were discussed at the January 2019 Board meeting and it was concluded that the Board was well governed, with constructive and frank debate encouraged. In particular, the implementation of the Risk Committee had proved a success and it evaluated the risks of the Company in an insightful and constructive manner.

A number of action points were agreed and have been worked into the Board agenda for 2019, including those in relation to:

- Further succession planning, especially in relation to the requirements of the new Corporate Governance Code. This is described further on page 77;
- Continued monitoring of the culture and Values of the Company, including through the new Employee Forum, as described on page 32;
- Enhanced scenario planning;
- More explicit articulation of the Company's role in the transition to a lower-carbon intensity economy; and
- The process for internal audit.

In addition to the external evaluation, the Non-Executive Directors, led by the SID, carried out a performance evaluation of the Chairman and concluded that the Chairman was knowledgeable in the business of the Company, managed meetings well and facilitated effective contribution of all members of the Board.

Induction, information and support

The Directors may consult with the Company Secretary at any time on matters related to their role on the Board.

On joining EnQuest, Non-Executive Directors receive a full and tailored induction to the Company. The induction programme consists of a comprehensive briefing pack, which includes Group structure details, the constitution of the Company, the Group governance map, a guide to Directors' duties, terms of reference of each Committee, Group policies and the Company's authorities matrix. In addition to this, each Director receives an introduction to the Company's resource centre (including all external communications, such as investor presentations, reports and corporate responsibility reports) and a schedule of one-to-one meetings with each of the Executive Directors, members of senior management and external advisers. Visits to the Aberdeen and overseas offices are also arranged as appropriate.

All Non-Executive Directors have access to the Company's senior management between Board meetings and the Board aims to hold at least one meeting each year in one of the business units to allow Non-Executive Directors to meet and engage with local staff. In addition, the continuing development of Board members is supported through regular briefings on key business, industry, governance and regulatory developments, which in 2018 included the revised Corporate Governance Code, guidance as to how the Board complies with s172 of the Companies Act 2006, new IFRS accounting standards and the Investment Association's Principles of Remuneration. Training for the Board also included discussion with third-party experts on 'the future of hydrocarbons' at the Company's strategy meeting. Board meetings are also preceded

CORPORATE GOVERNANCE STATEMENT CONTINUED

by informal Board dinners which provide the Board an opportunity to discuss a broad range of issues relevant to the Group amongst themselves and with senior management. Individual Directors have also hosted breakfast meetings with staff to exchange views and information, and provide an opportunity for Board-level exposure to relevant individuals in order to aid staff development and succession planning. The Chairman monitors the breadth of knowledge, skills and experience of the Board and its Committees to ensure that they can fulfil their obligations.

Accountability

Conflicts of interest

The Company has established procedures in place through the Articles of Association and the Company's Code of Conduct which identify and, where appropriate, manage conflicts or potential conflicts of interest with the Company's interests. In accordance with the provisions relating to Directors' interests' in the Companies Act 2006, all the Directors are required to submit details to the Company Secretary of any situations which may give rise to a conflict, or potential conflict, of interest. A register of relevant interests of Board members is maintained and the Board is satisfied that formal procedures are in place to ensure that authorisation for potential and actual conflicts of interest are operated efficiently and considers the issue of conflicts at the start of every Board meeting. In addition, the Directors are required to obtain the approval of the Chairman before accepting any further external appointments.

Anti-bribery and corruption

The Company is committed to behaving fairly and ethically in all of its endeavours and has policies which cover anti-bribery and corruption. The overall anti-bribery and corruption programme is reviewed annually by the Board and a corruption risk awareness email is sent out annually by the Chief Executive reminding staff of their obligations and also to prompt them to complete a compulsory online anti-corruption training course. Additional information can be found on page 35 of the Strategic Report and in the Code of Conduct which is available on the Company's website (www.enquest.com).

The Company also encourages staff to escalate any concerns and, to facilitate this, provides an external 'speak-up' reporting line which is available to all staff in the UK, Malaysia and the UAE. Where concerns are raised, these are investigated by the Company's General Counsel and reported to the Audit Committee.

Risk

EnQuest has continued throughout the year to implement and develop its comprehensive Risk Management Framework, and has conducted a robust assessment of the principal risks facing the Group; see pages 36 to 43 of the Strategic Report for further information. In addition, the work of the Risk Committee, which allows for a deeper dive on specific key risks, is reported on page 79.

The Audit Committee remains responsible for the following risk management related tasks:

- Reviewing the effectiveness of the Company's internal controls and risk management systems;
- Reviewing and approving the statements to be included in the Annual Report concerning internal controls and risk management; and
- Monitoring and reviewing the effectiveness of the Company's internal audit capability in the context of the Company's overall risk management system.

Remuneration

The work of the Remuneration Committee is set out on pages 58 to 76.

Relations with shareholders

Engagement with shareholders

EnQuest maintained an active and constructive dialogue with its shareholders throughout the year through a planned programme of investor relations activities and ad hoc meetings. In 2018, the Chairman and the Company's SID were available to meet with institutional investors on corporate governance, remuneration and any other matters. A number of such meetings were held during the year, with the Board updated on the content of those meetings. The Board is routinely kept informed of investor feedback, broker and analyst views in the paper submitted at each Board meeting by the Company's Investor Relations team and as required on an ad hoc basis. In 2019, the SID has conducted a number of meetings with significant shareholders, to facilitate the Chair succession process.

EnQuest's Investor Relations team and Company Secretarial department respond to queries from shareholders, debt holders and analysts. The Company's website has a section dedicated to these stakeholders which can be found under 'Investors' at www.enquest.com. EnQuest's registrars, Link Asset Services, also have a team available to answer shareholder queries in relation to technical and administrative aspects of their holdings, such as shareholding balances.

All of the Company's financial results presentations are also available on the Company's website and shareholders can register on the website to receive email alerts of relevant Company news.

Throughout 2018, a number of equity and debt investor, analyst and broker sales team meetings were held. The Company also delivers presentations alongside its half year and full year results as well as ad hoc presentations at investor conferences. The Group's results meetings are followed by investor roadshows with existing and potential new investors. Executive Directors and other members of management routinely hold meetings in a number of leading financial centres and at EnQuest's offices, with site visits undertaken when appropriate. These meetings, which take place throughout the year, other than during closed periods, are organised directly by the Company, via brokers and in response to incoming investor requests.

EnQuest is continuing to monitor developments related to the European Directive Markets in Financial Instruments Directive II ('MiFID II'), which took effect in the UK on 3 January 2018, with the objective of ensuring that its existing high standards of engagement with investors are maintained. Over the period in which MiFID II has been in force, the Company has not experienced any material change in the levels of investor interaction or engagement, or analyst coverage. It has updated its corporate website to improve its digital communication with all stakeholders.

2018 Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and Accounts and consider that, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Annual General Meeting

The Company's AGM is attended by the Board and senior management and is open to all EnQuest shareholders to attend. It provides the Board with an important opportunity to meet with shareholders. All of the Directors are expected to attend and will be available to answer questions from shareholders attending the meeting.

AUDIT COMMITTEE REPORT

"WE HAVE CONTINUED TO MONITOR CLOSELY THE GROUP'S FINANCIAL POSITION WHILE FURTHER DEVELOPING THE GROUP'S CONTROLS AND RISK MANAGEMENT FRAMEWORKS."

Carl Hughes
Chairman of the Audit Committee

Dear Fellow Shareholder
2018 has been an active year for the Audit Committee. The developments in the external environment, the Group's equity raise and subsequent acquisition of the remaining interests in the Magnus oil field ('Magnus') and Sullom Voe Oil Terminal ('SVT') and the execution of the Oz Management facility have driven the Committee's agenda. The Committee also reviewed the impact of the new accounting standards adopted in the year and of those being implemented in 2019, the quality of strategic reporting for Alternative Performance Measures ('APM') and non-financial information, and the developments of the UK's proposed exit from the European Union, in line with the Financial Reporting Council's ('FRC') guidance.

As planned when we last reported to you, our work in 2018 has focused on the areas below:
- Close monitoring of the Group's financial position, liquidity and covenant compliance given the ongoing volatility in the oil price;
- The accounting implications of the Magnus, SVT and associated infrastructure acquisition, both for the initial 25% portion in 2017 and the 75% option which was exercised and effective from 1 December 2018;
- Overseeing the execution of our risk-based internal audit plan; and
- The continuous development of the Group's internal control and Risk Management Framework.

This report explains the way in which the Committee addressed the financial and audit risks in the context of the industry's macro environment and the Company's operations during 2018. We have taken such items into account in the review of the going concern and the viability assessment.

We have continued to review and enhance the financial control environment of the Group, ensuring that controls are in place, focused on the relevant risk areas and operating effectively. Further, we ensured that key judgements and estimates made in the financial statements, such as the recoverable value of the Group's assets, are carefully assessed. In 2018, the environmental organisation Client Earth suggested to the FRC that the Group may not have complied with its reporting obligations relating to climate change related risks. EnQuest subsequently received correspondence from the FRC regarding EnQuest's climate change related disclosures and other non-financial reporting of environmental matters under the Non-financial Reporting Directive. We responded to demonstrate the Group's past compliance with relevant requirements and believe that we have addressed the FRC's observations within the 2018 Annual Report and Accounts, including through more explicit links between climate change and the various risk factors and trends identified. The matter is now closed[1].

The Committee confirms that the adoption of the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018, are embedded within the financial statements in this Annual Report and Accounts. The Committee notes that the implementation of IFRS 16 Leases, which is effective from 1 January 2019, is expected to have an impact on both the Group's EBITDA and operating profit for the year ended 31 December 2019, as further explained in note 2, on page 97. Details of the judgements and estimates made in the 2018 financial statements, and how we satisfied ourselves as to their appropriateness, are set out in detail on the following pages, together with further information on how the Committee discharged its responsibilities during the year. The Committee also continues to assess climate risk and related reporting, as detailed in Risks and uncertainties on page 36.

As explained further on the Company's website (www.enquest.com; under Corporate Governance), the Audit Committee's core responsibilities are to:
- Review the content and integrity of the annual and interim financial statements and advise the Board on whether they are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy;
- Review the appropriateness of the significant accounting policies, judgements and estimates;
- Monitor and review the effectiveness of the internal control and Risk Management Framework;
- Monitor and review the effectiveness of the internal audit function;
- Oversee the relationship with the external auditor, including fees for audit and non-audit services;
- Identify any matters in respect of which it considers that action or improvement is needed and making recommendations to the Board as to the steps to be taken; and
- Monitor and review the process of the assessment of the Group's proven and probable reserves by a recognised Competent Person.

The report also looks ahead to those matters which I expect that the Committee will need to consider in the forthcoming year. As in previous years, we will remain focused on monitoring closely the enlarged Group's financial position, liquidity and covenant compliance, as well as overseeing the execution of our risk-based internal audit plan. During 2019, the Committee will also undertake a tender process for the provision of the external audit services in respect of the 2020 financial year, as required under the Group's policy.

Carl Hughes
Chairman of the Audit Committee
20 March 2019

1 Note that the FRC's enquiries considered compliance with reporting requirements related to certain specific aspects of the Group's 2017 Annual Report rather than verification of information. The FRC did not benefit from detailed knowledge of the Group's business and does not provide assurance that the Group's 2017 Annual Report was correct in all material respects.

AUDIT COMMITTEE REPORT CONTINUED

Committee composition

As required by the UK Corporate Governance Code (the 'Code') published in April 2016, the Committee exclusively comprises Non-Executive Directors, biographies of whom are set out on pages 44 and 45. The Board is satisfied that the Chairman of the Committee, previously an energy and resources audit partner of Deloitte, a 'Big Four' professional services firm, and a Fellow of the Institute of Chartered Accountants in England and Wales, meets the requirement for recent and relevant financial experience.

Membership of the Committee and attendance at the three scheduled meetings held during 2018 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Carl Hughes	1 January 2017	3/3
Helmut Langanger	16 March 2010	3/3
John Winterman	7 September 2017	3/3

Meetings are also normally attended by the General Counsel and Company Secretary, the Chief Financial Officer, Vice President Finance, the external auditor Ernst & Young ('EY') and other key finance team members as required. The Chief Executive and the Chairman of the Board also attend the meetings when invited to do so by the Committee. PricewaterhouseCoopers ('PwC'), in its role as internal auditor during 2018, attended the meetings as appropriate. The Chairman of the Committee regularly meets with the external audit partner (with such meetings including the independent review of the going concern and viability assessments) and the internal audit partner to discuss matters relevant to the Company.

The Committee monitors its effectiveness and the effectiveness of the functions it supports on a regular basis. Through the review of the Terms of Reference of the Audit Committee, regular meetings with the internal and external auditor and key management personnel the Committee has concluded that its core duties in relation to financial reporting, internal controls and risk management systems, whistleblowing and fraud, internal audit, external audit and reporting responsibilities are being performed well.

An external Board effectiveness evaluation was conducted during 2018, and further details are outlined in the Corporate Governance Report (refer to page 51).

Meetings during 2018

In line with the Committee's annual schedule, since the Committee last reported to you, three meetings have been held. A summary of the main items discussed in each meeting is set out in the table below:

Agenda item	August 2018	December 2018	March 2019
Key risks, judgements and uncertainties impacting the half-year and year-end financial statements (reports from both management and EY)	√	√	√
Internal audit findings since last meeting	√	√	√
Internal audit plan for 2019		√	√
Review and approve the external (EY) audit plan, including key risks and planned approach		√	
Approve external (EY) audit fees subject to the audit plan		√	
Review the level of non-audit service fees for EY	√	√	√
Evaluate quality, independence and objectivity of EY	√	√	
Approach to tender for appointment of external auditors			√
Evaluate the viability assessment			√
Appropriateness of going concern assumption	√	√	√
Review of half year and full year regulatory press release and results statements	√		√
Corporate governance update	√	√	√
Presentation on the reserves audit and evaluation of the Competent Person's independence and objectivity			√
Consideration of tax strategy, policy and compliance across corporate, petroleum and indirect taxes		√	
Review of process and controls relating to migration of back-office accounting and support processes to Dubai		√	

Fair, balanced and understandable

A key requirement of our Annual Report and Accounts is for the report to be fair, balanced and understandable. The Audit Committee and the Board are satisfied that the Annual Report and Accounts meet this requirement, with appropriate weight being given to both positive and negative developments in the year.

In justifying this statement, the Audit Committee has considered the robust process which operates in creating the Annual Report and Accounts, including:

- Clear guidance and instructions are provided to all contributors;
- Revisions to regulatory requirements, including the Code, are communicated and monitored;
- A thorough process of review, evaluation and verification of the content of the Annual Report and Accounts is undertaken to ensure accuracy and consistency;

- External advisers, including the external auditors, provide advice to management and the Audit Committee on best practice with regard to the creation of the Annual Report and Accounts; and
- A meeting of the Audit Committee was held in March 2019 to review and approve the draft 2018 Annual Report and Accounts in advance of the final sign-off by the Board.

Financial reporting and significant financial statement reporting issues

The primary role of the Committee in relation to financial reporting is to assess, amongst other things:

- The appropriateness of the accounting policies selected and disclosures made, including whether they comply with International Financial Reporting Standards; and
- Those judgements, estimates and key assumptions that could have a significant impact on the Group's financial performance and position, or on the remuneration of senior management.

We consider these items together with both management and our external auditor, who each provide reports to the Audit Committee in respect of these areas at each Committee meeting. The main areas considered during 2018 are set out below:

Significant financial statement reporting issue	Consideration
Going concern and viability The Group's assessments of the going concern assumption and viability are based on detailed cash flow and covenant forecasts. These are, in turn, underpinned by forecasts and assumptions in respect of: • Production forecast for the next three years, based on the Group's 2019 business plan production forecast; • The oil price assumption, based on a forward curve as at 31 January 2019, of $61.9/bbl (2019), $60.7/bbl (2020), $60.1/bbl (2021) and $65/bbl (Q1 2022); • Opex and capex forecasts based on the approved 2019 business plan; and • Other funding activities including certain asset portfolio activities.	The Board regularly reviews the liquidity projections of the Group. The detailed going concern and longer-term viability analysis, including sensitivity analysis and stress testing, along with explanations and justifications for the key assumptions made, were presented at the March Audit Committee meeting. The external auditors presented their findings on the conclusions drawn. This analysis was considered and challenged, in detail, by the Committee, including, but not limited to, the appropriateness of the period covered, planning scenarios and macroeconomic assumptions were realistic, stress tests were appropriate and mitigations achievable. The wording in the Annual Report concerning the viability statement and going concern assumption (see page 26) was reviewed and approved for recommendation to the Board.
Potential misstatement of oil and gas reserves The Group has total proved and probable reserves at 31 December 2018 of 245 MMboe. The estimation of these reserves is essential to: • The value of the Company; • Assessment of going concern; • Impairment testing; • Decommissioning liability estimates; and • Calculation of depreciation.	At the March meeting, management presented the Group's 2P reserves, together with the report from Gaffney, Cline & Associates, our reserves auditor. We considered the scope and adequacy of the work performed by Gaffney, Cline & Associates and its independence and objectivity.
Impairment of tangible and intangible assets Significant capital expenditure is incurred on projects and the fair value of these projects is a significant area of judgement. At 31 December 2018, a total of $1.1 billion had been capitalised in respect of oil and gas and other fixed assets, including $0.9 billion from the acquisition of the additional interests in the Magnus oil field. The recovery of these amounts is dependent upon the expected future cash flows from the underlying assets. Impairment testing has been performed resulting in a pre-tax non-cash net impairment charge of $0.1 billion of tangible oil and gas assets. These impairment tests are underpinned by assumptions regarding: • 2P reserves; • Oil price assumptions (based on a forward curve of $60/bbl (2019), $65/bbl (2020), $65/bbl (2021) and $75/bbl real thereafter); • Life of field opex, capex and abandonment expenditure; and • A discount rate driven by EnQuest's weighted average cost of capital.	Management presented to the Committee, at the March meeting, the key assumptions made in respect of impairment testing, and the result thereof. The Committee considered and challenged these assumptions. Consideration was also given to EY's view of the work performed by management.
Complexity of acquisition accounting The acquisition of the remaining 75% of the Magnus oil field from BP along with BP's interest in the related infrastructure assets completed on 1 December 2018. This is a complex agreement funded by way of a vendor loan from BP and a future profit share arrangement. Given the complexity of the deal there is a fair value calculation misstatement risk. In addition, the initial acquisition of 25% of the Magnus oil field and other interests, completed on 1 December 2017, was revisited in the year with immaterial adjustments made to the original completion accounting.	At the December meeting, the preliminary acquisition accounting considerations were presented to the Committee. In the March meeting, the key assumptions and results of the completion statements were presented to the Committee. Consideration was also given to EY's view of the work performed by management.

AUDIT COMMITTEE REPORT CONTINUED

Significant financial statement reporting issue	Consideration
Adequacy of the decommissioning provision The Group's decommissioning provision of $0.7 billion at 31 December 2018 is based upon a discounted estimate of the future costs and timing of decommissioning of the Group's oil and gas assets. Judgement exists in respect of the estimation of the costs involved, the discount rate assumed, and the timing of decommissioning activities. In 2016, the Group commissioned Wood Group PSN to estimate the costs involved in decommissioning each of our operated fields, and in 2017 Wood Group PSN also estimated the costs involved in decommissioning the Kraken facility and associated infrastructure. These estimates were reviewed by operations personnel and adjustments were made where necessary to reflect management's view of the estimates. The estimates in respect of decommissioning the Group's well stock was determined internally by appropriately qualified personnel. Independent estimates are updated triennially, with the next review due in 2019. The estimate for PM8/Seligi has been reviewed during 2018 and will be reviewed annually. For Alba, our non-operated asset, the provision is based on estimates provided by the operator, adjusted as necessary by our own operations personnel, to ensure consistency in key assumptions with our other North Sea assets.	The Committee reviewed the report by management summarising the key findings and their impact on the provision. Regard was also given to the observations made by EY as to the appropriateness of the estimates made.
Taxation At 31 December 2018, the Group carried deferred tax balances comprising $286.7 million of tax assets (primarily related to previous years' tax losses) and $27.8 million of tax liabilities. The recoverability of the tax losses has been assessed by reference to the tax projections derived from the Group's impairment testing. Ring-fenced losses totalling $3,225.3 million ($1,210.3 million tax-effected) have been recognised. Mainstream (outside ring-fence) tax losses totalling $287.5 million ($48.9 million tax-effected) have not been recognised due to uncertainty of recovery. Given the complexity of tax legislation, risk exists in respect of some of the Group's tax positions.	The Committee received a report from the Group's Head of Tax, outlining all uncertain tax positions, and evaluated the technical arguments supporting the position taken by management. The Committee also took into account the views of EY as to the adequacy of our tax balances. An evaluation of the transparency of the Group's tax exposures was undertaken, reviewing the adequacy and appropriateness of tax disclosures presented by management. Regard was also given to the observations made by EY as to the appropriateness of the disclosures made.

Internal controls

The Code requires that the Board monitors the Company's risk management and internal control systems and, at least annually, carries out and reports on the results of a review of their effectiveness. The Board has oversight of risk management within EnQuest, and page 36 provides more detail on how the Board, and its Risk Committee, have discharged its responsibility in this regard.

Responsibility in respect of internal control is delegated to the Audit Committee. Key features of the Group's internal control framework, the effectiveness of which is reviewed continually throughout the year, include:

- Clear delegations of authority to the Board and its sub-committees, and to each level of management;
- Setting of HSE&A, operational and financial targets and budgets which are subsequently monitored by management and the Board;
- A comprehensive risk management process with clear definition of risk tolerance and appetite. This includes a review by the Risk Committee of the effectiveness of management controls and actions which address and mitigate the most significant risks;
- An annual risk-based internal audit programme developed in conjunction with management. Findings are communicated to the Audit Committee and follow-up reviews are conducted where necessary; and
- Further objective feedback provided by the external auditors and other external specialists.

Obtaining assurance on the internal control environment

The Group outsources its internal audit function to PwC. The Committee remains satisfied that outsourcing this function remains appropriate for the Group but we will continue to keep this approach under review.

The Group's system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the Group's business objectives will be achieved within the risk tolerance levels defined by the Board. Regular management reporting, which provides a balanced assessment of key risks and controls, is an important component of assurance.

In respect of the work performed by the internal auditors, we determine the internal audit plan each year. When setting the plan we consider recommendations from management and the internal auditor, and take into account the particular risks impacting the Company, which are reviewed by the Board and Risk Committee. During 2018, internal audit activities were undertaken for various areas, including reviews of:

- The Group's accounting and consolidation system upgrade pre and post-implementation review and post-implementation lessons learned;
- Procurement procedures in Malaysia; and
- Ongoing rotational reviews of the effectiveness of the financial control framework in the finance functions in head office, the North Sea, Dubai and Malaysia.

In all cases, the audit conclusions were that the systems and processes were satisfactory and, where potential control enhancements were identified as being required, the Committee ensured that appropriate action was being taken by management to implement the agreed improvements.

After considering the priorities in 2019, we have directed internal audit to focus on, amongst other areas, the review of the Risk Management Framework and cyber-security on top of the ongoing rotational review of the financial control framework.

External audit

One of the Committee's key responsibilities is to monitor the performance, objectivity and independence of EY, which has been the Group's external auditor since 2010. Each year, the Committee ensures that the scope of the auditor's work is sufficient and that the auditor is remunerated fairly. The process for reviewing EY's performance involves interviewing, each year, key members of the Group who are involved in the audit process to obtain feedback on the quality, efficiency and effectiveness of EY's audit services. Additionally, the Committee members take into account their own view of EY's performance when determining whether or not to recommend reappointment.

The effectiveness of EY was formally evaluated during the Committee's meeting in December 2018, and it was concluded that the Committee continues to be satisfied with EY's performance and the firm's objectivity and independence. The Chairman of the Committee met with the extended audit team to discuss key audit issues during the year.

In its evaluation of EY, the Committee also considered the level of non-audit services provided by the firm during the year, the compliance with our policy in respect of the provision of non-audit services by the external auditor, and the safeguards in place to ensure EY's continued independence and objectivity. In recommending the reappointment of EY for 2019, the Committee recognised the increase of non-audit fees (from $5,000 in 2017 to $373,000 in 2018). In 2018, the fees reflected the work required of EY for the Group's equity raise prospectus, including the working capital review and reporting accountant's services. The services provided in 2018 are typically provided by a company's auditor. The ratio of non-audit fees to audit fees over the last three years was 23%, which remains below the 70% cap outlined in the Company's policy in respect of non-audit services provided by the external auditor.

In respect of audit tendering and rotation, the Committee has adopted a policy which complies with the EU Audit Regulation and Competition and Markets Authority 'The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities)' Order 2014. This policy requires an annual assessment of whether an audit tender is required on the basis of quality or independence, a mandatory tender after ten years, and rotation of audit firms at least every 20 years. As noted above, EY has been the Group's auditor since 2010, and the external audit has not been tendered in this time. In compliance with the Group policy above, the Committee will undertake a tender process in 2019 for the provision of the external audit services in respect of the 2020 financial year.

Use of external auditors for non-audit services

The Audit Committee and Board believe that the external auditor's independence and objectivity can potentially be affected by the level of non-audit services to EnQuest. However, the Committee acknowledges that certain work of a non-audit nature is best undertaken by the external auditor. To ensure objectivity and independence, and to reflect best practice in this area, the Company's policy on non-audit services reflects the EU Regulations.

As part of the Committee's process in respect of the provision of non-audit services, the external auditor provides the Committee with information about its policies and processes for maintaining independence and monitoring compliance with current regulatory requirements, including those regarding the rotation of audit partners and staff. EY has reconfirmed its independence and objectivity.

The key features of the non-audit services policy, the full version of which is available on our website (www.enquest.com), are as follows:

- A pre-defined list of prohibited services has been established;
- A schedule of services where the Group may engage the external auditor has been established and agreed by the Committee;
- Any non-audit project work which could impair the objectivity or independence of the external auditor may not be awarded to the external auditor; and
- Fees for permissible non-audit services provided by the external auditor for three consecutive years are to be capped at no more than 70% of the average Group audit fee for the preceding three years.

Delegated authority by the Audit Committee for the approval of non-audit services by the external auditor is as follows:

Authoriser	Value of services per non-audit project
Chief Financial Officer	Up to £50,000
Chairman of the Audit Committee	Up to £100,000
Audit Committee	Above £100,000

Raising concerns at work

Throughout the year, our whistleblowing procedure, the 'speak-up' reporting line, has continued to be in place across the Group. This allows employees and contractors to raise any concerns about business practices in confidence, and anonymously if required, through an independently appointed third party. Any concerns raised under these arrangements or otherwise are notified to the Chairman of the Audit Committee and then investigated promptly by the General Counsel, with follow-up action being taken as soon as practicable thereafter. In line with the process outlined on page 52 of the Corporate Governance Statement, there have been a limited number of instances where such issues have been elevated and the Committee has been kept appraised of how these have been addressed.

DIRECTORS' REMUNERATION REPORT

"EXECUTIVE REMUNERATION IS CLOSELY ALIGNED TO COMPANY PURPOSE AND VALUES AND CLEARLY LINKED TO THE SUCCESSFUL DELIVERY OF THE COMPANY'S LONG-TERM STRATEGY."

Helmut Langanger
Former Chairman of the Remuneration Committee

Dear Fellow Shareholder

On behalf of the Board and my fellow members of the Remuneration Committee, I am pleased to present EnQuest's Directors' Remuneration Report ('DRR') for the financial year ended 31 December 2018.

Overview

At the Annual General Meeting ('AGM') in May 2018, almost 90% of shareholders voted to approve the new Remuneration Policy (the 'Policy') for EnQuest. Policy revisions followed an extensive review of the remuneration framework and shareholder consultation by the Committee on some changes to reflect both developments in EnQuest as a maturing business and the ongoing need to retain and attract high-calibre people in a challenging commercial environment. It is anticipated that the Policy will remain in force until the next scheduled shareholder vote, being at the AGM in 2021.

One of the commitments the Company made as part of the policy changes approved at the 2018 AGM was to make appropriate adjustments to production and reserve growth targets under the Performance Share Plans ('PSP') should the Company engage in any future transaction where a change in equity capital is directly linked to changes in production and/or reserves. Any such adjustments will be designed to neutralise fully the incentive outcome to the impact of the change in equity capital. For the 2016 PSP awards, due to vest in April 2019, the Committee agreed to reduce the production outturn for the purpose of the PSP by the equivalent of one month of production from the additional 75% interest in Magnus, which equates to 1,371 Boepd and adjusted the reserves outturn by 55.4 MMboe. For the 2017 and 2018 PSP awards, due to vest in April 2020 and April 2021 respectively, appropriate reductions will be assessed to the Group's production and reserve outturn at the end of each respective performance period.

In 2018, we also implemented the second phase of the two-year rebalancing of the overall executive remuneration package from short-term bonuses to longer-term PSP awards. The main changes were as follows:

- Annual bonus opportunities were reduced from 85% to 75% of salary (at target) and from 175% to 125% of salary (at maximum); and
- A two-year post-vesting holding period will apply to PSP awards made to Executive Directors from 2019 onwards.

As a Committee, we believe that the Policy, strongly endorsed by shareholders, is aligned with the Company's purpose, strategy and Values, and reflects current market practice. We are also clear that variable remuneration should be based on strong, long-term business performance that delivers value to shareholders. We believe that our incentive performance measures help achieve this goal.

The DRR has three sections:

1. This annual summary statement;
2. The Remuneration Policy, which was approved by the shareholders at the 2018 AGM; and
3. The Annual Report on Remuneration of the Executive Directors and Non-Executive Directors for 2018, which will be subject to an advisory shareholder vote at the 2019 AGM.

Shareholder consultation

We continued our programme of open and transparent shareholder dialogue in 2018. Following consultation with shareholders and the subsequent supportive response, a 9.9% increase in base salary for Jonathan Swinney, Chief Financial Officer, was implemented from 1 March 2018, taking his annualised salary from £294,000 to £323,000.

As stated above, we also gained strong support for the AGM resolution to align the Company's production and reserves growth targets with how they are assessed, disclosed and reported.

The Committee understands the revisions made to the UK Corporate Governance Code (the 'Code') published in July 2018 and coming into effect for financial accounting years beginning on or after 1 January 2019. As outlined above and approved by shareholders at the 2018 AGM, the Company has already implemented an additional two-year holding period post the three-year vesting cycle for PSP awards made to Executive Directors vesting from 2019 onwards. The new disclosure requirements, including the Chief Executive 'pay ratio', will be included in EnQuest's 2019 Annual Report and Accounts to be published in April 2020.

The Committee is also aware of the new Code requirement to develop a formal policy for post-employment shareholdings. This policy will be developed as part of the next Policy renewal, required in 2021, and shareholder approval sought at that year's AGM. When developing the Company's Policy, the Committee carefully considers shareholders and proxy adviser guidelines on executive remuneration and welcomes open engagement and dialogue on these matters. We are aware of new institutional shareholder guidelines on executive pensions and the ratio of target to maximum bonus and will address these as part of the next Policy review.

Performance and remuneration outcomes for 2018

2018 was a critical year for EnQuest. A successful rights issue, strongly supported by our shareholders, raised $129 million (net) to fund the acquisition of additional interests in Magnus and the Sullom Voe Terminal and delivered a set of assets with a strong strategic fit into the Group's portfolio. The Group also met its operational and financial targets. While the Group did not dispose of an equity interest in the Kraken asset, a financing agreement with funds managed by Oz Management was successfully executed. This financing, which is ring-fenced on a 15% share of

"I AM PLEASED TO HAVE ASSUMED THE ROLE OF REMUNERATION COMMITTEE CHAIR AND LOOK FORWARD TO CONTINUING OUR OPEN AND TRANSPARENT RELATIONSHIP WITH OUR SHAREHOLDERS."

Laurie Fitch
Chair of the Remuneration Committee

Kraken with repayment made out of the cash flows from this 15% share, along with the Group's improved cash-generation capacity, enabled EnQuest to meet its term loan facility amortisation payments and manage its liquidity position effectively.

2018 annual bonus – payable in 2019
The Executive Directors' annual bonus awards are based on a combination of financial and operational results and the achievement of key accountability objectives. The bonus attainment for Amjad Bseisu (Chief Executive) was based solely on achievement against the Company Performance Contract ('CPC'). In the case of Jonathan Swinney, 50% of his bonus award was based on the CPC and 50% on achievement against performance measures set out in his individual performance contract. A 2018 bonus award of 98.6% of base salary (78.9% of maximum) has been made for Amjad Bseisu and 109.5% of base salary (87.6% of maximum) for Jonathan Swinney. The Committee believes that these levels of award are appropriate in light of performance during the year, including, but not limited to, operational delivery, the successful rights issue and subsequent completion of the acquisition of assets from BP and effective liquidity management. Full details of how these awards were determined are included on pages 68 to 70 of this report. Any bonus amount in excess of 100% of salary will be deferred into EnQuest shares with a holding period of two years, in line with the Policy.

Performance Share Plan ('PSP')
The award vesting on 22 April 2019 is the 2016 PSP award, which had a three-year performance period ending 31 December 2018 and vested at 55.7% of the original award. Our Production Growth target vested at 21.2% out of 40.0% after adjusting for the impacts of the Magnus acquisition, whilst the measure on Total Shareholder Return ('TSR') vested at 34.6% out of 50.0%. However, the Reserves Growth target, with a weighting of 10.0% of the total, after adjusting for the impacts of the Magnus acquisition, was not achieved. Full details of actual performance against the three performance conditions of TSR, Production Growth and Reserves Growth targets are included later in the report.

A PSP award of 250% of salary for both Amjad Bseisu and Jonathan Swinney was made on 24 April 2018. The performance conditions associated with this award will be measured over the three-year performance period until 31 December 2020, and will vest in April 2021.

Executive Director shareholding
Executive Directors are now expected to build up and hold a shareholding of 200% of salary. Both Amjad Bseisu and Jonathan Swinney comfortably meet this requirement.

Executive Director remuneration in 2019

2019 base salaries
As outlined in our report last year, we plan to adjust salaries progressively towards the median of peer companies in our market over the period of this Policy and subject to continued strong performance. This is designed to ensure we continue to retain and attract top people who can deliver superior results for our shareholders.

For the year ahead, the Committee has awarded a salary increase of 2.0% to Amjad Bseisu and Jonathan Swinney effective from 1 January 2019. This is in line with the average increase awarded to Company employees.

2019 PSP awards
The Committee has decided to grant 250% of salary as a PSP award in April 2019 to Amjad Bseisu and Jonathan Swinney. These 2019 awards will be subject to the same performance targets as the 2018 award.

In 2018, we again saw the clear benefits of transparency and a positive and close working relationship with major shareholders. We wish this to continue as we welcome your input, and are always prepared to listen and take on board suggestions that help EnQuest to continue to mature and develop.

I would like to take this opportunity to thank my Committee colleagues and fellow shareholders in their support for me as Committee Chairman. On 29 January 2019, I stepped down from the Chairman role, with Laurie Fitch replacing me. Laurie has been serving on the Committee since she joined the Company on 8 January 2018 and we have been conducting a full handover during the last few months of 2018 to ensure a smooth transition. I will continue to serve as a member of the Committee for 2019 and look forward to continuing to work with Laurie and my fellow Committee members.

Helmut Langanger
Former Chairman of the Remuneration Committee

I am delighted to have assumed the role of Remuneration Committee Chair, having been a member of the Company and this Committee since 8 January 2018. I would also like to take this opportunity to thank Helmut on behalf of my fellow Board and Committee colleagues for his valuable leadership in the development of a robust Remuneration Policy for EnQuest, the results of which are contained in the report that follows. I look forward to meeting with you at our forthcoming AGM and in the future as we continue our objective of having an open and transparent relationship with our shareholders.

Laurie Fitch
Chair of the Remuneration Committee
20 March 2019

DIRECTORS' REMUNERATION REPORT CONTINUED

Governance

General governance

The Directors' Remuneration Report has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. It also describes the Group's compliance with the Corporate Governance Code (the 'Code') in relation to remuneration. The Committee takes account of the new requirements for the disclosure of Directors' remuneration and guidelines issued by major shareholder bodies when setting the remuneration strategy for the Company. Disclosure requirements under the revised Code not already part of the Group's Policy will be implemented during 2019 and included in the Company's Annual Report and Accounts for 2019 to be published in April 2020.

Remuneration Policy – approved by shareholders in 2018

The full Directors' Remuneration Policy was approved for three years at the 2018 AGM held on 24 May 2018 with a 'for' vote of 89.67%. A shareholder vote on the Remuneration Policy is not required in 2019. The approved Policy is reproduced on the following pages for ease of reference.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of the approved Policy. This ability to apply discretion is highlighted where relevant in the Policy, and the use of discretion will always be in the spirit of the Policy.

Remuneration principles

In determining the Remuneration Policy approved at the AGM held in May 2018, we reviewed our overall remuneration principles to ensure that they continued to be aligned with our strategy. EnQuest's strategic objective is to be the operator of choice for maturing and underdeveloped hydrocarbon assets, focused on enhancing hydrocarbon recovery and extending the useful lives of these assets in a profitable and responsible manner.

We also want to ensure that we operate within the appropriate culture and, therefore, that the principles support and reinforce the EnQuest Values. Our principles are clear and simple; to strengthen the link of reward for exceptional performance, as well as to emphasise the importance of our Values.

In summary, the principles underpinning our Remuneration Policy are that remuneration for Executive Directors should be:
- Aligned with shareholders;
- Fair, reflective of best practice, and market competitive;
- Comprising fixed pay set at or below the median and variable pay capable of delivering remuneration at upper quartile; and
- Rewarding performance with a balance of short-term and long-term elements, shifting the emphasis to longer-term reward.

Executive Directors

General approach

The remuneration of the Executive Directors comprises base salary, participation in an annual bonus plan (paid partly in cash and partly in deferred shares), the Performance Share Plan ('PSP'), private medical insurance, life assurance, personal accident insurance, and cash in lieu of pension.

When setting remuneration for the Executive Directors, the Committee takes into account the performance and experience of the Director, as well as the Company performance, employment conditions for other employees in the Company, and the external marketplace. Data is obtained from a variety of independent sources.

The following table details EnQuest's Remuneration Policy, which became binding from 24 May 2018, following approval at the 2018 AGM:

Component	Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Salary and fees	To enable the recruitment and retention of Executive Directors who possess the appropriate experience, knowledge, commercial acumen and capabilities required to deliver sustained long-term shareholder value.	• Set at or below median when compared to a comparator group generally of the same size and industry as EnQuest and who have a similar level of enterprise value. • Salaries are typically reviewed by the Remuneration Committee in January each year.	Typically, the conditions and pay of all employees within the Company are factors considered by the Committee in its review. Increases in excess of the general workforce may be made where there is a significant change in duties, contribution to Company performance, personal performance, or external market conditions.	None.

Component	Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Pension and other benefits	Provide market-competitive employee benefits that are in line with the marketplace and enable EnQuest to attract and retain high-calibre employees, as well as providing tax-efficient provision for retirement income.	• Delivered as cash in lieu of pension, with remaining benefits provided by the Company. • Executive Directors may participate in the HMRC-approved Sharesave Scheme and benefit from share price growth. • Reviewed annually by the Remuneration Committee and adjusted to meet typical market conditions. • Where required, we would offer additional benefits in line with local market practice. • Any reasonable business-related expenses (including tax thereon) which are determined to be a taxable benefit can be reimbursed.	The maximum pension allowance that may be offered is £50,000, plus private medical insurance, life assurance and personal accident insurance, the costs of which are determined by third-party providers.	None.
Annual bonus	Incentivises and rewards short-term performance (over no more than one financial year) through the achievement of pre-determined annual targets which support Company strategy and shareholder value.	• Up to 100% of salary paid as cash. All bonus above 100% of salary is deferred into EnQuest shares for two years, subject to continued employment. • The Committee has discretion to allow Executive Directors to receive dividends that would otherwise have been paid on deferred shares at the time of vesting. • Both cash and share elements of bonuses awarded from 2017 may be subject to malus or clawback in the event of a material misstatement of the Company's accounts, errors in the calculation of performance, or gross misconduct by an individual for up to three years following the determination of performance.	• Target award – 75% of salary. • Maximum award – 125% of salary.	• Using a scorecard approach, including key performance objectives such as financial, operational, project delivery, HSE&A targets and net debt. These are set annually by the Remuneration Committee, with varying weightings. • Performance against key objectives has threshold, target and stretch components. • Where the threshold level of performance is met for each element, bonuses will begin to accrue on a sliding scale from 0%.

DIRECTORS' REMUNERATION REPORT CONTINUED

Component	Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Performance Share Plan ('PSP')	• Encourages alignment with shareholders on the longer-term strategy of the Company. • Enhances delivery of shareholder returns by encouraging higher levels of Company performance. • Encourages executives to build a shareholding.	• Annual award levels may take account of the performance of the Company and the Executive Director in the prior year. • Awards vest over three years provided corporate performance conditions have been achieved. • Awards vesting from 2022 onwards will then be subject to an additional two-year holding period which, unless the Committee determines otherwise, will apply up to the fifth anniversary of the date of grant. • The Committee has discretion to allow Executive Directors to receive dividends that would otherwise have been paid on shares at the time of vesting. • Awards may take the form of conditional awards, nil cost options or joint interests in shares. Where joint interests in shares are awarded, the participants and the Employee Benefit Trust ('EBT') acquire separate beneficial interests in shares in the Company. • Awards granted from 2017 onwards are subject to malus or clawback in the event of a material misstatement of the Company's accounts, errors in the calculation of performance, or gross misconduct by an individual for up to three years following the determination of performance.	• Normal maximum – 250% of salary. • Exceptional maximum – 350% of salary.	• Vesting of awards granted from 2017 will be based on, but not limited to, relative TSR, reserves growth, production growth and net debt (or debt reduction). • No more than 25% of the maximum award vests at threshold. • Details of the performance conditions applied to awards granted in the year under review and for the awards to be granted in the forthcoming year are set out in the Annual Report on Remuneration. • The number, type and weighting of performance measures may vary for future awards to help drive the strategy of the business provided these are no less challenging than the existing targets. • The Committee will normally consult with major shareholders before introducing any material new metrics.

Component	Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Chairman and Non-Executive Director fees	To attract Non-Executive Directors of the calibre and experience required for a company of EnQuest's size.	• Fees for the Non-Executive Directors are reviewed annually by the Chairman and Executive Directors and take into account: – typical practice at other companies of a similar size and complexity to EnQuest; – the time commitment required to fulfil the role; and – salary increases awarded to employees throughout the Company. • Non-Executive Directors are paid a base fee, with additional fees being paid to the Senior Independent Director and Committee Chairs, to reflect the additional time commitments and responsibilities these roles entail. • Additional fees may be paid if there is a material increase in time commitment and the Board wishes to recognise this additional workload. • Any reasonable business-related expenses (including tax thereon) which are determined to be a taxable benefit can be reimbursed. • The Non-Executive Directors are not eligible to participate in any of the Company incentive schemes. • The Chairman's fee is set by the Senior Independent Director and consists of an all-inclusive fee.	• Limited by the Company's Articles of Association. • Reviewed periodically but at least every third year.	None.

Shareholding requirement

The Executive Directors are expected to retain 50% of shares from vested awards under the PSP (other than sales to settle any tax or social security withholdings due) until they hold at least 200% of salary in shares[1]. The Committee will review progress against this guideline on an annual basis.

Note:
1 To include shares which are beneficially owned (directly or indirectly) by family members of an Executive Director

DIRECTORS' REMUNERATION REPORT CONTINUED

Performance measures and targets

Annual bonus

The annual bonus scheme is a weighted scorecard of key performance indicators with a number of categories, under which the performance of the Company, and therefore the annual bonus of Executive Directors, is determined. The categories that form the scorecard may include, but are not limited to:

- Health, Safety, Environment and Assurance ('HSE&A');
- Financial (including EBITDA, opex and capex);
- Operational performance/production;
- Project delivery;
- Reserves additions;
- Net debt; and
- Objectives linked to key accountabilities.

The measures in each category are selected by the Committee to support the creation of shareholder value. These criteria are also aligned with the longer-term strategy of the Company and the performance conditions of the Company's long-term incentive scheme. In addition to measuring performance against objectives, the Committee will consider the overall quality of the Company's financial performance, and other factors, when determining annual performance pay awards.

Amjad Bseisu's bonus objectives are normally based solely on the Company Performance Contract ('CPC') of EnQuest. Jonathan Swinney's bonus objectives may also include up to 50% based on additional objectives that cover his own specific area of key accountabilities and responsibilities.

Annual bonus and share deferrals

Executive Directors will normally receive any applicable annual bonus in cash and deferred shares. Any amount up to the equivalent of 100% of salary will be distributed in cash around the time of the announcement of full year results, with any amount above the equivalent of 100% of salary converted into EnQuest shares (without further performance conditions) and deferred for two years, subject to continued employment. In exceptional circumstances, these awards may be settled in cash, but only with the pre-approval of the Remuneration Committee.

Performance Share Plan

The PSP is typically awarded annually and has a vesting period of three years. Awards vesting from 2022 onwards will be subject to an additional two-year holding period which, unless the Committee determines otherwise, will apply up to the fifth anniversary of the date of grant. Performance conditions are attached to the awards and reflect the longer-term strategy of EnQuest. For awards granted in 2019, these will comprise:

- TSR against a comparator group of oil and gas companies;
- Production growth on a Compound Annual Growth ('CAG') basis;
- Reserves growth on an absolute growth basis; and
- Net debt on an absolute reduction basis if considered appropriate by the Remuneration Committee.

Approach to recruitment remuneration

In the event that the Company appoints a new Executive Director either internally or externally, when determining appropriate remuneration arrangements, the Committee will take into consideration a number of factors including, but not limited to: quantum relating to prior arrangements; the remuneration of other Executive Directors in the Company; appropriate benchmarks in the industry; and the financial condition of the Company. This ensures that the arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an executive of the required calibre.

Salaries for new hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. If it is considered appropriate to appoint a new Director on a below market salary initially (for example, to allow them to gain experience in the role), their salary may be increased to a median market level over a period by way of increases above the general rate of wage growth in the Group and inflation.

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved Remuneration Policy at the time. Different performance measures may be set for the year of joining the Board for the annual bonus and PSP, taking into account the individual's role and responsibilities and the point in the year the executive joined.

Benefits and pensions for new appointees to the Board will normally be provided in line with those offered to other executives and employees taking account of local market practice, with relocation expenses/arrangements provided for if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with EnQuest. Legal fees and other relevant costs and expenses incurred by the individual may also be paid by the Company.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant.

The Committee may make additional awards on appointing an Executive Director to 'buy out' remuneration arrangements forfeited on leaving a previous employer. Any such payments would be based solely on remuneration lost when leaving the former employer and would reflect (as far as practicable) the delivery mechanism, time horizons and performance requirement attaching to that remuneration. The Group's existing incentive arrangements, including the 2010 Restricted Share Plan ('RSP'), will be used to the extent possible for any buyout (subject to the relevant plan limits), although awards may also be granted outside of these schemes, if necessary, and as permitted under the Listing Rules.

On the appointment of a new Chair or Non-Executive Director, the fees will be set taking into account the experience and calibre of the individual.

Service contracts

Amjad Bseisu and Jonathan Swinney entered into service agreements with the Company which are terminable by either party giving not less than 12 months' written notice. The Company may terminate their employment without giving notice by making a payment equal to the aggregate of the Executive Director's basic salary and the value of any contractual benefits for the notice period including any accrued but untaken holiday. Such payments may be paid monthly and/or subject to mitigation.

Executive Directors	Date of appointment	Notice period
Amjad Bseisu	22 February 2010	12 months
Jonathan Swinney	29 March 2010	12 months

The Chairman and Non-Executive Directors have letters of appointment, the details of which are provided below.

Non-Executive Directors' letters of appointment	Date of appointment	Notice period	Initial term of appointment
Jock Lennox[1]	22 February 2010	3 months	3 years
Carl Hughes	1 January 2017	3 months	3 years
Helmut Langanger[2]	16 March 2010	3 months	3 years
Philip Holland	1 August 2015	3 months	3 years
John Winterman	7 September 2017	3 months	3 years
Laurie Fitch[3]	8 January 2018	3 months	3 years

Notes:
1 Jock Lennox also has a more recent letter of appointment following him becoming Chairman on 8 September 2016
2 Helmut Langanger stepped down as Chair of the Remuneration Committee on 29 January 2019
3 Laurie Fitch was appointed to the Board on 8 January 2018, becoming a member of the Remuneration and Risk Committees. Laurie assumed the role of Chair of the Remuneration Committee on 29 January 2019

External directorships

The Company recognises that its Executive Directors may be invited to become non-executive directors of companies outside the Company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the Company. Any external appointments are subject to Board approval (which would not be given if the proposed appointment required a significant time commitment; was with a competing company; would lead to a material conflict of interest; or could otherwise have a detrimental effect on a Director's performance). Executive Directors will be permitted to retain any fees arising from such appointments, details of which will be provided in the respective companies' Annual Report on Remuneration.

Policy on payment for loss of office

The Company's policy is for all Executive Directors to have contracts of service which can be terminated by either the Director concerned or the Company on giving 12 months' notice of termination. In the event of termination by the Company (other than as a result of a change of control), the Executive Directors would be entitled to compensation for loss of basic salary and cash benefit allowance and insured benefits for the notice period up to a maximum period of 12 months. Such payments may be made monthly and would be subject to mitigation. The Company may also enable the provision of outplacement services to a departing Executive Director, where appropriate.

When Executive Directors leave the Company with good leaver status, and they have an entitlement to unvested shares granted under the Deferred Bonus Share Plan ('DBSP') and PSP, any performance conditions associated with each award outstanding would remain in place and are normally tested at the end of the original performance period. Shares would also normally then vest on their original vesting date in the proportion to the satisfied performance conditions and are normally pro-rated for time. Awards held by Executive Directors who are not good leavers would lapse.

An annual bonus would not typically be paid to Executive Directors when leaving the Company. However, in good leaver circumstances the Committee has the discretion to pay a pro-rated bonus in cash, in consideration for performance targets achieved in the year. Deferred bonus shares held by good leavers will normally vest at the normal vesting date.

Similar provisions related to the treatment of incentive awards would apply on a change of control, with performance conditions normally tested at the date of the change of control and with pro-rating for time, although the Remuneration Committee has discretion to waive pro-rating (but not the performance conditions) where it feels this is in the best interests of shareholders.

The Non-Executive Directors do not have service contracts, but their terms are set out in a letter of appointment. Their terms of appointment may be terminated by either party giving three months' notice in writing. During the notice period Non-Executive Directors will continue to receive their normal fee.

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration Committee discretion and determinations
The Committee will operate the annual bonus scheme, DBSP, PSP, RSP and Sharesave Scheme according to their respective rules and in accordance with the Listing Rules and HMRC requirements, where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these arrangements. These include, but are not limited to, the following:
- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Applying 'good leaver' status in circumstances such as death, ill health and other categories as the Committee determines appropriate and in accordance with the rules of the relevant plan;
- Discretion to disapply time pro-rating in the event of a change of control or good leaver circumstances;
- Discretion to settle any outstanding share awards in cash in exceptional circumstances;
- Adjustments or variations required in certain circumstances (e.g. rights issues, corporate restructuring, change of control, special dividends and other major corporate events); and
- The ability to adjust existing performance conditions and performance targets for exceptional events so that they can still fulfil their original purpose.

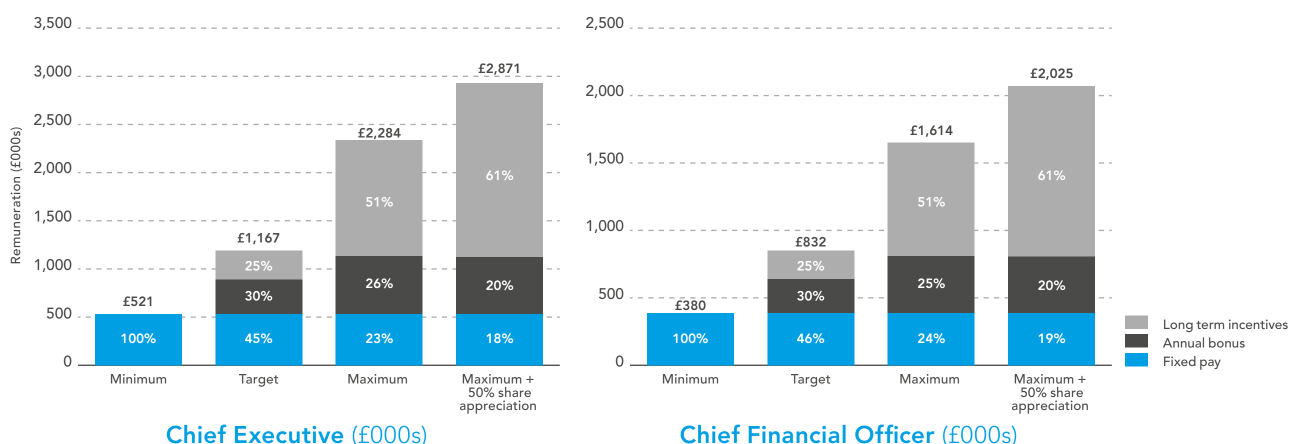
If an event occurs which results in any applicable performance conditions and/or targets being deemed no longer appropriate (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy.

If tax liabilities arise from an error or omission by the Company that is outside of the control of the Executive Directors, the Committee will have the ability to reimburse any such tax liabilities.

Legacy awards
For the avoidance of doubt, authority is given to the Committee to honour any commitments entered into with current or former Directors (such as the payment of a pension or the unwind of legacy share schemes) that have been disclosed to shareholders in this or any previous DRRs or subsequently agreed in line with the approved policy in force at that time. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Remuneration outcomes in different performance scenarios
The charts below set out an illustration of the remuneration arrangements for 2019 in line with the Remuneration Policy described in the policy section. These charts provide an illustration of the proportion of total remuneration made up of each component of the Policy and the value of each component. Four 2019 scenarios have been illustrated for each Executive Director, aligning with the revised remuneration reporting requirements that came into effect from 1 January 2019:

Below threshold performance	• Fixed remuneration • Zero annual bonus • No vesting under the PSP
Target performance	• Fixed remuneration • Target payout under the annual bonus, set at 60% of the maximum bonus opportunity • 25% of maximum vesting under the PSP at threshold performance
Maximum performance	• Fixed remuneration • Maximum payout under the annual bonus • Full vesting under the PSP
Maximum performance plus 50% share appreciation	• Fixed remuneration • Maximum payout under the annual bonus • Full vesting under the PSP plus assumed 50% share price appreciation at vesting



Chief Executive (£000s) **Chief Financial Officer** (£000s)

Note:
Fixed pay comprises salary from 1 January 2019 for Amjad Bseisu and Jonathan Swinney, a pension allowance of £50,000 plus medical insurance benefit of £1,500 each

Statement of consideration of employment conditions elsewhere in the Company

The remuneration arrangements for the Executive Directors are consistent with the remuneration principles that have been established and are similar to those of the other employees of EnQuest.

The key differences are as follows:

- Executive Directors and members of the Executive Committee have their fixed pay set below or at market median for the industry; other employees typically have their salaries positioned at market median. Specific groups of key technical employees may have their salaries set above median for the industry;
- All employees are offered a non-contributory pension scheme. Executive Directors are given cash in lieu of pension. Non-Executive Directors do not participate in pension or benefits arrangements;
- Non-Executive Directors do not participate in the annual bonus scheme;
- If applicable, Executive Directors have an element of the annual bonus automatically converted to shares and deferred; and
- All other employees may be invited to participate in the DBSP where they can elect to defer a defined proportion of their annual bonus and receive a matching amount of shares that vest over the following three years. Executive Directors are not eligible to receive matching share awards under this plan.

During the annual remuneration review, the Committee receives a report which details the remuneration arrangements of other executives and senior management as well as the overall spend versus budget for all employees. This report helps to act as a guide to the Committee as to the levels of reward being achieved across the organisation so that they can ensure the Directors' pay does not fall out of line with the general trends.

Employees have not previously been directly consulted about the setting of Directors' pay, although the Committee will take into consideration any developments in regulations in operating this policy.

Statement of shareholder views

The Remuneration Committee welcomes and values the opinions of EnQuest's shareholders with regard to the levels of remuneration for Directors. The 2017 DRR was voted on at the AGM held in May 2018, where 99.87% of the votes cast were in favour.

Annual Report on Remuneration for 2018

Terms of reference

The Committee's terms of reference are available either on the Company website, www.enquest.com, or by written request from the Company Secretarial team at the Group's London headquarters. The remit of the Committee embraces the remuneration strategy and policy for the Executive Directors, senior management and, in certain matters, for the whole Company.

Meetings in 2018

The Committee normally has four scheduled meetings per year. During 2018, it met on four occasions as scheduled to review and discuss base salary adjustments for 2019, the setting of Company performance and related annual bonus for 2018, PSP performance conditions, UK Corporate Governance Code provisions and approval of share awards.

Committee members, attendees and advisers

Member	Date appointed Committee member	Attendance at scheduled meetings during the year
Helmut Langanger[1]	16 March 2010	4/4
Laurie Fitch[2]	8 January 2018	4/4
Philip Holland	12 October 2016	4/4
Carl Hughes	1 January 2017	4/4
John Winterman	7 September 2017	4/4

Notes:
1 Helmut Langanger stepped down as Chair of the Remuneration Committee on 29 January 2019
2 Laurie Fitch was appointed to the Board on 8 January 2018, becoming a member of the Remuneration and Risk Committees. Laurie assumed the role of Chair of the Remuneration Committee on 29 January 2019

Advisers to the Remuneration Committee

The Committee invites individuals to attend meetings to provide advice so as to ensure that the Committee's decisions are informed and take account of pay and conditions in the Company as a whole. These individuals, who are not members but may attend by invitation, included:

- The Chairman (Jock Lennox);
- The Chief Executive (Amjad Bseisu);
- The Chief Financial Officer (Jonathan Swinney);
- The Company Secretary (Stefan Ricketts);
- The Human Resources Director (Michael Easton) who, since appointment, acts as secretary to the Committee; and
- A representative from Mercer Kepler, appointed as remuneration adviser by the Committee from 1 August 2017.

No Director takes part in any decision directly affecting their own remuneration.

DIRECTORS' REMUNERATION REPORT CONTINUED

Information subject to audit

Directors' remuneration: the 'single figure'

In this section of the report we have set out the payments made to the Executive and Non-Executive Directors of EnQuest for the year ended 31 December 2018 together with comparative figures for 2017.

Single total figure of remuneration – Executive Directors

'Single figure' of remuneration – £000s

Director	**Salary and fees 2018**	Salary and fees 2017	**All taxable benefits 2018**	All taxable benefits 2017	**Annual bonus 2018[1]**	Annual bonus 2017[1]	**LTIP 2018[2]**	LTIP 2017[2]	**Pension 2018[3]**	Pension 2017[3]	**Total for 2018[4]**	Total for 2017[4]
Amjad Bseisu	**461**	452	**1**	1	**454**	449	**386**	46	**50**	50	**1,352**	998
Jonathan Swinney	**318**	294	**1**	1	**354**	388	**251**	30	**50**	50	**974**	763
Total[4]	**779**	746	**3**	2	**808**	837	**637**	76	**100**	100	**2,326**	1,761

Notes:
1 The annual bonus for 2018 for Amjad Bseisu and Jonathan Swinney was based on base salary levels and payment was made in respect of the full financial year. The amount stated is the full amount (including any portion deferred). Any 2017 and 2018 Executive Director bonus for Amjad Bseisu and Jonathan Swinney that is above 100% of their respective salary has been paid in EnQuest PLC shares, deferred for two years, and subject to continued employment
2 **PSP awarded on 22 April 2016 which will vest on 22 April 2019:** the LTIP value shown in the 2018 single figure is calculated by taking the number of performance shares that will vest (55.7% of the performance conditions were achieved) multiplied by the average value of the EnQuest share price between 1 October 2018 and 31 December 2018, as the share price on 22 April 2019 was not known at the time of this report
PSP awarded on 27 March 2015 which vested on 27 March 2018: the LTIP value shown in the 2017 single figure is calculated by taking the number of performance shares that vested (10.92% of the performance conditions were achieved) multiplied by the actual share price (before adjusting for the impact of the rights issue in October 2018) of 30.42 pence on the vesting date of 27 March 2018. The 2017 value of the vested shares in the remuneration table has been updated from last year's value to represent the actual value received on the date of vesting
3 Cash in lieu of pension
4 Rounding may apply

Single total figure of remuneration – Non-Executive Directors

The remuneration of the Non-Executive Directors for the year ended 31 December 2018 was as follows, together with comparative figures for 2017:

'Single figure' of remuneration – £000s

Director	**Salary and fees 2018**	Salary and fees 2017	**All taxable benefits 2018**	All taxable benefits 2017	**Total for 2018**	Total for 2017
Jock Lennox	**150**	150	**–**	–	**150**	150
Carl Hughes	**60**	60	**–**	–	**60**	60
Helmut Langanger[1]	**70**	70	**–**	–	**70**	70
Laurie Fitch[2]	**50**	–	**–**	–	**50**	–
Philip Holland	**60**	60	**–**	–	**60**	60
John Winterman[3]	**50**	16	**–**	–	**50**	16
Total	**440**	356	**–**	–	**440**	356

Notes:
1 Helmut Langanger stepped down as Chair of the Remuneration Committee on 29 January 2019
2 Laurie Fitch became a Non-Executive Director on 8 January 2018, becoming a member of the Remuneration and Risk Committees. Laurie assumed the role of Chair of the Remuneration Committee on 29 January 2019
3 John Winterman became a Non-Executive Director on 7 September 2017; therefore his 2017 fees were pro-rated

Annual bonus 2018 – paid in 2019

The Committee's belief is that any short-term annual bonus should be tied to the overall performance of the Company. An Executive Director's annual bonus may also be tied to additional objectives that cover their own specific area of key accountabilities and responsibilities. The maximum bonus entitlement for the year ended 31 December 2018 as a percentage of base salary was reduced from 175% to 125% for Amjad Bseisu and Jonathan Swinney.

For Amjad Bseisu, the annual bonus for 2018 was wholly based on the CPC results. For Jonathan Swinney, 50% of the bonus potential was assessed against the CPC and 50% on achievement against personal targets based on key objectives for the year in his area of responsibility.

Company Performance Contract
The details of the CPC for both Amjad Bseisu and Jonathan Swinney and the personal objectives for Jonathan Swinney are set out in the following tables showing the performance conditions and respective weightings against which the bonus outcome was assessed.

Performance measure	Weighting	Performance targets and payout		Amjad Bseisu	Jonathan Swinney
Production (Mboepd)	25.00%	Threshold: 50.0 Maximum: 58.0	Maximum bonus % available	31.25%	15.63%
		Actual: 55.4	Actual % payout	23.13%	11.56%
Opex Value of Work Done ('VOWD')	20.00%	Threshold: 513 Maximum: 463	Maximum bonus % available	25.00%	12.50%
		Actual: 454	Actual % payout	25.00%	12.50%
Cash capex ($ million)	10.00%	Threshold: 275 Maximum: 235	Maximum bonus % available	12.50%	6.25%
		Actual: 220	Actual % payout	12.50%	6.25%
Net debt ($ million) Including PIK At end 2018	15.00%	Threshold: 1,765 Maximum: 1,595	Maximum bonus % available	18.75%	9.38%
		Actual: 1,774	Actual % payout	0.00%	0.00%
Projects sanction: Dunlin by pass and Scolty/Crathes pipeline	10.00%	Threshold: Sanction Dunlin bypass and Scolty/Crathes in 2018, with the pipelines online in 2020 Maximum: Sanction both projects to enable them to be online in Q3 2019	Maximum bonus % available	12.50%	6.25%
		Actual: Both projects were sanctioned in Q2 2018 and are expected to be online in Q3 2019	Actual % payout	12.50%	6.25%
Liquidity management: Deliver appropriate funding arrangements to maintain liquidity (if required)	10.00%	Threshold: n/a Maximum: $75 million and covenant compliance if required	Maximum bonus % available	12.50%	6.25%
		Actual: Secured Oz Management financing and maintained covenant compliance	Actual % payout	12.50%	6.25%
Liquidity management: Disposal of up to 20% interest in Kraken	10.00%	Threshold: Disposal of up to 20% interest of Kraken for minimum acceptable price Maximum: Disposal of up to 20% interest of Kraken for above fair value	Maximum bonus % available	12.50%	6.25%
		Actual: No disposal of Kraken achieved	Actual % payout	0.00%	0.00%
Magnus performance recognition		Added $500 million of NPV at $70/bbl and an additional 16 MMboe of 2P Reserves	n/a	13.00%	6.50%
Total bonus payout (% of salary)				**98.63%**	**49.31%**

Any payout against the CPC is subject to an additional underpin based on the Committee's assessment of the Company's HSE&A performance. This was reviewed by the Committee in January 2019 and was determined to be satisfactory.

DIRECTORS' REMUNERATION REPORT CONTINUED

Personal objectives were set individually for Jonathan Swinney based on his key areas of focus for the year within his area of responsibility. Please note that for reasons of commercial sensitivity, full details of the target ranges are not being disclosed. However, the following table highlights the key objectives and achievements as assessed by the Committee for Jonathan Swinney's individual performance targets for 2018.

Jonathan Swinney
Individual Performance Contract

Objective	Weighting	Maximum bonus available	Measures	Key achievements	Performance outcome (Threshold / Target / Stretch)	Percentage of bonus achieved
Strategic: Balance sheet responsibility (including liquidity)	50.00%	31.25%	Balance sheet strengthening with liquidity aligned with strategy	Effective management and delivery against target with liquidity management delivered		31.25%
Strategic: Financial control environment	15.00%	9.38%	Ensure effective and compliant financial control processes	Achieved high level of internal controls compliance and implemented systems upgrade independently audited by PwC		9.00%
Strategic: Cost control	15.00%	9.38%	Effective cost recovery management and maximise Kraken oil sales price	Achieved stretch cost recovery management goals Kraken oil sales price realised between target and stretch		9.15%
Organisation development and people	20.00%	12.50%	Optimisation of finance and economics organisation and workflows Delivery of culture improvement and succession plans	Achieved optimised finance and economic organisations to stretch timelines with improved workflows Delivered within finance and supported across the wider business		10.75%
Total:	**62.50%**					**60.15%**

The annual bonus summary for the Executive Directors for 2018 is shown in the table below. The Committee carefully assessed the achievement of the performance conditions against the Company Performance Contract and personal objectives for both Amjad Bseisu and Jonathan Swinney to determine the overall level of annual bonus for each Executive Director.

		Amjad Bseisu		Jonathan Swinney	
Performance measure[1]	Weighting	Max	Actual % payout of salary	Max	Actual % payout of salary
Production	25.00%	31.25%	23.13%	15.63%	11.56%
Opex VOWD	20.00%	25.00%	25.00%	12.50%	12.50%
Cash capex	10.00%	12.50%	12.50%	6.25%	6.25%
Net debt including PIK	15.00%	18.75%	0.00%	9.38%	0.00%
Projects	10.00%	12.50%	12.50%	6.25%	6.25%
Liquidity management: Funding arrangements	10.00%	12.50%	12.50%	6.25%	6.25%
Liquidity management: Disposal of up to 20% interest in Kraken	10.00%	12.50%	0.00%	6.25%	0.00%
Magnus performance recognition	n/a	n/a	13.00%	n/a	6.50%
Sub-total		**125.00%**	**98.63%**	**62.50%**	**49.31%**
Personal objectives	n/a	n/a	n/a	62.50%	60.15%
Total payout (%)[2]		**125.00%**	**98.63%**	**125.00%**	**109.46%**
Total payout (% of maximum)			**78.90%**		**87.57%**
Total 2018 bonus award (£)			**£454,210**		**£353,568**

Notes:
1 In relation to the financial measures, threshold, target and stretch performance pay out at 0%, 60% and 100% of maximum respectively and on a straight-line basis in between threshold and target performance and between target and stretch performance
2 Any bonus that exceeds 100% of the Executive Director's salary is converted into EnQuest shares to be retained for a further two years until April 2021

2016 PSP awards that vest in 2019

The LTIP award made on 22 April 2016 was based on the performance to the year ended 31 December 2018 and will vest on 22 April 2019.

The performance targets for this award and actual performance against those targets over the three-year financial period were as follows:

			Performance conditions and weighting			
Grant date	Vesting date	Performance period	Relative TSR	Production growth	Reserves growth	Total award
22 April 2016	22 April 2019	1 Jan 2016 – 31 Dec 2018	50.00%	40.00%	10.00%	100.00%
Below threshold			–	36,567 Boepd	216.0[1] MMboe	
Threshold			Median (9th position)	48,671 Boepd	250.0 MMboe	
Maximum			Upper quartile (5th position)	63,188 Boepd	287.0 MMboe	
Actual performance achieved			**(7th position)**	**54,076 Boepd[2]**	**190.6 MMboe[2]**	
Percentage meeting performance conditions and total vest			**34.60%**	**21.20%**		**55.70%**

Notes:
1 This figure includes the additional 10.5% share of Kraken acquired on 1 January 2016
2 Adjusted to remove the impacts of the acquisition of an additional 75% interest in Magnus

The table below shows the number of nil cost options awarded on 22 April 2016 that will vest on 22 April 2019 and their value at 31 December 2018. This figure is calculated by taking the average closing share price on each trading day of the period 1 October 2018 to 31 December 2018 and is used as the basis for reporting the 2018 'single figure' of remuneration. The actual value of these shares recorded in the remuneration table will be updated in 2019 to represent the actual value received on the day of vesting.

Name	No. of shares	No. of adjusted shares applied[1]	Total shares	Portion vesting	No. of shares vesting	Average share price £	Value at 31 Dec 2018 £
Amjad Bseisu	2,260,802	384,336	2,645,138	55.7%	1,473,342	0.26188	385,841
Jonathan Swinney	1,472,150	250,265	1,722,415	55.7%	959,385	0.26188	251,245

Note:
1 Reflects the adjustment required to the PSP award to maintain its value following the rights issue, which took place in October 2018

April 2018 PSP award grant

After due consideration of business performance in 2017, the Remuneration Committee awarded the Executive Directors the following performance shares on 24 April 2018:

	Face value (% of 2017 salary)	Face value at date of grant £	No. of shares	No. of adjusted shares applied[1]	Total shares	Performance period
Amjad Bseisu	250%	1,320,755	3,065,864	521,196	3,587,060	1 Jan 2018 – 31 Dec 2020
Jonathan Swinney	250%	860,026	1,996,376	339,383	2,335,759	1 Jan 2018 – 31 Dec 2020

Note:
1 Reflects the adjustment required to the PSP award to maintain its value following the rights issue, which took place in October 2018. This adjustment is not reflected in the calculation of the face value as a percentage of 2017 salary, which is based on the number of shares originally awarded and the share price (before adjusting for the impact of the rights issue in October 2018) on the date of the award of 36.82 pence

Summary of performance measures and targets – April 2018 PSP grant

The 2018 PSP share awards granted on 24 April 2018 have four sets of performance conditions associated with them, over a three-year financial performance period:

- 30% of the award relates to TSR relative to a comparator group of 13 oil and gas companies over the same period;
- 30% relates to production growth on a CAG basis from a 2018 base level;
- 10% relates to reserves growth (on an absolute growth basis from a 2018 base level); and
- 30% is calculated on net debt reduction (on an absolute reduction basis) from a 2018 base net debt figure

Vesting is determined on a straight-line basis between threshold and maximum for all of the performance conditions.

The performance period for the award will be 1 January 2018 to 31 December 2020 but the awards will not vest until 24 April 2021.

DIRECTORS' REMUNERATION REPORT CONTINUED

2018 PSP – schedule for vesting in 2021

	Relative TSR weighting 30%		Production growth weighting 30%		Reserves growth weighting 10%		Reduction in net debt weighting 30%	
	Performance	Vesting	Performance	Vesting	Performance	Vesting	Performance	Vesting
Below threshold	Below median	0%	Less than 10% growth from base (CAG)	0%	Less than 105% of base	0%	Less than 25% reduction	0%
Threshold[1]	Median	25%	10% growth from base (CAG)	25%	105% of base	25%	25% reduction	25%
Maximum[1]	Upper quartile (or better)	100%	20% growth from base (CAG) (or better)	100%	110% of base (or better)	100%	35% reduction (or better)	100%

Note:
1 Linear between threshold and maximum

PSP measure base levels
These are the historical base levels that performance is measured from, for a three-year period for each annual PSP grant, up to and including the PSP award granted in 2019:

Year of grant	Production growth – base level	Reserves growth – base level	Net debt – base level
2016	36,567 Boepd	216.0 MMboe[1]	n/a
2017	39,751 Boepd	215.5 MMboe	$1,796.5 million
2018	37,405 Boepd	210.3 MMboe	$1,991.4 million
2019	55,447 Boepd	245.2 MMboe	$1,774.5 million

Note:
1 The reserve figure includes the additional 10.5% share of Kraken acquired on 1 January 2016

The comparator group companies for the TSR performance condition relating to the 2018 PSP award are as follows:

FTSE 350	FTSE All-Share	FTSE AIM – Top 150	NASDAQ OMX Stockholm	Other
Cairn Energy	Premier Oil	Amerisur Resources	Africa Oil	Genel Energy
Ophir Energy	Soco International	Faroe Petroleum	Blackpearl Resources[1]	
Tullow Oil		Rockhopper Exploration	Lundin Petroleum	
		Bowleven		

Note:
1 Blackpearl Resources has been subject to M&A activity during the performance period. As per normal practice, activities have been included up to the date Blackpearl Resources ceased to trade, after which the midpoint of the comparator group has been tracked

The number of PSP awards outstanding as at 31 December 2018 are as follows:

	No. of shares	No. of adjusted shares applied[1]	Total shares awarded	Performance period	Performance conditions (and weighting)	Vesting date
Grant date – April 2016					TSR (50%)	22 Apr 2019
Amjad Bseisu	2,260,802	384,336	2,645,138	1 Jan 2016 – 31 Dec 2018	Production growth (40%)	
Jonathan Swinney	1,472,150	250,265	1,722,415		Reserves growth (10%)	
Grant date – September 2017					TSR (30%)	12 Sep 2020
Amjad Bseisu	4,134,615	702,884	4,837,499	1 Jan 2017 – 31 Dec 2019	Production growth (30%)	
Jonathan Swinney	2,692,307	457,692	3,149,999		Reserves growth (10%)	
					Net debt reduction (30%)	
Grant date – April 2018					TSR (30%)	24 Apr 2021
Amjad Bseisu	3,065,864	521,196	3,587,060	1 Jan 2018 – 31 Dec 2020	Production growth (30%)	
Jonathan Swinney	1,996,376	339,383	2,335,759		Reserves growth (10%)	
					Net debt reduction (30%)	

Note:
1 Reflects the adjustment required to the PSP award to maintain its value following the rights issue, which took place in October 2018

Pension allowance
Executive Directors do not participate in the EnQuest pension plan and instead receive cash in lieu. Both Amjad Bseisu and Jonathan Swinney received £50,000. These are equivalent to 10.8% of Amjad Bseisu's salary and 15.4% of Jonathan Swinney's 2018 salary.

Statement of Directors' shareholding and share interests
The interests of the Directors in the share capital of the Company as at 31 December 2018 are shown below:

In 2018, the following awards were granted, vested and lapsed for the Executive Directors

PSP	31 December 2017	Granted	Lapsed	No. of adjusted shares applied[1]	31 December 2018	Vesting period	Expiry date
Amjad Bseisu	1,390,402		1,238,571	25,811	177,642	27 Mar 2015 – 27 Mar 2018	27 Mar 2025
	2,260,802			384,336	2,645,138	22 Apr 2016 – 22 Apr 2019	22 Apr 2026
	4,134,615			702,884	4837,499	12 Sep 2017 – 12 Sep 2020	12 Sep 2027
		3,065,864		521,196	3,587,060	24 Apr 2018 – 24 Apr 2021	24 Apr 2028
Jonathan Swinney	901,439		803,002	16,734	115,171	27 Mar 2015 – 27 Mar 2018	27 Mar 2025
	1,472,150			250,265	1,722,415	22 Apr 2016 – 22 Apr 2019	22 Apr 2026
	2,692,307			457,692	3,149,999	12 Sep 2017 – 12 Sep 2020	12 Sep 2027
		1,996,376		339,383	2,335,759	24 Apr 2018 – 24 Apr 2021	24 Apr 2028

Note:
1 Reflects the adjustment required to the PSP award to maintain its value following the rights issue, which took place in October 2018

The table above shows the maximum number of shares that could be released if awards were to vest in full. These awards first vest on the third anniversary of the award date, subject to the achievement of performance conditions (as described elsewhere in this report).

Payments to past Directors
Loss of office payments to Neil McCulloch totalling £32,201 were made during 2018. There were no other payments made to past Directors during 2017.

Statement of Directors' shareholdings and share interests
Executive Directors are currently required to build up and hold shares in the Company worth 200% of salary and are expected to retain 50% of shares from vested awards under the PSP (other than sales to settle any tax or social security withholdings due) until they hold at least 200% of salary in shares (this includes shares which are beneficially owned directly or indirectly by family members of an Executive Director).

	Legally owned (number of shares)	Value of legally owned shares as % of salary[1]	Unvested and subject to performance conditions under the PSP	Vested but not exercised under the PSP	Vested but not exercised under the RSP	Sharesave	Executive deferrals	Total at 31 December 2018	Value of shareholding as a % of salary[1]
Amjad Bseisu	152,438,222[2]	8,668%	11,069,697	1,986,185	2,812,984	0	1,334,815	169,641,903	9,647%
Jonathan Swinney	290,208	24%	7,208,173	1,208,574	894,551	0	1,824,971	11,426,477	941%
Jock Lennox	41,268	n/a	n/a	n/a	n/a	n/a	n/a	41,268	n/a
Helmut Langanger	412,698	n/a	n/a	n/a	n/a	n/a	n/a	412,698	n/a
Philip Holland	154,760	n/a	n/a	n/a	n/a	n/a	n/a	154,760	n/a
Carl Hughes	28,571	n/a	n/a	n/a	n/a	n/a	n/a	28,571	n/a
John Winterman	28,571	n/a	n/a	n/a	n/a	n/a	n/a	28,571	n/a
Laurie Fitch	70,000	n/a	n/a	n/a	n/a	n/a	n/a	70,000	n/a

Notes:
1 Shares are valued by taking the average closing share price on each trading day of the period 1 October 2018 to 31 December 2018
2 As at 31 December 2018 152,270,675 shares were held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. The remaining 167,547 shares were held by Amjad Bseisu directly

DIRECTORS' REMUNERATION REPORT CONTINUED

Information not subject to audit

Total Shareholder Return and Chief Executive total remuneration

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE AIM All-Share Oil & Gas, also measured by TSR. The FTSE AIM All-Share Oil & Gas has been selected for this comparison as it is the index whose constituents most closely reflect the size and activities of EnQuest.

Historical Chief Executive pay – single figure history

The table below sets out details of the Chief Executive's pay for 2018 and the previous six years and the payout of incentive awards as a proportion of the maximum opportunity for each period. The Chief Executive's pay is calculated as per the 'single figure' of remuneration shown elsewhere in this report.

During this time, Amjad Bseisu's total remuneration has been:

	2012	2013	2014	2015	2016	2017	**2018**
'Single figure' of total remuneration (£000s)	910	1,356	817	884	941	998	**1,352**
Annual bonus (as a % of maximum)	60%	50%	24%	27%	33%	57%	**79%**
Long-term incentive vesting rate (as a % of maximum PSP)	–	67%	79%	77%	56%	11%	**56%**

Relative spend on pay

The table below shows the actual expenditure of the Group on total employee pay, as well as profitability and distributions to shareholders, and the change between the current and previous years:

	2017 $ million	**2018 $ million**
EBITDA	304	**716**
Distribution to shareholders	0	**0**
Total employee pay	80	**91**

Increase in the Chief Executive's pay relative to the workforce between 2017 and 2018

	Base salary %	Bonus %	Benefits %
Amjad Bseisu	2.0%	97.4%	0.0%
UK employees (average)	2.0%	10.7%	0.0%

Statement of implementation of the Remuneration Policy for the year ending 31 December 2019

Base salary and 2019 pay review

As stated in the annual statement to this report, the remuneration for the Executive Directors is geared towards variable pay linked to long-term performance targets, with base salaries currently set in relation to benchmarks for the oil and gas industry and comparable sized companies. In the view of the Committee it is therefore important to ensure that the base salaries of the Executive Directors are reviewed annually and that any increase reflects the change in scale and complexity of the role as the Company grows, as well as the performance of the Executive Director.

The table below shows the change to salaries for 2019:

Name	Salary for 2018 £	Salary for 2019 £	Increase %
Amjad Bseisu	460,530	469,741	2.0
Jonathan Swinney	323,000	329,460	2.0

The increases for Amjad Bseisu and Jonathan Swinney were implemented from 1 January 2019.

The Company employees are, in general, also receiving salary increases averaging approximately 2.0%.

Pension and other benefits
The Company will continue to pay a cash benefit in lieu of pension of up to £50,000 plus private medical insurance, life assurance and personal accident insurance, the costs of which are determined by third-party providers.

Annual bonus
For the year ended 31 December 2019, the target and maximum annual bonus opportunities will be 75% of salary at target and 125% of salary at maximum.

The annual bonus scheme for 2019 is structured as follows:
- Awards will be determined based on a balanced combination of financial and operational performance measures;
- Executive Directors (and other executive management) will have threshold, target and stretch performance levels attributed to key performance objectives;
- Amjad Bseisu's bonus will be determined solely by the performance of the Company;
- Jonathan Swinney's bonus will be determined 50% on the performance of the Company and 50% on performance concerning his direct area of responsibility;
- Each part of the bonus will represent a discrete element which will be added together to determine the performance award for the year; and
- Stretching targets will continue to apply to achieve maximum payout.

The 2019 metrics and weightings, which will determine the level of short-term incentive awards for the Directors, are set out below.

Company 2019 performance measures scorecard

Metric	Weighting
Production	25%
Cash opex	15%
Cash capex	5%
Net debt including PIK	20%
Projects	10%
Kraken	15%
Culture and Values	10%

Notes:
1 Precise targets are commercially sensitive and are not being disclosed in advance at this time
2 Performance in HSE&A is central to EnQuest's overall results. This category is used as an overlay on overall Company performance

Maximum bonus will only be payable when performance significantly exceeds expectations. To the extent that the targets are no longer commercially sensitive, they will be disclosed in next year's report.

Any amount of bonus earned above 100% of salary will be deferred into EnQuest shares for two years, subject to continued employment.

Performance share awards
2019 PSP awards
After due consideration of business performance in 2018, the continued growth of EnQuest, the performance of the Executive Directors, as well as other factors, the Remuneration Committee decided to award grants equal to 250% of salary for Amjad Bseisu and Jonathan Swinney. These awards will be granted in April 2019.

Summary of 2019 PSP performance measures and targets
The PSP share awards granted in 2018 will have four performance metrics, each of which is measured over a three-year financial period:
- 30% of the award relates to TSR against a comparator group of oil and gas companies;
- 30% relates to production growth (on a CAG basis);
- 10% relates to reserves growth (on an absolute growth basis); and
- 30% relates to net debt (on an absolute reduction basis).

2019 PSP – schedule for 2022 vesting

	Relative TSR		Production growth		Reserves growth		Reduction in net debt	
	Performance	Vesting	Performance	Vesting	Performance	Vesting	Performance	Vesting
Below threshold	Below median	0%	Less than 10% growth from base (CAG)	0%	Less than 105% of base	0%	Less than 25% reduction	0%
Threshold	Median	25%	10% growth from base (CAG)	25%	105% of base	25%	25% reduction	25%
Maximum	Upper quartile (or better)	100%	20% growth from base (CAG) (or better)	100%	110% of base (or better)	100%	35% reduction (or better)	100%

DIRECTORS' REMUNERATION REPORT CONTINUED

2019 PSP – performance target base levels

Production growth base level	Reserves growth base level	Net debt
55,447 Boepd	245 MMboe	$1,774.5m

2019 PSP award TSR comparator group

Tullow Oil
Premier Oil
Aker BP ASA
Soco International
Genel Energy
Hurricane Energy
Ophir Energy
Cairn Energy
Rockhopper Exploration
Lundin Petroleum
Africa Oil
Amerisur Resources
Bowleven
Serica

Non-Executive Directors
The fees for the Non-Executive Directors with effect from 1 January 2019 are:

	Fee
Chairman	£170,000
Director	£60,000
Senior Independent Director	£10,000
Committee Chair	£10,000

The Chairman's fee level has increased from £150,000 to £170,000 from 1 January 2019 to bring it more into line with the median fee rate being paid to sector comparators. The Director base fee rate has increased from £50,000 to £60,000 from 1 January 2019. The additional fee of £10,000 for chairing a Committee and for undertaking the Senior Independent Director role has remained unchanged. Fee rates for Non-Executive Directors will be reviewed annually.

Advisers to the Committee
Mercer Kepler provided advice to the Remuneration Committee.

The Committee satisfied itself that the advice given was objective and independent by reviewing it against other companies in EnQuest's comparator group. Mercer Kepler is a signatory to the Remuneration Consultants Group Code of Conduct which sets out guidelines for managing conflicts of interest. Mercer Kepler does not provide any other services to the Company.

The fees in respect of 2018 paid to Mercer Kepler totalled £104,590 (excluding VAT). These fees were charged on the basis of the number of hours worked.

Statement of voting at the Annual General Meeting
The table below summarises the voting at the AGM held on 24 May 2018 in respect of the Remuneration Policy and Directors' Remuneration Report. The Group is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed here.

	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Policy (2018)	478,601,098	89.67%	55,126,159	10.33%	533,727,257	22,477,048
Remuneration Report (2018)	533,044,036	99.87%	685,923	0.13%	533,729,959	22,474,346

Laurie Fitch
Chair of the Remuneration Committee
20 March 2019

NOMINATION COMMITTEE REPORT

"WE CONTINUE TO SEEK TO ACHIEVE THE APPROPRIATE BALANCE OF THE BOARD AS WE PROGRESS OUR SUCCESSION PLANNING."

Jock Lennox
Chairman of the Nomination Committee

Dear Fellow Shareholder
I am pleased to present to you the report of the work of the Nomination Committee during 2018.

The core work of the Nomination Committee is to ensure that the Board has the appropriate balance of skills, expertise and experience in order to support the strategy of the Company. We achieve this by continuously reviewing the Board composition and skills and developing strong succession planning. Currently, the Board consists of six Non-Executive Directors and two Executive Directors, who collectively bring a diverse mix of skills and experience to the Company and collaborate to provide strong leadership.

As announced on 15 March 2019, Howard Paver will join the Board on 1 May 2019 and stand for election at the AGM. The search was framed to identify an appropriate successor with oil and gas industry experience, keeping in view that Helmut Langanger, an industry veteran, is anticipated to retire in due course, as explained further below. Howard has over 40 years of experience across all aspects of E&P, including technical function leadership and as a senior executive and will be a welcome addition to the Board, further enhancing its technical capabilities. On joining the Board, Howard will also become a member of the Remuneration and Audit Committees. My Board colleagues and I look forward to working with Howard. In addition, Laurie Fitch was appointed as Chair of the Remuneration Committee in January 2019. This was a planned process, with Laurie having served on the Remuneration Committee since January 2018, when she joined the Board.

As reported in last year's report, the main focus of the Committee in 2018 was to prepare for the changes to the Code, especially in relation to myself and Helmut, who is also the Senior Independent Director ('SID'), as we reached our nine-year milestones in February and March 2019, respectively. While the Board concluded that we both remained independent, we have, as described on page 48, initiated a process to deliver orderly succession and it has been agreed that as a first step a search process be initiated and led by the SID to find my successor. A sub-Committee of the Nomination Committee has been established to run the process and it is comprised of the SID, two further Non-Executive Directors and the Chief Executive. It is anticipated that, on appointment, the Chair will also become Chair of this Committee, with a process for appointing a new SID taken subsequently. An update from the SID relating to this process is found on this page.

I am confident that Helmut will lead a successful process to find the right person to be the next Chair of EnQuest who will then lead the Board through its next phase of succession.

Jock Lennox
Chairman of the Nomination Committee
20 March 2019

The process to appoint a successor to Jock Lennox, Chairman of EnQuest, is being led by myself with the support of the Company Secretary. To assist me, the Nomination Committee has established a sub-Committee comprising, in addition to myself, Laurie Fitch, Chair of the Remuneration Committee, Carl Hughes, Chairman of the Audit Committee, and Amjad, Bseisu, Chief Executive. This Committee will make the final recommendation as to the appointment of the Chair once a suitable candidate is identified.

We have instructed Spencer Stuart, a recruitment firm with no connection to the Company, to undertake the search process and following a consultation exercise with certain major shareholders have identified that a Chair with a background in the oil and gas industry would be in the best interests of the Company. It is anticipated that a new Chair will be in position by the end of 2019, with a planned transition between the current Chairman and Chair designate.

Following the appointment of the new Chair, it is anticipated that a process for the appointment of a new SID will be initiated, following which I will step down as SID.

Helmut Langanger
Senior Independent Director
20 March 2019

Nomination Committee membership

The Nomination Committee comprises the Chairman of the Company, the SID and the Chief Executive. Appointment dates and attendance at scheduled meetings are set out below:

Member	Date appointed Committee member	Attendance at meetings during the year
Jock Lennox	8 September 2016	6/6
Amjad Bseisu	22 February 2010	6/6
Helmut Langanger	16 March 2010	6/6

NOMINATION COMMITTEE REPORT CONTINUED

Main responsibilities

The Nomination Committee recently reviewed its terms of reference to ensure ongoing compliance with the new Code. As a result, it was agreed that the main responsibilities of the Committee are to:

- Review the size, structure and composition (including the skills, experience, independence, knowledge and diversity) of the Board and its Committees in order to recommend changes to the Board;
- Ensure the orderly succession of Executive Directors, Non-Executive Directors and senior management;
- Identify, evaluate and recommend candidates for appointment or reappointment as Directors or Company Secretary, taking into account the benefits of diversity on the Board, including gender, social and ethnic backgrounds, cognitive and personal strengths and the balance of knowledge, skills and experience required to serve the Board; and
- Review the outside directorships/commitments of Non-Executive Directors.

The Nomination Committee's full terms of reference can be found on the Company's website, www.enquest.com, under Corporate Governance.

Appointment of Non-Executive Directors

We apply a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. As noted in the Company's 2017 Annual Report, for the appointment of Laurie Fitch we used Zygos, an external consultancy services firm, which has no connection with the Company. For Howard Paver's appointment, the Company used Spencer Stuart, which also has no connection with the Company. The Committee thoroughly reviews each candidate in terms of the balance of skills, knowledge and level of independence they would bring to the Board and to screen for potential conflicts of interest. The Committee also gives careful consideration to other existing commitments a candidate may have and whether they will be able to devote the appropriate amount of time in order to fully meet what is expected of them. Once the Committee has identified a suitable candidate, a recommendation is made to the Board for appointment.

Committee activities during the year

The Nomination Committee met six times in 2018 and its key activities included:

Structured Board succession planning

- Planning in relation to the new Code requirements, including succession planning for the Chairman;
- Confirming that, while the SID has served on the Board for nine years, he is still considered independent and will remain so while he leads the search for a replacement Chair;
- Appointing Laurie Fitch as Chair of the Remuneration Committee on 29 January 2019, replacing Helmut Langanger who will remain a member of the Committee; and
- Identifying Howard Paver as an independent Non-Executive Director who it is anticipated will be appointed with effect from 1 May 2019.

Development and staff succession planning

- Senior management development and succession planning; and
- Identification and development process for high potential employees.

The Board and Nomination Committee remain satisfied that the individuals currently fulfilling key senior management positions in the Group have the requisite depth and breadth of skills, knowledge and experience to ensure that orderly succession to the Board and Executive Committee can take place.

Priorities for the coming year

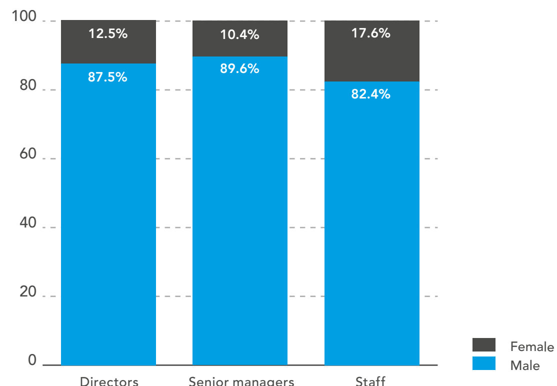
The main focus of the Committee in 2019 will be to ensure that a successor to the current Chairman is appointed and that the composition of the Board continues to complement the requirements of the Company. The Committee remains cognisant of the requirements of the new Code and will also focus on succession planning of the Executive Directors, senior management and development planning for high-potential individuals within the Company to ensure that the Company's organisation has both the necessary capacity and capabilities in delivering its principal activities.

Boardroom diversity

The Board's continued policy is that we will work hard to ensure that we recruit from a diverse background of candidates, not just in relation to gender, and we will continue to recruit the best candidate available for the job on merit and against objective criteria. The objective of the policy is to have the most effective Board possible in order to enable it to discharge its duties and responsibilities. We continue to seek to achieve the appropriate balance of the Board as we progress our succession planning.

In addition, in March 2019 the Board agreed an EnQuest-wide Diversity and Inclusion Policy; this aligns with the Company's Values which incorporate respect and openness and appreciates the diversity of all our staff, recognising that those from different backgrounds, experience and abilities can bring fresh ideas, perspectives and innovation to improve our business and working practices.

Senior management and total employee figures include EnQuest's staff in Dubai, Malaysia and the UK:



As explained on page 32 the transfer of BP staff to the Company at the end of 2017 resulted in an increase in the number of males in our UK workforce. Further information on diversity initiatives and gender pay are found on pages 32 and 33.

Re-election to the Board

Following a formal review of the effectiveness of the Board, the Nomination Committee confirms that it is satisfied with both the performance and the time commitment of each Director throughout the year. The Committee also remains confident that each of them is in a position to discharge their duties to the Company in the coming year and that together they continue to bring the necessary skills required to the Board. Detailed biographies for each Director, including their skills and external appointments, can be found on pages 44 to 45.

Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage conflicts or potential conflicts of interest with the Company's interests. In accordance with the Directors' interest provisions in the Companies Act 2006, all the Directors are required to submit details to the Company Secretary of any situations which may give rise to a conflict, or potential conflict, of interest. The Board monitors and reviews potential conflicts of interest on a regular basis.

RISK COMMITTEE REPORT

“THE GROUP CONTINUES TO EVOLVE ITS PROCESSES FOR IDENTIFYING AND MANAGING RISKS AND MITIGATING THEIR IMPACT, WHICH IN TURN SUPPORTS THE GROUP IN ACHIEVING ITS STRATEGIC OBJECTIVES.”

Philip Holland
Chairman of the Risk Committee

Dear Fellow Shareholder

On behalf of the Board and my fellow Committee members, I am pleased to present EnQuest's Risk Committee report in what has been an active year for the Committee. As outlined in this report, throughout 2018 we have continued to undertake detailed analyses of specific risk areas and paid particular attention to assessing how the mechanisms for the identification and evolution of the preventative and containment controls for those specific risk areas have been implemented. We have also spent considerable time enhancing the Risk Management Framework through mapping controls and improved tracking and measurement of risk mitigation.

The Committee has determined that the Group continues positively to evolve its processes for identifying and managing risks and mitigating their impact, which in turn supports the Group in achieving its strategy.

The report also looks ahead to those matters which I expect that the Committee will be considering in the forthcoming year, including further detailed analyses of key risk areas, post-investment appraisals and continuous improvement in the evolution and application of our Risk Management Framework.

Philip Holland
Chairman of the Risk Committee
20 March 2019

Risk Committee responsibilities

The main responsibilities of the Committee are to:

- Support the implementation and progression of the Group's Risk Management Framework; and
- Conduct detailed reviews of key non-financial risks not reviewed within the Audit Committee.

The Committee's full terms of reference can be found on the Company's website, www.enquest.com, under Corporate Governance.

Risk Committee membership

Membership of the Committee and attendance at the three meetings held during 2018 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Philip Holland	25 January 2016	3/3
Laurie Fitch[1]	8 January 2018	3/3
Carl Hughes	1 January 2017	3/3
John Winterman	7 September 2017	3/3

Note:
1 Laurie Fitch was appointed as a Non-Executive Director on 8 January 2018 becoming a member of the Risk and Remuneration Committees

Committee activities during the year

During 2018, the Committee:

- Undertook an assessment of its own performance (including reviewing its terms of reference);
- Drove continued refinements to the Group's Risk Management Framework to reflect the environment in which the Company is pursuing its strategy;
- Reviewed the Group Risk Register(s), assurance map and risk report (focusing on the most critical risks and emerging and changing risk profiles. This included obtaining assurance that the risks associated with climate change are appropriately assessed and incorporated within relevant risk areas);
- Undertook a detailed analysis of the framework and adequacy of controls applicable to the risks facing the Group. This included synthesising the existing risk universe into a 'risk library' and reviewing the controls for each of these risks through a 'bowtie' exercise to assess the existence and efficacy of controls in place to contain and mitigate risks;
- Enhanced the tracking and measurement of risk mitigation across the Group; and
- Reviewed certain macro-economic and societal trends (including relating to climate change) to consider whether and how such trends affect the Group's principal risks.

During 2018, the Committee also considered the evolving nature of risks the Group faced through undertaking specific detailed reviews of Health, Safety, Environment and Assurance ('HSE&A') (including reviewing the Group's performance and ongoing/planned HSE&A activities) and cyber-security risks (including reviewing the results of 'compromise and discovery' tests and considering cyber-security forward planning/remediation strategies) and the Group's control processes for these risks.

Having undertaken a detailed review of the Group's HSE&A processes, the Committee recommended the addition of HSE&A oversight and review within the Risk Committee's scope of work to supplement and assist the Board in reviewing such matters given the Group's low appetite for this risk. For further information on these risks, please see the Risks and Uncertainties section on pages 36 to 43.

Priorities for the coming year

In 2019, the Committee intends to continue its focus on undertaking detailed analyses of specific key risk areas (including 'Oil Price' and 'External and Portfolio' risks, both of which incorporate an assessment of the risk associated with climate change and its potential to impact the Group's business model and strategy (see page 4), so as to ensure that the potential effects of climate change continue to be identified, considered and risk assessed appropriately within the Group's Risk Management Framework) by scrutinising the risks and the associated controls in place. Further, the Committee will be conducting post-investment appraisals on selected projects as well as continuing to enhance the Group's Risk Management Framework through continual improvement planning.

DIRECTORS' REPORT

"THE DIRECTORS OF ENQUEST PRESENT THEIR ANNUAL REPORT TOGETHER WITH THE GROUP AND COMPANY AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018."

Stefan Ricketts
Company Secretary

Directors

The Directors' biographical details are set out on pages 44 to 45. All the Directors will offer themselves for re-election at the AGM on 23 May 2019 and Howard Paver will also be offered for election at the AGM.

Employee involvement

EnQuest operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. Employees are informed about significant business issues and other matters of concern via regular Town Hall meetings, email/electronic communications, by using webcasts on EnQuest's intranet, as well as face-to-face briefing meetings at business locations. Appropriate consultations take place with employees when business change is undertaken. In addition, an Employee Forum was established in early 2019 in line with the revised Corporate Governance Code. More information on this initiative is found on page 32. EnQuest offers employees the opportunity to participate directly in the success of the Company and employees are encouraged to invest in the Company through participation in a number of share schemes such as the Save As You Earn ('SAYE') Share Scheme. 69% of eligible staff currently participate in SAYE.

Substantial interests in shares

The table below shows the holdings in the Company's issued share capital, which had been notified to the Company in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules ('DTR'):

Name	Number of Ordinary shares held at 31 December 2018	% of issued share capital held at 31 December 2018	Number of Ordinary shares held as at 19 March 2019	% of issued share capital held as at 19 March 2019
Amjad Bseisu Family[1]	152,438,222	9.00[2]	154,345,944	9.11
Aberforth Partners LLP	150,573,705	8.89	150,573,705	8.89
Baillie Gifford & Co Ltd	94,143,290	5.56	94,143,290	5.56
Hargreaves Lansdown Asset Management	76,732,283	4.53	79,878,650	4.71
EnQuest Employee Benefit Trust	73,180,394	4.32	73,169,367	4.32
Swedbank Robur Fonder AB	68,862,924	4.06	68,862,924	4.06
Dimensional Fund Advisors	66,185,025	3.91	69,579,542	4.11

Notes:
1 The majority of shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest, with 167,547 shares held directly by Amjad Bseisu
2 Rounding applies

Directors' interests

The interests of the Directors in the Ordinary shares of the Company are shown below:

Name	At 31 December 2018	At 19 March 2019
Amjad Bseisu[1]	152,438,222	154,345,944[1]
Helmut Langanger	412,698	412,698
Jock Lennox	41,268	41,268
Laurie Fitch	70,000	70,000
Carl Hughes	28,571	28,571
Philip Holland	154,760	154,760
Jonathan Swinney	290,208	290,208
John Winterman	28,571	28,571

Note:
1 154,178,397 shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. The remaining 167,547 shares are held directly by Amjad Bseisu

Directors' indemnity provisions

Under the Company's Articles, the Directors of the Company may be indemnified out of the assets of the Company against certain costs, charges, expenses, losses or liabilities which may be sustained or incurred in or about the execution of their duties. Such qualifying third-party indemnity provision remains in force as at the date of approving the Directors' Report and the Company has provided indemnities to the Directors in a form consistent with the limitations imposed by law.

Share capital

The Company's share capital during the year consisted of Ordinary shares of £0.05 each ('Ordinary shares'). Each Ordinary share carries one vote. Prior to the shareholder approved October 2018 rights issue, which is discussed in more detail on page 3, there were 1,186,084,304 Ordinary shares in issue. Following the admission to the market of an additional 508,321,844 Ordinary shares on 2 October 2018, there were 1,694,406,148 Ordinary shares in issue at the end of the year. All of the Company's issued Ordinary shares have been fully paid up. Further information regarding the rights attaching to the Company's Ordinary shares can be found in note 17 to the financial statements on page 116. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2018 or up to and including 20 March 2019, being the date of this Directors' Report.

Company share schemes

The trustees of the Employee Benefit Trust ('EBT') did not purchase any Ordinary shares in the Company during 2018 except for 22,126,481 shares which were acquired through the rights issue, having been funded by a loan by EnQuest Britain Limited of £4,611,671. At year end, the EBT held 4.32% of the issued share capital of the Company (2017: 4.72%) for the benefit of employees and their dependants. The voting rights in relation to these shares are exercised by the trustees.

Annual General Meeting

The Company's AGM will be held at Sofitel London St James, 6 Waterloo Place, London, SW1Y 4AN on 23 May 2019. Formal notice of the AGM, including details of special business, is set out in the Notice of AGM which accompanies this Annual Report and Accounts and is available on the Company's website at www.enquest.com.

Registrars

In connection with the Ordinary shares traded on the London Stock Exchange, the Company's share registrar is Link Asset Services. For the Ordinary shares traded on NASDAQ OMX Stockholm, the Company's share registrar is Euroclear Sweden. Full details of both registrars can be found in the Company Information section on page 146.

Change of control agreements

The Company is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid, except in respect of:

(a) the senior facility agreement, which includes provisions that, upon a change of control, permit each lender not to provide certain funding under that facility and to cancel its exposure to credit which may already have been advanced to the Company;

(b) the prepayment facility agreement, which includes provisions that, upon a change of control, permit the lender not to provide certain funding under that facility and to cancel its commitment to provide that facility and require prepayment of the credit which has already been advanced to the borrower (EnQuest Heather Limited);

(c) the up to $175 million facility agreement originally dated 4 September 2018 in respect of the Kraken field, which includes provisions that, upon a change of control, permit each lender not to provide certain funding under that facility and to cancel its commitment to provide that facility and require prepayment of the credit which has already been advanced to the borrower (EnQuest Advance Limited);

(d) the security trust and waterfall deed originally dated 24 January 2017 in respect of the transaction regarding the Magnus assets with BP Exploration Operating Company Limited, which includes provisions that, upon a change of control, the security trustee in favour of BP Exploration Operating Company Limited may take control of the accounts relating to the Magnus assets;

(e) the Company's Euro Medium Term Note Programme (under which the Company has in issue Euro Medium Term Notes originally due 2022 with an aggregate nominal amount of approximately £171.9 million, including capitalised interest, at the date of this report), pursuant to which if there is a change of control of the Company, a holder of a note has the option to require the Company to redeem such note at its principal amount, together with any accrued interest thereon; and

(f) under the indenture governing the Company's high yield notes originally due 2022, which at the date of this report have an aggregate nominal amount of approximately $746.1 million, including capitalised interest, if the Company undergoes certain events defined as constituting a change of control, each holder of the high yield notes may require the Company to repurchase all or a portion of its notes at 101% of their principal amount, plus any accrued and unpaid interest.

Political donations

At the 2018 AGM, a resolution was passed giving the Company authority to make political donations and/or incur political expenditure as defined in Sections 362 to 379 of the Companies Act 2006. Although the Company does not make and does not intend to make political donations or to incur political expenditure, the legislation is very broadly drafted and may catch such activities as funding seminars or functions to which politicians are invited, or may extend to bodies concerned with policy review, law reform and representation of the business community that the Company and its subsidiaries might wish to support.

No political donations were made in 2018 by the Company or any of its subsidiaries.

DIRECTORS' REPORT CONTINUED

Greenhouse gas ('GHG') emissions

EnQuest has reported on all of the emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within the EnQuest consolidated financial statements. EnQuest has used the principles of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), ISO 14064-1 and data gathered to fulfil the requirements under the 'Environmental Reporting Guidelines: Including Mandatory Greenhouse Gas Emissions Reporting Guidance' June 2013. The Mandatory Carbon Reporting ('MCR') report includes assets which are in the operational control of EnQuest. These are:

- Heather Alpha;
- Thistle Alpha;
- Northern Producer Floating Production Facility;
- Kittiwake;
- EnQuest Producer FPSO;
- PM8/Seligi & Tanjong Baram (Malaysia);
- Sullom Voe Oil Terminal, excluding the third-party operated power station (from 1 December 2017);
- Kraken FPSO (from 12 February 2017);
- Magnus (from 1 December 2017);
- Drilling rigs under the control of EnQuest for exploration and appraisal purposes; and
- All land-based offices.

All six greenhouse gases are reported as appropriate.

MCR (Operational Control) Scope

EnQuest has a number of financial interests, e.g. joint ventures and joint investments, as covered in this Annual Report for which it does not have operational control. In line with MCR and ISO 14064-1 guidance, only those assets where EnQuest has operational control greater than 50% are captured within the MCR reporting boundary. Where EnQuest has less than 50% operational control of an asset it is not included within the MCR reporting boundary. Hence, the MCR operational control boundary is different to EnQuest's financial boundary. In line with MCR guidance, this is fully disclosed.

ISO-14064 Verified Scope

EnQuest has voluntarily opted to have emissions reported within the MCR scope verified to the internationally recognised ISO 14064-1 standard by a UKAS accredited verification body. This increases the robustness of the reported emissions and provides the reader with more confidence in the stated figures. This goes beyond the minimum requirements of the MCR guidance. Some data for the Group's Malaysian assets (Seligi and associated land based offices), do not currently meet ISO 14064-1 requirements, and so are excluded from the ISO 14064-1 reported figures. Efforts are being made to improve data quality with the objective of including these assets within the ISO 14064-1 verified scope in future years.

		2018		2017		2015[1]
		MCR (Operational Control) Scope	ISO-14064 Verified Scope	MCR (Operational Control) Scope[2]	ISO-14064 Verified Scope[3]	Baseline
Scope 1 (direct combustion) and Scope 2 (consumed electricity & steam)	Total Emissions tCO_2e[4]	1,802,435	1,298,303	1,281,820	732,818	1,149,743
	Extraction Emissions tCO_2e[4]	1,661,565	1,157,432	1,281,820	732,818	869,692
	Extraction Intensity ratio $kgCO_2e$/BOE[4]	50.51	43.14	61.33	52.12	45.65
	Terminal (SVT) Emissions tCO_2e[4]	n/a	140,870	n/a	n/a	280,051
	Terminal (SVT) Intensity ratio $kgCO_2e$/BOE[4] throughput	n/a	4.65	n/a	n/a	6.87

Notes:
1 When it is considered that the portfolio of assets under a Company's operational control has changed significantly, the baseline, which is based on Verified Scope data, is recalculated to an appropriate comparative period for which good data is available. As such, the baseline has been changed to 2015 from 2013 previously
2 Includes December data only for Magnus as operational control commenced 1 December 2017
3 Data for Magnus and SVT relating to 2017 has not been verified and so is not included in the figures quoted
4 tCO_2e = tonnes of CO_2 equivalent. $kgCO_2e$ = kilogrammes of CO_2 equivalent. BOE = barrel of oil equivalent

Emissions relating to Voluntary Scope 3 (Helicopter Flights UK Operations) have not been reported in 2018 with the Group's resources focused on the first full year operation of Magnus, SVT and associated infrastructure.

Dividends
The Company has not declared or paid any dividends since incorporation and does not plan to pay dividends in the immediate future. However, the Board anticipates reviewing the policy when appropriate, the timing of which will be subject to the earnings and financial condition of the Company meeting the conditions for dividend payments which the Company has agreed with its lenders and such other factors as the Board of Directors of the Company consider appropriate, including the Company's expected future cash flows.

Directors' statement of disclosure of information to auditor
The Directors in office at the date of the approval of this Directors' Report have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each of the Directors has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Responsibility statements under the DTR
The Directors who held office at the date of the approval of the Directors' Report confirm that, to the best of their knowledge, the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and the Directors' Report, Operating Review and Financial Review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Independent auditor
Having reviewed the independence and effectiveness of the auditor, the Audit Committee has recommended to the Board that the existing auditor, Ernst & Young ('EY'), be reappointed. EY has expressed its willingness to continue as auditor. An ordinary resolution to reappoint EY as auditor of the Company and authorising the Directors to set its remuneration will be proposed at the forthcoming AGM. Information on the Company's policy on audit tendering (including the 2019 tender process) and rotation is found on page 57.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 43. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 22 to 27. The Board's assessment of going concern and viability for the Group is set out on pages 26 to 27. In addition, note 26 to the financial statements on pages 129 to 132 includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Further disclosures
Further disclosure requirements as required by the Companies Act 2006, Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the FCA's Listing Rules and DTR are found on the following pages of the Company's Annual Report and are incorporated into the Directors' Report by reference:

Disclosure	Page number
Future developments	15
Acquisitions and disposals	134-136
Fair treatment of disabled employees	34
Anti-slavery disclosure	35
Corporate Governance Statement	49-52
Gender diversity	78
Financial risk and financial instruments	26
Important events subsequent to year end	n/a
Branches outside of the UK	132

The Directors' Report was approved by the Board and signed on its behalf by the Company Secretary on 20 March 2019.

Stefan Ricketts
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE GROUP FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Group financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements under International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Under Company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements, International Accounting Standard 1 ('IAS') requires that the Directors:
- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Strategic Report, Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

Fair, balanced and understandable

In accordance with the principles of the UK Corporate Governance Code, the Directors are responsible for establishing arrangements to evaluate whether the information presented in the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, and making a statement to that effect. This statement is set out on page 54 of the Annual Report.

INDEPENDENT AUDITOR'S REPORT

to the Members of EnQuest PLC (Registered number: 07140891)

Our opinion on the financial statements

In our opinion:

- EnQuest PLC's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board ('IASB');
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

EnQuest PLC's financial statements comprise:

Group	Parent company
Group Balance Sheet	Company Balance Sheet
Group Statement of Comprehensive Income	Company Statement of Changes in Equity
Group Statement of Changes in Equity	Notes 1 to 12 to the Company financial statements
Group Statement of Cash Flows	
Notes 1 to 29 to the Group financial statements	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRS as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained during the planning, execution and conclusion of our audit is sufficient and appropriate to provide a suitable basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the Annual Report set out on pages 36 to 43 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out on page 36 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- The Directors' statement set out on page 36 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- Whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on pages 26 to 27 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Complexity of the acquisition accounting for 75% of Magnus • Going concern assumption • Impact of estimation of the quantity of oil and gas reserves
Audit scope	• We performed an audit of the complete financial information of the North Sea component (full scope) • Malaysia was full scope in the prior year and has been changed to specific scope this year. This change is driven by the relatively smaller contribution of Malaysia to Group EBITDA (the basis of our materiality) (2018: 10%, 2017: 19%). We did not identify a perceived heightened risk of material misstatement following the full scope audit procedures performed last year and no additional risks were identified in the current year • Through our on-site work on full and specific scope entities in the UK and Malaysia we will cover 100% of the Group's EBITDA, 100% of the Group's revenue and 99% of the Group's total assets
Materiality	• Overall Group materiality of $14.3 million which represents 2% of Business performance EBITDA

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the Members of EnQuest PLC (Registered number: 07140891)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Complexity of the acquisition accounting for 75% of Magnus		Risk direction:

The accounting for the acquisition of an additional 75% stake in the Magnus field resulted in:

1. **Revaluing the option to acquire the 75% stake generating a loss in the income statement of $1 million**
2. **Recording the fair value of the net assets acquired which principally related to property, plant and equipment of $745 million**
3. **Recording deferred consideration of $625 million reflecting the payments due from the future production of Magnus**
4. **Recording goodwill of $95 million which principally relates to the recognition of a deferred tax liability of $298 million partially offset by the recognition of a deferred tax asset of $203 million**
5. **A gain of $124 million following the revaluation of the existing 25% stake in Magnus**

Refer to the Audit Committee Report (pages 53 to 57); Accounting policies (from page 96); and note 29 of the Annual Report and Accounts

Risk

The acquisition of the 75% share in Magnus completed on 1 December 2018.

The consideration for this acquisition was:
- $100 million upfront cash;
- $200 million of deferred consideration through a vendor loan from BP; and
- Further cash flow sharing from future production.

Due to the complexity of the accounting for the pre-existing option and the acquisition transaction itself, there is a risk that the accounting could be inaccurate or incomplete.

There is also a risk that the revaluation of the option, fair value of net assets acquired, deferred consideration and the revaluation of the existing 25% stake in Magnus could be materially incorrect.

Our response to the risk

We documented our understanding and walked through EnQuest's process for calculating and recording the various elements of this acquisition.

The procedures on the:
- Revaluation of the option;
- Fair value of net assets acquired;
- Deferred consideration; and
- Revaluation of the existing 25% stake in Magnus

are focused on the audit of EnQuest's underlying valuation models which value the future cash flows of the Magnus field and apportion those future cash flows in accordance with the Sale and Purchase Agreement ('SPA').

The key inputs to EnQuest's valuation models included oil price assumptions, production profiles, future capital and operating expenditures and discount rates. Our procedures included:
- Prices: compared the short and long-term price assumption to those prepared by our internal valuation specialists;
- Production profiles, future capital and operating expenditures: EnQuest made their own estimates for these values and used a specialist to audit these estimates. We reviewed and challenged the work of management's external specialist by checking data inputs, challenging and verifying assumptions, and checking application of the resulting estimates to the accounts. Our procedures on production profiles are further outlined below in the section on oil and gas reserves; and
- Discount rates: we used our internal valuation specialists to assist us in evaluating whether EnQuest's discount rate was reasonable.

We tested the mathematical accuracy and integrity of the model.

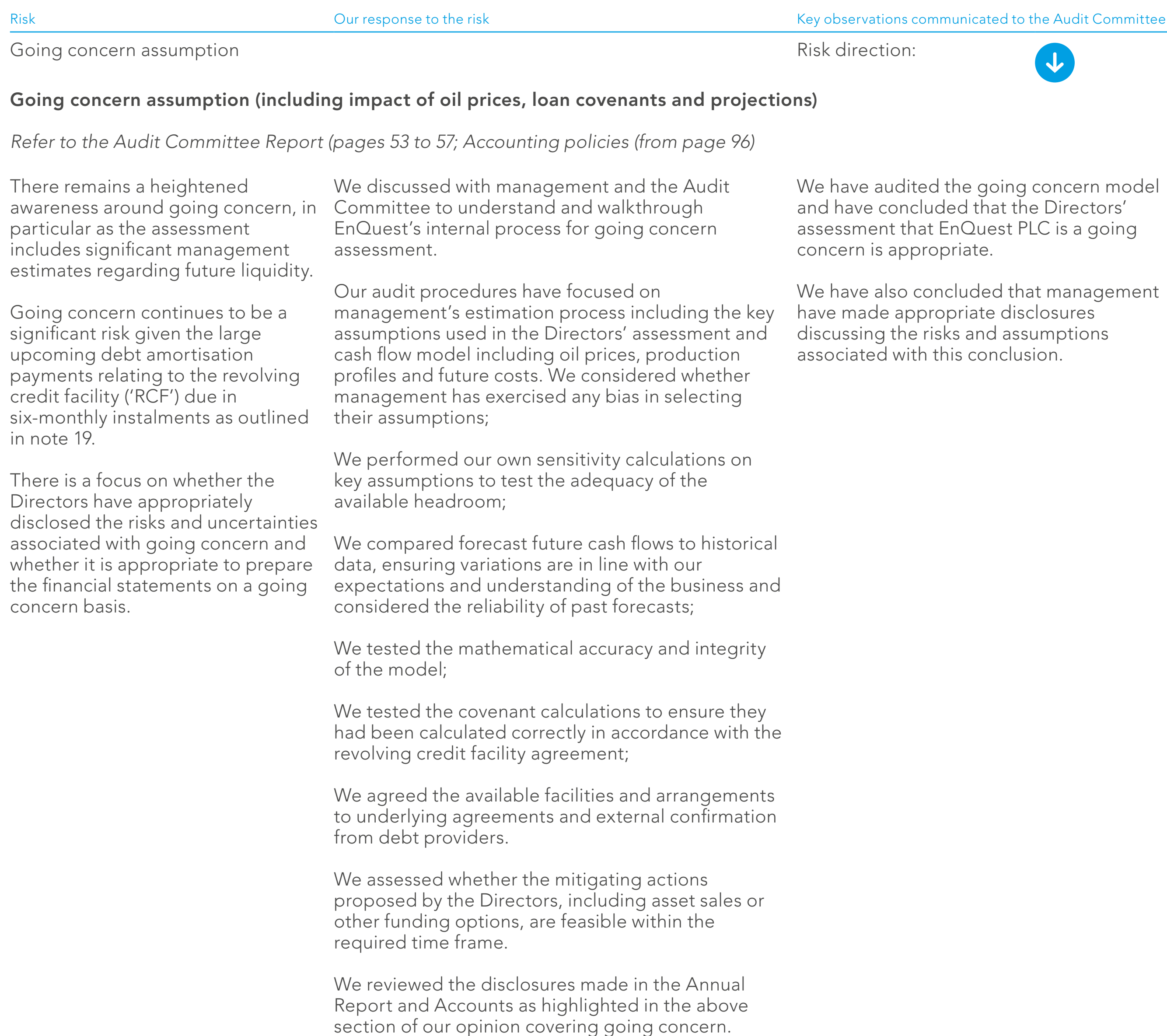
Given the size of the gain recorded, we also focused on what was driving the increased value of Magnus since the 25% acquisition in late 2017. We did this by comparing the updated cash flows to the prior year cash flows and identifying the key changes and obtaining evidence to support those changes.

Key observations communicated to the Audit Committee

EnQuest have updated their reserve estimates compared to the prior year resulting in an increase in 2P reserves driven by management's assessment of the asset in the 12 months since the 25% acquisition with a significantly revised work programme. The new programme has resulted in additional forecast capital expenditures to perform additional drilling and other procedures which management believe will extend the life of Magnus and result in additional reserves being recovered. Our conclusions on reserves are included below.

In our view, the oil price assumptions, future capital and operating expenditures and discount rate assumptions used by management are within reasonable ranges.

Consequently, we believe management have appropriately accounted for all elements of the transaction. The option revaluation, the recognition of the fair value of net assets acquired, the fair value of the consideration paid for the 75% increase and the revaluation of the existing 25% share of Magnus have been appropriately recorded and disclosed.



Risk	Our response to the risk	Key observations communicated to the Audit Committee
Going concern assumption		Risk direction: ↓

Going concern assumption (including impact of oil prices, loan covenants and projections)

Refer to the Audit Committee Report (pages 53 to 57; Accounting policies (from page 96)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
There remains a heightened awareness around going concern, in particular as the assessment includes significant management estimates regarding future liquidity. Going concern continues to be a significant risk given the large upcoming debt amortisation payments relating to the revolving credit facility ('RCF') due in six-monthly instalments as outlined in note 19. There is a focus on whether the Directors have appropriately disclosed the risks and uncertainties associated with going concern and whether it is appropriate to prepare the financial statements on a going concern basis.	We discussed with management and the Audit Committee to understand and walkthrough EnQuest's internal process for going concern assessment. Our audit procedures have focused on management's estimation process including the key assumptions used in the Directors' assessment and cash flow model including oil prices, production profiles and future costs. We considered whether management has exercised any bias in selecting their assumptions; We performed our own sensitivity calculations on key assumptions to test the adequacy of the available headroom; We compared forecast future cash flows to historical data, ensuring variations are in line with our expectations and understanding of the business and considered the reliability of past forecasts; We tested the mathematical accuracy and integrity of the model; We tested the covenant calculations to ensure they had been calculated correctly in accordance with the revolving credit facility agreement; We agreed the available facilities and arrangements to underlying agreements and external confirmation from debt providers. We assessed whether the mitigating actions proposed by the Directors, including asset sales or other funding options, are feasible within the required time frame. We reviewed the disclosures made in the Annual Report and Accounts as highlighted in the above section of our opinion covering going concern.	We have audited the going concern model and have concluded that the Directors' assessment that EnQuest PLC is a going concern is appropriate. We have also concluded that management have made appropriate disclosures discussing the risks and assumptions associated with this conclusion.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the Members of EnQuest PLC (Registered number: 07140891)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impact of estimation of the quantity of oil and gas reserves		Risk direction:

Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions, going concern assessment and fair value model for Magnus acquisition

Refer to the Audit Committee Report (pages 53 to 57); Accounting policies (note 2 of the Annual Report and Accounts); and the Strategic Report (pages 36 to 43)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The estimation of oil and gas reserves requires significant judgement and assumptions by management and engineers which could be manipulated to achieve desired results. These estimates have a material impact on the financial statements. There is technical uncertainty in assessing reserve quantities and complex contractual arrangements dictating EnQuest's share of reserves, particularly the Production Sharing Contract and Risk Sharing Contract and joint venture arrangements in place. We focus on management's estimation process including whether bias exists in the determination of reserves and resources. The risk has remained the same compared to last year.	We carried out procedures to understand and walkthrough EnQuest's internal process for oil and gas reserves estimation. We evaluated the competence of internal specialists and the competence and objectivity of external specialists. We also obtained the report of the external specialists on their audit of the reserves for the UK North Sea and Malaysia assets as at 31 December 2018. We held a meeting with the Chief Petroleum Engineer and external specialists to evaluate the appropriateness of their work and findings. We have assessed the reasonableness of the assumptions in the reserves report, such as future oil price assumptions, to those prepared by our internal valuation specialists. We also reconciled internal estimates to third party reserves reports, and obtained an understanding of any differences. We performed analytical procedures to identify movements by comparing this year to last year on a field by field basis. We obtained explanations for the significant additions on Magnus and the absence of significant movements on Kraken with the Chief Petroleum Engineer and external specialists. We discussed with the Chief Petroleum Engineer and external specialists the fact that EnQuest's joint venture partner in the Kraken field had reported reserves that were lower than EnQuest and obtained explanations for this difference. We compared management's internal estimations to those of the independent external specialist and investigated all significant variations. We checked that the reserve estimates were consistently used in the asset impairment testing, the calculation of depreciation, depletion and amortisation, the calculation of decommissioning provisions, the assessment of going concern and the fair value calculation for Magnus.	We have concluded that the estimation of oil and gas reserves are in line with appropriate methodology and guidelines, and have been determined on a reasonable basis through the use of competent internal experts and objective and competent external specialists. We did not identify any indication of management bias in the estimation process.

In the prior year, our auditor's report included a section: 'Material uncertainty related to going concern' to discuss the material uncertainty that may have cast significant doubt on the Group's or the parent company's ability to continue as a going concern. In the current year, management has concluded that a material uncertainty does not exist over going concern and we agree with this conclusion. Hence, we did not include a 'Material uncertainty related to going concern' section but have discussed the risk, our procedures performed and conclusion on going concern in the key audit matter section above.

The 'complexity of the deferred taxation calculation' was considered to be a key audit matter for the 2017 audit. While the complexity of the calculation remains a risk, there were no significant changes in the calculation methodology or legislation impacting the 2018 balance, hence this matter has had less impact on the allocation of resources in the audit and directing the efforts of the engagement team than in the prior year. For the 2018 audit, the work performed in relation to the deferred tax arising from the Magnus option is included with the key audit matter 'Complexity of the acquisition accounting for 75% of Magnus'.

Impairment and impairment reversal of the carrying value of tangible assets, intangible assets and goodwill was considered to be a key audit matter for the 2017 audit. For the 2018 audit, the key inputs and assumptions that impact this risk, such as oil prices, discount rates, production profiles and future costs, have been covered through our audit procedures on other key audit matters relating to the acquisition of the 75% stake in Magnus, reserves and going concern. We therefore concluded that, as a stand-alone risk, this had less impact on the allocation of resources and directing the efforts of the engagement team and hence was not reported as a key audit matter for the 2018 audit.

Revenue recognition is a significant risk presumed by ISAs (UK). It is not included above, as EnQuest's revenue streams are largely routine in nature and do not involve significant judgement or use of significant estimates. Consequently, the auditing of revenue recognition did not have the greatest effect on our overall audit strategy, the allocation of resources in the audit or in directing the efforts of the engagement team.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the two reporting components of the Group, we selected both components covering entities within Malaysia and the North Sea, which represent the principal business units within the Group.

We performed an audit of the complete financial information of the North Sea business unit (full scope) as it accounts for approximately 90% of the Group's EBITDA. We audited the Malaysian entities as specific scope. We also audited the parent company in full scope and the remaining significant balances of the Group are in specific scope for audit procedures performed by the primary team.

	Full scope	Specific scope	Other procedures
REVENUE	89% (2017: 100%)	11% (2017: 0%)	0% (2017: 0%)
EBITDA	90% (2017: 100%)	10% (2017: 0%)	0% (2017: 0%)
TOTAL ASSETS	96% (2017: 95%)	3% (2017: 0%)	0% (2017: 5%)

Changes from the prior year

Malaysia was full scope in the prior year and has been reduced to specific scope audit this year. This change is driven by the relatively smaller contribution of Malaysia to Group EBITDA (the basis of materiality) (2018: 10%, 2017: 19%) and no perceived heightened risk of material misstatement following the full scope audit procedures performed audit last year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components audited by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the North Sea full scope component (which represents 90% of Group EBITDA), parent company and remaining significant (non-Malaysia) balances, audit procedures were performed directly by the primary audit team. For the specific scope component (Malaysia), where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary team (including the Senior Statutory Auditor) interacted regularly with the Malaysia team during various stages of the audit including planning of the audit approach, discussing any issues arising from their work and reviewing key working papers. The primary team were responsible for the scope and direction of the audit process. The primary team also attended the audit close meeting with EnQuest Malaysia management. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

Based on our professional judgement, we determined materiality for the Group to be $14.3 million (2017: $6.1 million), which is 2% (2017: 2%) of Business performance EBITDA as included in the consolidated financial statements. Our materiality has increased by 134% from the prior year in line with the increased profitability of the Group. In the prior year, materiality was lower due to lower price and production levels and as both recovered in 2018, we expected our materiality to increase. Accordingly, we believe the magnitude of the increase to be appropriate.

We believe that EBITDA is the most appropriate basis to use as this is the key performance indicator used by management, it is the main performance measure used in the covenant calculations associated with the Group's debt and is the measure most focused on by stakeholders.

We determined materiality for the parent company to be $8.9 million (2017: $7.8 million), which is 1% (2017: 1%) of equity excluding the impact from reversal of impairment on investment. The materiality is lower for the parent company as compared to the Group due to the different basis used for determining materiality.

During the course of our audit, we reassessed initial materiality and there has been no significant change in final materiality from our original assessment at planning.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the Members of EnQuest PLC (Registered number: 07140891)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be 50% (2017: 50%) of our planning materiality, namely $7.2 million (2017: $3.1 million). We have set performance materiality at this percentage due to our understanding of the entity and past experience with the engagement indicating a higher risk of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to components was $6.4 million (90% of Group performance materiality) for the North Sea (2017: $2.8 million) and $2.1 million (30% of Group performance materiality) for Malaysia (2017: $1.2 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We identify and capture misstatements above $0.7 million (2017: $0.3 million) which is set at 5% of planning materiality. We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $1 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable,** set out on page 54 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting,** set out on pages 53 to 57 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code,** set out on pages 49 to 52 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, set out on page 84, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety and employee matters.
- We understood how EnQuest PLC is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies. We obtained the Code of Business conduct and employee handbook (updated as at May 2017) which is provided to all employees and those charged with governance which indicates a culture of honesty and ethical behaviour and with an emphasis on fraud prevention, which may reduce opportunities for fraud to take place. Inquiries were made of those charged with governance in part to corroborate the responses to the inquiries of management.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, location management in all full scope entities; and focused testing, as referred to in the key audit matters section above.

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

Other matters we are required to address
- We were appointed by the Board of Directors in 2010 to audit the financial statements for the year ending 31 December 2010 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is eight years, covering the years ended 31 December 2010 to 31 December 2018. The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Wallek (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

20 March 2019

Notes:
1 The maintenance and integrity of the EnQuest PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 Business performance $'000	2018 Remeasurements and exceptional items (note 4) $'000	2018 Reported in year $'000	2017 Business performance $'000	2017 Remeasurements and exceptional items (note 4) $'000	2017 Reported in year $'000
Revenue and other operating income	5(a)	**1,201,005**	**97,432**	**1,298,437**	635,167	(7,716)	627,451
Cost of sales	5(b)	**(926,020)**	**1,718**	**(924,302)**	(569,506)	5,481	(564,025)
Gross profit/(loss)		**274,985**	**99,150**	**374,135**	65,661	(2,235)	63,426
Net impairment (charge)/reversal to oil and gas assets	4	**–**	**(126,046)**	**(126,046)**	–	(171,971)	(171,971)
General and administration expenses	5(c)	**(4,018)**	**–**	**(4,018)**	(848)	–	(848)
Other income	5(d)	**22,428**	**78,316**	**100,744**	6,807	50,613	57,420
Other expenses	5(e)	**(3,362)**	**(14,715)**	**(18,077)**	(24,363)	(20,358)	(44,721)
Profit/(loss) from operations before tax and finance income/(costs)		**290,033**	**36,705**	**326,738**	47,257	(143,951)	(96,694)
Finance costs	6	**(236,114)**	**(28)**	**(236,142)**	(149,020)	(272)	(149,292)
Finance income	6	**3,389**	**–**	**3,389**	2,213	–	2,213
Profit/(loss) before tax		**57,308**	**36,677**	**93,985**	(99,550)	(144,223)	(243,773)
Income tax	7	**20,887**	**12,406**	**33,293**	65,996	116,947	182,943
Profit/(loss) for the year attributable to owners of the parent		**78,195**	**49,083**	**127,278**	(33,554)	(27,276)	(60,830)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Transfers to income statement of cash flow hedges				**(36)**			(5)
Other comprehensive income for the year, net of tax				**(36)**			(5)
Total comprehensive income for the year, attributable to owners of the parent				**127,242**			(60,835)
Earnings per share	8	**$**		**$**	$		$
Basic		**0.064**		**0.104**	(0.025)[(i)]		(0.046)[(i)]
Diluted		**0.062**		**0.101**	(0.025)[(i)]		(0.046)[(i)]

(i) Restated following rights issue

The attached notes 1 to 29 form part of these Group financial statements.

GROUP BALANCE SHEET

At 31 December 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**4,349,913**	3,848,622
Goodwill	11	**283,950**	189,317
Intangible oil and gas assets	12	**51,803**	52,103
Investments	13	**31**	152
Deferred tax assets	7	**286,721**	398,263
Other financial assets	20	**5,958**	8,191
		4,978,376	4,496,648
Current assets			
Inventories	14	**100,532**	78,045
Trade and other receivables	15	**275,809**	227,754
Current tax receivable		**20**	1,159
Cash and cash equivalents	16	**240,604**	173,128
Other financial assets	20	**66,575**	61,737
		683,540	541,823
TOTAL ASSETS		**5,661,916**	5,038,471
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	17	**345,331**	210,402
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**–**	36
Share-based payment reserve		**(6,884)**	(5,516)
Retained earnings		**(17,750)**	(106,911)
TOTAL EQUITY		**983,552**	760,866
Non-current liabilities			
Borrowings	19	**735,470**	888,993
Bonds	19	**990,282**	934,351
Obligations under finance leases	24	**615,781**	679,924
Provisions	22	**1,306,092**	705,999
Trade and other payables	23	**18,209**	78,777
Other financial liabilities	20	**–**	7,121
Deferred tax liabilities	7	**27,815**	62,685
		3,693,649	3,357,850
Current liabilities			
Borrowings	19	**311,261**	330,012
Obligations under finance leases	24	**93,169**	118,009
Provisions	22	**81,050**	43,215
Trade and other payables	23	**483,781**	367,312
Other financial liabilities	20	**142**	61,207
Current tax payable		**15,312**	–
		984,715	919,755
TOTAL LIABILITIES		**4,678,364**	4,277,605
TOTAL EQUITY AND LIABILITIES		**5,661,916**	5,038,471

The attached notes 1 to 29 form part of these Group financial statements.

The financial statements were approved by the Board of Directors on 20 March 2019 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital and share premium $'000	Merger reserve $'000	Cash flow hedge reserve $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2017	208,639	662,855	41	(6,602)	(46,081)	818,852
Profit/(loss) for the year	–	–	–	–	(60,830)	(60,830)
Other comprehensive income	–	–	(5)	–	–	(5)
Total comprehensive income for the year	–	–	(5)	–	(60,830)	(60,835)
Share-based payment	–	–	–	2,849	–	2,849
Shares issued on behalf of Employee Benefit Trust	1,763	–	–	(1,763)	–	–
Balance at 31 December 2017 (as previously reported)	**210,402**	**662,855**	**36**	**(5,516)**	**(106,911)**	**760,866**
Adjustment on adoption of IFRS 9 (see note 2)					(38,117)	(38,117)
Balance at 1 January 2018	**210,402**	**662,855**	**36**	**(5,516)**	**(145,028)**	**722,749**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**127,278**	**127,278**
Other comprehensive income	**–**	**–**	**(36)**	**–**	**–**	**(36)**
Total comprehensive income for the year	**–**	**–**	**(36)**	**–**	**127,278**	**127,242**
Issue of share capital	**128,916**	**–**	**–**	**–**	**–**	**128,916**
Share-based payment	**–**	**–**	**–**	**4,645**	**–**	**4,645**
Shares purchased on behalf of Employee Benefit Trust	**6,013**	**–**	**–**	**(6,013)**	**–**	**–**
Balance at 31 December 2018	**345,331**	**662,855**	**–**	**(6,884)**	**(17,750)**	**983,552**

The attached notes 1 to 29 form part of these Group financial statements.

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	28	**788,629**	327,034
Cash (paid)/received on sale/(purchase) of financial instruments		**(16,363)**	(1,185)
Proceeds from exercise of Thistle decommissioning option		**50,000**	–
Decommissioning spend	22	**(10,036)**	(10,605)
Income taxes paid		**(17,798)**	(13,463)
Net cash flows from/(used in) operating activities		**794,432**	301,781
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(220,213)**	(358,420)
Purchase of intangible oil and gas assets		**–**	(9,171)
Proceeds from disposal of Ascent loan notes		**–**	3,561
Consideration on exercise of Magnus acquisition option		**(100,000)**	–
Deferred consideration on initial Magnus acquisition		**(48,642)**	–
Interest received		**1,600**	340
Net cash flows (used in)/from investing activities		**(367,255)**	(363,690)
FINANCING ACTIVITIES			
Proceeds from bank facilities		**219,900**	162,970
Repayment of bank facilities		**(402,008)**	(50,969)
Gross proceeds from issue of shares		**138,926**	–
Shares purchased by Employee Benefit Trust		**(6,013)**	–
Share issue and debt restructuring costs paid		**(3,997)**	(1,356)
Repayment of obligations under finance leases		**(144,820)**	–
Interest paid		**(136,482)**	(46,052)
Other finance costs paid		**(20,425)**	(6,286)
Net cash flows from/(used in) financing activities		**(354,919)**	58,307
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**72,258**	(3,602)
Net foreign exchange on cash and cash equivalents		**(4,726)**	5,210
Cash and cash equivalents at 1 January		**169,668**	168,060
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**237,200**	169,668
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		**237,200**	169,668
Restricted cash	16	**3,404**	3,460
Cash and cash equivalents per balance sheet		**240,604**	173,128

The attached notes 1 to 29 form part of these Group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Corporate information

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

The principal activities of the Company and its subsidiaries (together the 'Group') is to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner.

The Group's financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 20 March 2019.

A listing of the Group companies is contained in note 27 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 2018 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 2018.

The Group financial information has been prepared on an historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives, as set out in the accounting policies below. 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 ($'000) except where otherwise stated.

The financial statements have been prepared on the going concern basis. Further information relating to the use of the going concern assumption is provided in the 'Going concern' section of the Financial Review.

New standards and interpretations

The Group applied IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The five-step model applies to revenue arising from contracts with customers and requires revenue to be 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. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

The Group adopted IFRS 15 using the full retrospective method of adoption as per the new IFRS 15 accounting policies and the Group has assessed that there is no impact on the financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement, bringing together the accounting aspects for financial instruments: classification and measurement, impairment under the expected credit loss ('ECL') model and hedge accounting.

When adopting IFRS 9, the Group has applied transition relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 are recognised in retained earnings. The total impact on the Group's retained earnings as at 1 January 2018 is $38.1 million. The effect of adopting IFRS 9 is as follows:

Impact on the statement of financial position (increase/(decrease)):

Balance sheet (extract)	31 December 2017 $'000	IFRS 9 adjustment $'000	**1 January 2018 $'000**
Non-current liabilities			
Bonds	934,351	38,117	**972,468**
Total	934,351	38,117	**972,468**
Equity			
Retained earnings	(106,911)	(38,117)	**(145,028)**
Total	(106,911)	(38,117)	**(145,028)**

The table shows the adjustment recognised for each relevant line item. Line items that were not affected by the changes have not been included. The adjustments are recognised in the opening balance sheet on 1 January 2018.

In October 2017, the IASB confirmed the accounting for modifications of financial liabilities under IFRS 9. When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate ('EIR'). Any fees and costs incurred are amortised over the remaining term of the asset.

At the end of 2016, the Group's bonds were refinanced, for which the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the bonds was amortised over the new life of the bonds, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for $38.1 million was taken through opening reserves and through the amortised value of the bonds ($15.4 million increase to high yield bonds and a $22.7 million increase to retail bonds).

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 financial statements in the period of initial application.

IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Lessees will be required to recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current accounting under IAS 17 i.e. lessors continue to classify leases as finance or operating leases.

During 2018, the Group has performed an impact assessment for the application of IFRS 16. This assessment is based on currently available information and will be subject to changes arising from further reasonable and supportable information being made available to the Group in 2019, including the Group's borrowing rate at 1 January 2019 when the Group will adopt IFRS 16. The Group continues to assess its accounting processes, controls and policies on an ongoing basis.

The Group will adopt the new standard on the required effective date using the modified retrospective method. The Group will apply the practical expedient to grandfather the definition of a lease on transition. It will therefore apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17. Contracts which have not been considered or identified as a lease will continue to be accounted for in line with their historical treatment. The Group will also elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

The Group has identified leases which will be recognised as finance leases under IFRS 16. On the implementation of IFRS 16 on 1 January 2019, the Group expects to recognise right-of-use assets and corresponding lease liabilities of approximately $82 million. The preliminary estimated impact on the Group's 2019 consolidated statement of comprehensive income results in a decrease in net profit of approximately $2 million; a result of the replacement of operating lease payments previously accounted under IAS 17 by increased depreciation and finance charges under IFRS 16. EBITDA is estimated to increase by approximately $7 million. The estimated 2019 consolidated financial statements impact is computed based on the information available to date and the actual impact of IFRS 16 on the Group's 2019 consolidated financial statements may differ from the estimates provided above.

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.

Joint arrangements

Oil and gas operations are usually conducted by the Group as co-licensees in unincorporated joint operations with other companies. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the consent of the relevant parties sharing control.

Most of the Group's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group reports its interests in joint operations using proportionate consolidation – the Group's share of the production, assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Summary of significant accounting policies continued

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.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as a financial liability are remeasured through profit or loss. If the contingent consideration is not within the scope of IFRS 9, 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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Goodwill

Goodwill arising on 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.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews 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, the gain is recognised in profit or loss.

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 ('CGU') 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 CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount of the CGU and related goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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 to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner. 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, goodwill and the estimate of the cost recovery provision

Determination of whether oil and gas assets or goodwill have suffered any impairment requires an estimation of the fair value less costs to dispose of the 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 cash flow models comprising asset-by-asset life of field projections using Level 3 inputs (based on the IFRS 13 fair value hierarchy). Key assumptions and estimates in the impairment models relate to: commodity prices that are based on internal view of forward curve prices for the first three years and thereafter at $75/bbl inflated at 2.0% per annum from 2023; discount rates derived from the Group's post-tax weighted average cost of capital of 10.0% (2017: 10.0%); commercial reserves and the related cost profiles. As the production and related cash flows can be estimated from EnQuest's experience, management believes that the estimated cash flows expected to be generated over the life of each field is the appropriate basis upon which to assess goodwill and individual assets for impairment.

These same models and assumptions are used in the calculation of the cost recovery provision (see note 22).

Determining the fair value of property, plant and equipment on business combinations
The Group determines the fair value of property, plant and equipment acquired in a business combination 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 a 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, 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 2.0% (2017: 2.0%) and an annual discount rate of 2.0% (2017: 2.0%).

Going concern
The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its commitments as they fall due over the going concern period.

The going concern assumption is highly sensitive to economic conditions. 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 liquidity or covenant compliance risks in a timely manner. See the Financial Review for further details.

Taxation
The Group's operations are subject to a number of specific tax rules which apply to exploration, development 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 exceptional items, the Group applies the appropriate statutory tax rate to each 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 likelihood of future taxable profits and the amount of deferred tax that can be recognised.

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's 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.

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 by management. 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	Five years
Fixtures and fittings	Ten years
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. No depreciation is charged on assets under construction.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Summary of significant accounting policies continued

Oil and gas assets

Exploration and appraisal assets

The Group adopts the successful efforts method of accounting for exploration and evaluation costs. Pre-licence costs are expensed in the period in which they are incurred. Expenditure directly associated with exploration, evaluation or appraisal activities is initially 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 written off as exploration and evaluation expenses 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. 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.

Development 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 – in the exploration and evaluation phase

The Group does not record any expenditure made by the farmee on its account. In the event of a partial farm-out, the Group 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.

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.

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 tangible and intangible 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 its fair value less costs of disposal 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.

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 of disposal.

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 instruments (policy applicable from 1 January 2018)
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets
Initial recognition and initial measurement
Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL').

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs (in the case of a financial asset not at fair value through profit or loss). Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Subsequent measurement
Financial assets at amortised cost
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVPL.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Summary of significant accounting policies continued

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the ECL model. This replaces IAS 39's 'incurred loss model'.

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a '12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a 'lifetime ECL').

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

It is the Group's policy to measure ECLs on such instruments on a 12-month basis.

Financial liabilities

Initial recognition and initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings, trade and other payables, quoted and unquoted financial liabilities, and derivative financial instruments.

Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and commodity contracts, to address its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any changes in fair value are recognised immediately in the profit or loss within 'Remeasurements and exceptional items' profit or loss on the face of the income statement. When a derivative reaches maturity, the realised gain or loss is included within the Group's 'Business performance' results with a corresponding reclassification from 'Remeasurements and exceptional items'.

Option premium received or paid for commodity derivatives are amortised into 'Business performance' revenue over the period between the inception of the option, and that option's expiry date. This results in a corresponding reclassification from 'Remeasurements and exceptional items' revenue.

The Group has not designated any derivative financial instruments as hedging instruments for the periods contained within these financial statements.

Loans and borrowings

This is the category most relevant to the Group and includes the measurement of the bonds. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. This category generally applies to interest-bearing loans and borrowings.

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 is included as finance costs in the statement of profit or loss.

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.

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 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 shares held within the Employee Benefit Trust.

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; 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.

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.

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.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased asset 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. Lease charter payment credits, arising from the non-performance of the leased asset, are recognised as an operating expense in the income statement for the period to which they relate.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2018

2. Summary of significant accounting policies continued
Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue from contracts with customers
Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Sale of crude oil, gas and condensate
The sale of crude oil, gas or condensate represents a single performance obligation, being the sale of barrels equivalent on collection of a cargo or on delivery of commodity into an infrastructure. Revenue is accordingly recognised for this performance obligation when control over the corresponding commodity is transferred to the customer. Variable revenue conditions can arise on either party based on the failure to provide commitments detailed within the contract. These variations arise as an event occurs and therefore the transaction price is known at the timing of the performance obligations with no judgement required. The normal credit term is 30 to 90 days upon collection or delivery.

Tariff revenue for the use of Group infrastructure
Tariffs are charged to customers for the use of infrastructure owned by the Group. There is one contract per customer which is for a period of 12 months or less and is based on one performance obligation for the use of Group assets. The use of the assets is not separable as they are interdependent in order to fulfil the contract and no one item of infrastructure can be individually isolated. Revenue is recognised over the performance of the contract as services are provided for the use of the infrastructure at the agreed contracted rates on a throughput basis.

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

Production imbalances and under/over-lift
Production imbalances arise on fields as oil is lifted per each joint venture party, resulting in a variance in the volume of oil lifted versus the entitlement per owner per their working interest. All Group fields are operated through a Joint Venture Agreement ('JVA') through which production imbalances are settled. Settlement occurs through agreed lifting schedules and are not settled in cash, with the exception of a misbalance at the cessation of contract. As collaborative agreements and non-monetary exchanges, the transactions do not meet the definition of a customer under IFRS 15 and are recognised through cost of sales.

The under or over-lifted positions of hydrocarbons arising from production imbalances 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. 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. Movements in under or over-lifted positions are accounted for through cost of sales.

Remeasurements and 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 or 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 better assess trends in financial performance.

The following items are classified as Remeasurements and exceptional items ('exceptional'):
- Unrealised mark-to-market changes in the remeasurement of derivative contracts are included in exceptional profit or loss. This includes the recycling of realised amounts from exceptional items into 'Business performance' income when a derivative instrument matures, together with the recycling of option premium amortisation from exceptional to 'Business performance' as set out in the derivatives policy previously;
- Impairments and write offs/write downs are deemed to be exceptional in nature. This includes impairments of tangible and intangible assets, and write offs/write downs of unsuccessful exploration. Other non-routine write offs/write downs, where deemed material, are also included in this category;
- The depletion of a fair value uplift to property, plant and equipment that arose from the merger accounting applied at the time of EnQuest's formation; and
- Other exceptional items that arise from time to time as reviewed by management and disclosed as exceptionals in the notes to the financial statements, such as the acquisition accounting of Magnus and other interests in 2017 and 2018.

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

Eligible 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. Fair value is measured in reference to the scheme rules, as detailed in note 18. 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.

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 previously 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, 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') within the UK and is accounted for under IAS 12 Income Taxes 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 allowance

The UK taxation regime provides for a reduction in ring fence supplementary corporation tax where investment in new or existing UK assets qualify for a relief known as investment allowance. Investment allowance must be activated by commercial production from the same field before it can be claimed. The Group has both unactivated and activated investment allowance which could reduce future supplementary corporation taxation. The Group's policy is that investment allowance is recognised as a reduction in the charge to taxation in the years claimed.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

3. Segment information

Management have considered the requirements of IFRS 8 Operating Segments in regard to the determination of operating segments and concluded that the Group has two significant operating segments: the North Sea and Malaysia. Operations are managed by location and all information is presented per geographical segment. 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 2018 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue:						
Revenue from contracts with customers	**1,140,116**	**144,483**	**–**	**1,284,599**	**–**	**1,284,599**
Other income	**9,046**	**–**	**395**	**9,441**	**4,397**	**13,838**
Total revenue	**1,149,162**	**144,483**	**395**	**1,294,040**	**4,397**	**1,298,437**
Income/(expenses):						
Depreciation and depletion	**(411,624)**	**(30,767)**	**–**	**(442,391)**	**–**	**(442,391)**
Net impairment reversal/(charge) to oil and gas assets	**(125,009)**	**(1,037)**	**–**	**(126,046)**	**–**	**(126,046)**
Impairment reversal of investments	**(121)**	**–**	**–**	**(121)**	**–**	**(121)**
Exploration write offs and impairments	**(1,407)**	**–**	**–**	**(1,407)**	**–**	**(1,407)**
Segment profit/(loss)	**276,365**	**38,442**	**5,839**	**320,646**	**6,092**	**326,738**
Other disclosures:						
Capital expenditure	**167,070**	**15,806**	**–**	**182,876**	**–**	**182,876**

Year ended 31 December 2017 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue:						
Revenue from contracts with customers	527,272	119,545	–	646,817	–	646,817
Other income	8,578	347	–	8,925	(28,291)	(19,366)
Total revenue	535,850	119,892	–	655,742	(28,291)	627,451
Income/(expenses):						
Depreciation and depletion	(201,684)	(27,514)	–	(229,198)	–	(229,198)
Net impairment reversal/(charge) to oil and gas assets	(187,716)	15,745	–	(171,971)	–	(171,971)
Impairment reversal of investments	(19)	–	–	(19)	–	(19)
Exploration write offs and impairments	193	–	–	193	–	193
Segment profit/(loss)	(135,187)	39,062	22,844	(73,281)	(23,413)	(96,694)
Other disclosures:						
Capital expenditure	322,398	2,299	–	324,697	–	324,697

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

Reconciliation of profit/(loss):

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Segment profit/(loss)	**320,646**	(73,281)
Finance income	**3,389**	2,213
Finance expense	**(236,142)**	(149,292)
Gain/(loss) on oil and foreign exchange derivatives	**6,092**	(23,413)
Profit/(loss) before tax	**93,985**	(243,773)

Revenue from two customers relating to the North Sea operating segment each exceed 10% of the Group's consolidated revenue arising from sales of crude oil, with the total amount of $580.5 million (2017: two customers; $206.1 million arising in the North Sea operating segment and $105.2 million in the Malaysia operating segment).

All of the Group's segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) are located in the United Kingdom except for $111.7 million located in Malaysia (2017: $119.1 million).

4. Remeasurements and exceptional items

Year ended 31 December 2018 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	97,432	–	–	97,432
Cost of sales	2,310	(592)	–	1,718
Net impairment (charge)/reversal on oil and gas assets	–	(126,046)	–	(126,046)
Other income	–	–	78,316	78,316
Other expenses	(9,590)	(1,528)	(3,597)	(14,715)
Finance costs	–	–	(28)	(28)
	90,152	(128,166)	74,691	36,677
Tax on items above	(36,962)	48,161	1,207	12,406
	53,190	(80,005)	75,898	49,083

Year ended 31 December 2017 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	(7,716)	–	–	(7,716)
Cost of sales	9,726	(2,682)	(1,563)	5,481
Net impairment (charge)/reversal on oil and gas assets	–	(171,971)	–	(171,971)
Other income	1,685	193	48,735	50,613
Other expenses	–	(19)	(20,339)	(20,358)
Finance costs	–	–	(272)	(272)
	3,695	(174,479)	26,561	(144,223)
Tax on items above	(1,473)	65,730	5,482	69,739
Other tax exceptional items(iv)	–	–	47,208	47,208
	2,222	(108,749)	79,251	(27,276)

(i) Fair value remeasurements include unrealised mark-to-market movements on derivative contracts and other financial instruments where the Group does not classify them as effective hedges. It also includes the impact of recycled realised gains and losses (including option premia) out of 'Remeasurements and exceptional items' and into 'Business performance' profit or loss. Refer to note 2 for further details on the Group's accounting policies for derivatives and 'Remeasurements and exceptional items'. In addition, this includes the fair value remeasurement of contingent consideration on the Magnus vendor loan of $9.7 million (2017: includes $1.3 million gain in respect of the disposal of the Ascent Resources loan notes)

(ii) Impairments and write offs includes an impairment of tangible oil and gas assets totalling $126.0 million (2017: impairment of $172.0 million). 2017 includes a charge of $2.7 million in relation to exceptional inventory write downs. Further details on the tangible impairment are provided in note 10

(iii) Other includes a $1.3 million loss in relation to the revaluation of the option to purchase the Magnus oil field and other interests and $74.3 million in relation to the step acquisition uplift of the original 25% equity acquired in 2017 (see note 29) (2017: $22.3 million purchase option, $16.1 million Thistle decommissioning option and $10.3 million 25% acquisition value, totalling a gain of $48.7 million). Other movements mainly relate to the derecognition of contingent consideration on future exploration of $5.3 million (see note 22) (2017: Charge of $10.3 million in relation to the 2014 PM8 cost recovery settlement agreement, a charge of $6.4 million for the cancellation of contracts and a charge of $2.8 million in relation to the provision on restricted cash). Other income also includes other items of income and expense which, because of the nature or 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 better assess trends in financial performance

(iv) In 2017, other tax exceptional items included $13.2 million for the recognition of previously de-recognised tax losses, together with $34.0 million for the impact on deferred tax of a revision to the balance of non-qualifying expenditure

5. Revenue and expenses

(a) Revenue

The Group generates revenue through the sale of crude oil, gas and condensate, and the provision of infrastructure to its customers for tariff income. Other sources of revenue include amounts related to derivative contracts and rental income from operating leases.

The nature and effect of initially applying IFRS 15 on the Group's financial statements are disclosed in note 2.

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	1,237,600	636,966
Revenue from gas and condensate sales	43,063	2,822
Tariff revenue	3,936	7,029
Total revenue from contracts with customers	1,284,599	646,817
Rental income	7,205	7,074
Realised (losses)/gains on oil derivative contracts (see note 20(f))	(93,035)	(20,575)
Other operating revenue	2,236	1,851
Business performance revenue	1,201,005	635,167
Unrealised (losses)/gains on oil derivative contracts(i) (see note 20(f))	97,432	(7,716)
Total revenue and other operating income	1,298,437	627,451

(i) Unrealised gains and losses on oil derivative contracts which are either ineffective for hedge accounting purposes or held for trading are disclosed as exceptional items in the income statement (see note 4)

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

5. Revenue and expenses continued

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2018 $'000		Year ended 31 December 2017 $'000	
	North Sea	Malaysia	North Sea	Malaysia
Revenue from contracts with customers:				
Revenue from crude oil sales	**1,096,581**	**141,019**	519,694	117,272
Revenue from gas and condensate sales	**39,599**	**3,464**	549	2,273
Tariff revenue	**3,936**	**–**	7,029	–
Total revenue from contracts with customers	**1,140,116**	**144,483**	527,272	119,545

Revenue derived from the sale of crude oil, gas and condensate is recognised as goods transferred at a point in time when control is gained by the customer on collection or delivery. The sale of oil is subject to market prices. The Group manages this risk through the use of commodity derivative contracts. Revenue derived from tariff revenue is recognised as the service is provided over time.

Contract balances

The following table provides information about receivables from contracts with customers. There are no contract assets or contract liabilities.

	2018 $'000	2017 $'000
Trade receivables	**69,857**	80,743

Trade receivables are non-interest-bearing and are generally on terms of 30 to 90 days post control gained by the customer. In 2018 and 2017, no provision was recognised for expected credit losses on trade receivables.

(b) Cost of sales

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Production costs	**396,880**	287,064
Tariff and transportation expenses	**68,446**	62,208
Realised loss/(gain) on foreign exchange derivative contracts[(i)] (see note 20(f))	**615**	4,848
Change in lifting position	**(14,332)**	(20,643)
Crude oil inventory movement	**(10,761)**	237
Depletion of oil and gas assets (see note 10)	**437,104**	223,135
Other cost of operations	**48,068**	12,657
Business performance cost of sales	**926,020**	569,506
Depletion of oil and gas assets (see note 10)	**–**	1,563
Write down of inventory	**–**	2,682
Unrealised (gains)/losses on foreign exchange derivative contracts[(ii)] (see note 20(f))	**(248)**	(9,726)
Unrealised (gains)/losses on carbon derivative contracts[(ii)] (see note 20(f))	**(2,062)**	–
Other expenses	**592**	–
Total cost of sales	**924,302**	564,025

(i) The realised loss on foreign exchange derivative contracts was $0.6 million for contracts related to operating expenditure (2017: loss of $4.8 million related to capital expenditure)

(ii) Unrealised gains and losses on foreign exchange derivative contracts which are held for trading are disclosed as exceptional in the income statement (see note 4)

(c) General and administration expenses

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Staff costs (see note 5(f))	**91,113**	79,138
Depreciation (see note 10)	**5,287**	4,500
Other general and administration costs	**32,764**	20,077
Recharge of costs to operations and joint venture partners	**(125,146)**	(102,867)
	4,018	848

(d) Other income

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Net foreign exchange gains	**21,911**	–
Prior year general and administrative expenses recovery	**–**	5,101
Other income	**517**	1,706
Business performance other income	**22,428**	6,807
Excess of fair value over consideration: 25% acquisition value (see note 29)	**–**	10,314
Excess of fair value over consideration: Purchase option (see note 29)	**(1,329)**	22,300
Excess of fair value over consideration: Thistle decommissioning option (see note 29)	**–**	16,120
Fair value gain on step acquisition (see note 29)	**74,345**	–
Contingent consideration release	**5,300**	–
Gain on disposal of financial assets	**–**	1,263
Change in provision for contingent consideration	**–**	423
Other exceptional income	**–**	193
Total other income	**100,744**	57,420

(e) Other expenses

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Net foreign exchange losses	**–**	23,910
Exploration and evaluation expenses: Pre-licence costs expensed	**40**	43
Other	**3,322**	410
Business performance other expenses	**3,362**	24,363
Change in provision for contingent consideration	**9,590**	–
2014 PM8 cost recovery settlement agreement	**–**	10,329
Early termination of contracts	**–**	6,435
Write down of receivable	**3,010**	2,808
Exploration and evaluation expenses: Written off and impaired	**1,407**	–
Other expenses	**708**	786
Total other expenses	**18,077**	44,721

(f) Staff costs

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Wages and salaries	**56,316**	48,773
Social security costs	**4,487**	4,686
Defined contribution pension costs	**4,210**	3,057
Expense of share-based payments (see note 18)	**4,645**	2,849
Other staff costs	**4,731**	2,486
Total employee costs	**74,389**	61,851
Contractor costs	**16,724**	17,287
Total staff costs	**91,113**	79,138

The average number of persons employed by the Group during the year was 839, with 415 in operating activities and 424 in administrative functions (2017: 506, with 343 in operating activities and 163 in administrative functions).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

5. Revenue and expenses continued

(g) Auditor's remuneration

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

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**721**	584
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**108**	114
Audit related assurance services (interim review)	**134**	181
Tax advisory services	**5**	5
Corporate finance services[i]	**368**	–
	615	300
Total auditor's remuneration	**1,336**	884

(i) Relates to the reporting accountant's report on the unaudited pro forma financial information in the Company's combined prospectus and circular for the rights issue (see note 17)

6. Finance costs/income

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Finance costs:		
Loan interest payable	**93,413**	74,434
Bond interest payable	**64,243**	63,463
Unwinding of discount on decommissioning provisions (see note 22)	**12,617**	11,471
Unwinding of discount on other provisions (see note 22)	**917**	1,838
Unwinding of discount on financial liabilities (see note 20(g))	**72**	163
Fair value (gain)/loss on financial instruments at FVPL (see note 20(f))	**353**	(15)
Finance charges payable under finance leases	**55,837**	31,273
Amortisation of finance fees on loans and bonds	**8,525**	2,760
Other financial expenses	**1,666**	5,902
	237,643	191,289
Less: amounts capitalised to the cost of qualifying assets	**(1,529)**	(42,269)
Business performance finance expenses	**236,114**	149,020
Unwinding of discounts on other provisions	**28**	272
	236,142	149,292
Finance income:		
Bank interest receivable	**1,821**	381
Unwinding of discount on financial asset (see note 20(g))	**1,517**	1,832
Other financial income	**51**	–
	3,389	2,213

7. Income tax

(a) Income tax

The major components of income tax (credit)/expense are as follows:

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Current income tax		
Current income tax charge	**17,764**	214
Adjustments in respect of current income tax of previous years	**–**	(932)
Current overseas income tax		
Current income tax charge	**16,048**	11,191
Adjustments in respect of current income tax of previous years	**420**	263
Total current income tax	**34,232**	10,736
Deferred income tax		
Relating to origination and reversal of temporary differences	**(61,879)**	(202,173)
Adjustments in respect of changes in tax rates	**(4,404)**	–
Adjustments in respect of deferred income tax of previous years	**(2,304)**	14,469
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**612**	(5,840)
Adjustments in respect of deferred income tax of previous years	**450**	(135)
Total deferred income tax	**(67,525)**	(193,679)
Income tax (credit)/expense reported in profit or loss	**(33,293)**	(182,943)

(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 2018 $'000	Year ended 31 December 2017 $'000
Profit/(loss) before tax	**93,985**	(243,773)
Statutory rate of corporation tax in the UK of 40% (2017: 40%)	**37,594**	(97,509)
Supplementary corporation tax non-deductible expenditure	**20,284**	21,170
Non-deductible expenditure/income[(i)]	**(21,689)**	(7,673)
Petroleum revenue tax (net of income tax benefit)	**–**	3,703
North Sea tax reliefs	**(64,228)**	(93,234)
Tax in respect of non-ring fence trade	**691**	(9,085)
Tax losses not recognised	**1,509**	(11,230)
Deferred tax rate changes	**(4,404)**	–
Adjustments in respect of prior years	**(1,434)**	13,665
Overseas tax rate differences	**(673)**	(4,163)
Share-based payments	**899**	1,475
Other differences	**(1,842)**	(62)
At the effective income tax rate of 17% (2017: 75%)	**(33,293)**	(182,943)

(i) The 2018 credit is mainly due to the non-taxable income in relation to the goodwill and non-taxable fair value movements on the acquisition of the 75% interest in the Magnus oil field; this is netted against the non-tax deductible depreciation on fixed assets

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

7. Income tax continued

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Deferred tax liability				
Accelerated capital allowances	**1,400,956**	1,163,562	**93,196**	28,290
	1,400,956	1,163,562		
Deferred tax asset				
Losses	**(1,212,988)**	(1,228,034)	**15,046**	(167,998)
Decommissioning liability	**(267,954)**	(254,008)	**(13,946)**	(68,590)
Other temporary differences	**(178,920)**	(17,098)	**(161,821)**	14,619
	(1,659,862)	(1,499,140)		
Deferred tax expense			**(67,525)**	(193,679)
Net deferred tax (assets)/liabilities	**(258,906)**	(335,578)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(286,721)**	(398,263)		
Deferred tax liabilities	**27,815**	62,685		
Net deferred tax (assets)/liabilities	**(258,906)**	(335,578)		

Reconciliation of net deferred tax assets/(liabilities)

	2018 $'000	2017 $'000
At 1 January	**335,578**	191,715
Tax income/(expense) during the period recognised in profit or loss	**67,525**	193,679
Deferred taxes acquired (see note 29)	**(144,197)**	(49,816)
At 31 December	**258,906**	335,578

(d) Tax losses

The Group's deferred tax assets at 31 December 2018 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 2018 with respect to ring fence tax losses and allowances.

The Group has unused UK mainstream corporation tax losses of $287.5 million (2017: $290.2 million) for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of recovery of these losses. In addition the Group has not recognised a deferred tax asset for the adjustment to bond valuations on the adoption of IFRS 9 (see note 2). The benefit of this deduction is taken over ten years with a deduction of $3.8 million being taken in the current period with the remaining benefit of $34.4 million remaining unrecognised.

The Group has unused Malaysian income tax losses of $9.4 million (2017: $5.2 million) 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 2017 enacted legislation in relation to the restriction of corporate interest deductions from 1 April 2017 and the restriction of relief for mainstream corporate tax losses with effect from 1 April 2017. While these changes do not impact North Sea ring fence of relief for mainstream corporate tax losses with effect from 1 April 2017, they have an impact on the current year Group tax charge where North Sea ring fence losses are offset against mainstream corporate tax profits which would otherwise be exposed due to the operation of these new rules. The restriction had no impact on the current year tax charge (2017: $15.1 million).

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.

Following the completion of the rights issue in October 2018 the earnings per share calculations, for all periods up to the date the rights issue shares were issued, have been adjusted for the bonus element of the rights issue. The bonus factor used was 1.17. Further information on the rights issue is included in note 17.

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	
	2018 $'000	2017 $'000	**2018 million**	2017[(i)] million	**2018 $**	2017[(i)] $
Basic	**127,278**	(60,830)	**1,226.2**	1,319.8	**0.104**	(0.046)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**37.8**	53.0	**(0.003)**	–
Diluted	**127,278**	(60,830)	**1,264.0**	1,372.9	**0.101**	(0.046)
Basic (excluding exceptional items)	**78,195**	(33,554)	**1,226.2**	1,319.8	**0.064**	(0.025)
Diluted (excluding exceptional items)	**78,195**	(33,554)	**1,264.0**	1,372.9	**0.062**	(0.025)

(i) Restated following rights issue

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2018 (2017: none). At 31 December 2018, there are no proposed dividends (2017: none).

10. Property, plant and equipment

	Oil and gas assets $'000	Office furniture, fixtures and fittings $'000	Total $'000
Cost:			
At 1 January 2017	6,787,343	54,722	6,842,065
Additions	320,627	2,994	323,621
Initial recognition of finance lease asset (see note 24)	771,975	–	771,975
Acquired (see note 29)	124,542	–	124,542
Change in decommissioning provision	143,992	–	143,992
Change in cost recovery provision (see note 22)	(77,785)	–	(77,785)
At 31 December 2017	**8,070,694**	**57,716**	**8,128,410**
Additions	**178,627**	**2,856**	**181,483**
Acquired (see note 29)	**745,350**	**–**	**745,350**
Acquired: Change in fair value on step acquisition (see note 29)	**123,909**	**–**	**123,909**
Change in decommissioning provision (see notes 12 and 22)	**30,194**	**–**	**30,194**
Change in cost recovery provision (see note 22)	**(7,947)**	**–**	**(7,947)**
Change in financial carry liability (see note 20)	**(1,066)**	**–**	**(1,066)**
Change in estimate	**(2,195)**	**–**	**(2,195)**
At 31 December 2018	**9,137,566**	**60,572**	**9,198,138**
Accumulated depletion and impairment:			
At 1 January 2017	3,846,028	32,591	3,878,619
Charge for the year	224,698	4,500	229,198
Impairment charge for the year	171,971	–	171,971
At 31 December 2017	**4,242,697**	**37,091**	**4,279,788**
Charge for the year	**437,104**	**5,287**	**442,391**
Impairment charge for the year	**126,046**	**–**	**126,046**
At 31 December 2018	**4,805,847**	**42,378**	**4,848,225**
Net carrying amount:			
At 31 December 2018	**4,331,719**	**18,194**	**4,349,913**
At 31 December 2017	3,827,997	20,625	3,848,622
At 1 January 2017	2,941,315	22,131	2,963,446

On 1 December 2018, the Group acquired the remaining 75% interest in the Magnus oil field and associated interests (see note 29), resulting in an acquisition of assets at a value of $745.4 million allocated to property, plant and equipment.

The Group acquired the initial 25% interest in the Magnus oil field and associated interests in 2017 (see note 29), resulting in an acquisition of assets at a value of $124.5 million allocated to property, plant and equipment. As part of the step acquisition to 100% the initial interest of 25% was revalued, resulting in an increase of $123.9 million.

During the year ended 31 December 2017, the Group's lease from Armada Kraken PTE Limited ('BUMI') of the Floating Production, Storage and Offloading vessel ('FPSO') for the Kraken field commenced. The lease has been assessed as a finance lease, and a $772.0 million lease liability and lease asset were recognised in June 2017. The liability was calculated based on the present value of the minimum lease payments at inception of the lease (see note 24).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

10. Property, plant and equipment continued

Impairments to the Group's producing oil and gas assets and reversals of impairments are set out in the table below:

	Impairment (charge)/reversal		Recoverable amount[iii]	
	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000	**31 December 2018 $'000**	31 December 2017 $'000
North Sea[i]	**(125,009)**	(187,716)	**158,890**	301,731
Malaysia[ii]	**(1,037)**	15,745	**41,488**	48,301
Net impairment reversal/(charge)	**(126,046)**	(171,971)		

(i) North Sea includes Thistle/Deveron and the Dons fields. The impairments are attributable primarily to changes in field life assumptions
(ii) The amounts disclosed for Malaysia relate to the Tanjong Baram field
(iii) Recoverable amount has been determined on a fair value less costs of disposal basis (see note 11 for further details of methodology and assumptions used, and note 2 Critical Accounting Estimates and Judgements for information on significant estimates and judgements made in relation to impairments). The amounts disclosed above are in respect of assets where an impairment (or reversal) has been recorded. Assets which did not have any impairment or reversal are excluded from the amounts disclosed

The net book value at 31 December 2018 includes $95.4 million (2017: $71.1 million) 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 2018 was $1.5 million and relates to the Dunlin Bypass project (2017: $42.3 million relating to the Kraken development project). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 7.7% (2017: 7.0%).

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2018 was $690.7 million (2017: $756.3 million).

11. Goodwill

A summary of goodwill is presented below:

	2018 $'000	2017 $'000
Cost and net carrying amount		
At 1 January	**189,317**	189,317
Acquisition (see note 29)	**94,633**	–
At 31 December	**283,950**	189,317

On 1 December 2018, the Group acquired the remaining 75% interest in the Magnus oil field and associated interests. Goodwill of $94.6 million was recognised, representing the future economic benefits that EnQuest's expertise is expected to realise from the assets (see note 29).

The historic goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Goodwill acquired through business combinations has been allocated to a single CGU, the UK Continental Shelf ('UKCS'), and this is therefore the lowest level at which 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 at the Group's post-tax discount rate of 10.0% (2017: 10.0%). Risks specific to assets within the CGU are reflected within the cash flow forecasts.

The goodwill on the acquisition of Magnus is assessed to be fully recoverable as at 31 December 2018.

Key assumptions used in calculations

The key assumptions required for the calculation of the recoverable amounts are:

- Oil prices;
- Currency exchange rates;
- Production volumes;
- Discount rates; and
- Opex, capex and decommissioning costs.

Oil prices are based on an internal view of forward curve prices for the first three years and thereafter at $75/bbl inflated at 2% per annum from 2023.

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 reserves auditor.

Operating expenditure, 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 proven and probable ('2P') reserves.

The discount rate reflects management's estimate of the Group's weighted average cost of capital ('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 10.0% (2017: 10.0%). Management considers this to be the best estimate of a market participant's discount rate.

Sensitivity to changes in assumptions
The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. The recoverable amount 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 5% (2017: 7%) from the prices outlined above and volumes disclosed in the Annual Report. Goodwill would need to be fully impaired if the oil price or production volumes (on a CGU-weighted average basis) were to fall by 31% from the prices outlined above (2017: 16%). The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant.

12. Intangible oil and gas assets

	Cost $'000	Accumulated impairment $'000	Net carrying amount $'000
At 1 January 2017	229,524	(179,192)	50,332
Additions	1,076	–	1,076
Write off of relinquished licences previously impaired	(3,076)	3,076	–
Unsuccessful exploration expenditure written off	–	159	159
Change in decommissioning provision (see note 22)	502	–	502
Impairment charge for the year	–	34	34
At 31 December 2017	**228,026**	**(175,923)**	**52,103**
Additions	**1,393**	**–**	**1,393**
Write off of relinquished licences previously impaired	**(63,547)**	**63,547**	**–**
Unsuccessful exploration expenditure written off	**–**	**(1,009)**	**(1,009)**
Change in decommissioning provision (see note 22)	**(286)**	**–**	**(286)**
Impairment charge for the year	**–**	**(398)**	**(398)**
At 31 December 2018	**165,586**	**(113,783)**	**51,803**

During the year ended 31 December 2018, the Group relinquished licences previously impaired resulting in write off of $63.5 million. During 2018, the Group developed the Eagle prospect (2017: Kraken field) resulting in the additions to intangibles.

13. Investments

	$'000
Cost:	
At 1 January 2017, 31 December 2017 and 31 December 2018	19,231
Provision for impairment:	
At 1 January 2017	(19,060)
Impairment reversal/(charge) for the year	(19)
At 31 December 2017	**(19,079)**
Impairment (charge)/reversal for the year	**(121)**
At 31 December 2018	**(19,200)**
Net carrying amount:	
At 31 December 2018	**31**
At 31 December 2017	152
At 1 January 2017	171

The accounting valuation of the Group's shareholding (based on the quoted share price of Ascent) resulted in a non-cash impairment charge of $0.1 million in the year to 31 December 2018 (2017: $0.02 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

14. Inventories

	2018 $'000	2017 $'000
Crude oil	**23,183**	12,422
Well supplies	**77,349**	65,623
	100,532	78,045

During 2018, inventories of $5.8 million (2017: $2.9 million) were recognised within cost of sales in the statement of comprehensive income. Included within this balance is $5.8 million as a result of the write down of inventories to net realisable value (2017: $2.7 million). The write downs are included in cost of sales.

15. Trade and other receivables

	2018 $'000	2017 $'000
Current		
Trade receivables	**69,857**	80,743
Joint venture receivables	**84,745**	87,037
Under-lift position	**81,173**	32,299
VAT receivable	**–**	11,739
Other receivables	**14,741**	1,844
	250,516	213,662
Prepayments and accrued income	**25,293**	14,092
	275,809	227,754

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 2018, no impairment provision for trade receivables was necessary (2017: $nil).

Joint venture receivables relate to amounts billable to, or recoverable from, joint venture partners and were not impaired. Under-lift is valued at market prices prevailing at the balance sheet date. As at 31 December 2018, no other receivables were determined to be impaired (2017: none).

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.

As per the application of IFRS 9, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are joint venture partners and there are no indications of change in risk.

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 2018 is restricted cash of $3.4 million (2017: $3.5 million). Of this, $2.8 million relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2017: $2.8 million) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

Cash and cash equivalents also include an amount of $3.4 million (2017: $3.9 million) held in a Malaysian bank account which can only be used to pay cash calls for the Tanjong Baram asset and amounts related to the Tanjong Baram project finance loan.

At 31 December 2018, $6.6 million (2017: $7.0 million) was placed on short-term deposit in order to cash collateralise the Group's letter of credit.

17. Share capital and premium

The movement in the share capital and share premium of the Company was as follows:

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2018	**1,186,084,304**	**85,105**	**125,297**	**210,402**
Issuance of equity shares	**508,321,844**	**33,077**	**105,849**	**138,926**
Expenses on issue of equity shares	**–**	**–**	**(3,997)**	**(3,997)**
At 31 December 2018	**1,694,406,148**	**118,182**	**227,149**	**345,331**

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

At 31 December 2018, there were 73,180,394 shares held by the Employee Benefit Trust (2017: 56,023,671). On 22 October 2018, 22,126,481 shares were acquired by the Employee Benefit Trust pursuant to the rights issue. The remainder of the movement in the year is due to shares used to satisfy awards made under the Company's share-based incentive schemes.

On 22 October 2018, the Company completed a rights issue, pursuant to which 508,321,844 new Ordinary shares were issued at a price of £0.21 per share, generating gross aggregate proceeds of $138.9 million. 485,477,620 of the new shares issued resulted from existing shareholders taking up their entitlement under the rights issue to acquire three new Ordinary shares for every seven Ordinary shares previously held. Following the admission to the market of an additional 508,321,844 Ordinary shares on 22 October 2018, there were 1,694,406,148 Ordinary shares in issue at the end of the year.

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 share-based payment expense recognised for each scheme was as follows:

	2018 $'000	2017 $'000
Deferred Bonus Share Plan	**649**	1,069
Restricted Share Plan	**668**	1,024
Performance Share Plan	**2,126**	(68)
Sharesave Plan	**801**	230
Executive Director bonus awards	**401**	594
	4,645	2,849

The fair value of awards is calculated at the 'market value', being the average middle market quotation of a share for the three immediately preceding dealing days as derived from the Daily Official List of the London Stock Exchange, provided such dealing days do not fall within any period when dealings in shares are prohibited because of any dealing restriction. The fair values of awards granted to employees during the year are based on the 'market value' on the date of grant, or date of invitation in respect to the Sharesave Plan.

The following disclosure and tables shows the number of shares potentially issuable under equity-settled employee share awards, including the number of options outstanding and those options which have vested and are exercisable at the end of each year. The awards have been adjusted for the effect of the rights issue.

Deferred Bonus Share Plan ('DBSP')

Eligible employees are invited to participate in the DBSP 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. Awards, both invested and matching, are forfeited if the employee leaves the Group before the awards vest.

The fair values of DBSP awards granted to employees during the year, based on the defined market value on the date of grant, are set out below:

	2018	2017
Weighted average fair value per share	**36p**	37p

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

	2018 Number	2017 Number
Outstanding at 1 January	**2,631,797**	2,508,026
Granted during the year[(i)]	**1,007,312**	1,357,040
Vested during the year	**(1,407,040)**	(1,214,427)
Forfeited during the year	**(71,342)**	(18,842)
Outstanding at 31 December	**2,160,727**	2,631,797
Exercisable at 31 December	**–**	–

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the DBSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 316,128 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

The weighted average contractual life for the share awards outstanding as at 31 December 2018 was 0.9 years (2017: 0.9 years).

Restricted Share Plan ('RSP')

Under the RSP scheme, employees are granted shares in EnQuest over a discretionary vesting period at the discretion 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

18. Share-based payment plans continued

The fair values of RSP awards granted to employees during the year, based on the defined market value on the date of grant, are set out below:

	2018	2017
Weighted average fair value per share	**32p**	33p

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

	2018 Number	2017 Number
Outstanding at 1 January	**12,180,771**	12,564,319
Granted during the year(i)	**1,789,377**	587,216
Vested during the year	**(240,515)**	(893,465)
Forfeited during the year	**(1,056,880)**	(77,299)
Outstanding at 31 December	**12,672,753**	12,180,771
Exercisable at 31 December	**4,037,914**	3,451,209

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the RSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 1,812,650 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

The weighted average contractual life for the share awards outstanding as at 31 December 2018 was 5.0 years (2017: 4.8 years).

Performance Share Plan ('PSP')

Under the PSP, the shares vest subject to performance conditions. The PSP share awards granted during the year had four sets of performance conditions associated with them: 30% of the award relates to Total Shareholder Return ('TSR') against a number of comparator group oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; 30% relates to reduction in net debt; 30% relates to production growth; and 10% relates to 2P reserve additions over the three-year performance period. Awards will vest on the third anniversary.

The fair values of PSP awards granted to employees during the year, based on the defined market value on the date of grant and which allow for the effect of the TSR condition which is a market-based performance condition, are set out below:

	2018	2017
Weighted average fair value per share	**32p**	33p

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

	2018 Number	2017 Number
Outstanding at 1 January	**70,181,724**	61,023,323
Granted during the year(i)	**27,186,417**	16,302,086
Vested during the year	**(1,160,744)**	(2,412,846)
Forfeited during the year	**(14,070,898)**	(4,730,839)
Outstanding at 31 December	**82,136,499**	70,181,724
Exercisable at 31 December	**3,540,460**	2,816,844

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the PSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 11,318,326 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

The weighted average contractual life for the share awards outstanding as at 31 December 2018 was 4.0 years (2017: 4.0 years).

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.

The fair values of Sharesave awards granted to employees during the year, based on the defined market value on the date the invitation for the scheme opens, are shown below:

	2018	2017
Weighted average fair value per share	**26p**	8p

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

	2018 Number	2017 Number
Outstanding at 1 January	**12,834,269**	12,657,432
Granted during the year(i)	**26,069,708**	1,299,185
Vested during the year	**(1,614,746)**	(17,213)
Forfeited during the year	**(1,541,554)**	(1,105,135)
Outstanding at 31 December	**35,747,677**	12,834,269
Exercisable at 31 December	**–**	–

(i) On 22 October 2018, at its discretion, the Company increased the number of options receivable by participants in the Sharesave Plan by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 5,235,954 additional shares. The exercise price of outstanding options was also reduced by multiplying by a factor 0.8546. The incremental fair value of these adjustments is being expensed over the remaining vesting period of the options to which they relate

The weighted average contractual life for the share options outstanding as at 31 December 2018 was 2.6 years (2017: 1.7 years).

Executive Director bonus awards

As detailed in the Directors' Remuneration Report, the remuneration of the Executive Directors includes the participation in an annual bonus plan. Any bonus amount in excess of 100% of salary will be deferred into EnQuest shares for two years, subject to continued employment.

The fair value of the Executive Director bonus awards granted during the year, based on the defined market value on the date of grant, are set out below:

	2018	2017
Weighted average fair value per share	**39p**	39p

The following table shows the movement in the number of share awards held under the Executive Director bonus plan:

	2018 Number	2017 Number
Outstanding at 1 January	**2,445,722**	2,869,393
Granted during the year(i)	**714,064**	779,846
Cash settled in the year	**–**	(726,505)
Vested during the year	**(1,949,074)**	(477,012)
Outstanding at 31 December	**1,210,712**	2,445,722
Exercisable at 31 December	**1,949,074**	–

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the PSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 459,112 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

The weighted average contractual life for the share awards outstanding as at 31 December 2018 was 0.6 years (2017: 0.6 years).

19. Loans and borrowings

The Group's loans are carried at amortised cost as follows:

	2018			2017		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
Credit facility	**799,444**	**–**	**799,444**	1,099,966	–	1,099,966
Oz Management facility	**178,524**	**(3,325)**	**175,199**	–	–	–
Crude oil prepayment	**22,222**	**(111)**	**22,111**	75,556	(378)	75,178
SVT working capital facility	**15,747**	**–**	**15,747**	25,622	–	25,622
Tanjong Baram project financing facility	**31,730**	**–**	**31,730**	8,531	(292)	8,239
Trade creditor loan	**2,500**	**–**	**2,500**	10,000	–	10,000
Total loans	**1,050,167**	**(3,436)**	**1,046,731**	1,219,675	(670)	1,219,005
Due within one year			**311,261**			330,012
Due after more than one year			**735,470**			888,993
Total loans			**1,046,731**			1,219,005

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

19. Loans and borrowings continued

Credit facility

In October 2013, the Group entered into a six-year $1.7 billion multi-currency revolving credit facility (the 'RCF'), comprising of a committed amount of $1.2 billion (subject to the level of reserves) with a further $500 million available through an accordion structure. Interest on the RCF was payable at LIBOR plus a margin of 2.50% to 4.25%, dependent on specified covenant ratios.

On 21 November 2016, pursuant to restructuring, the Group entered into an amended and restated credit agreement, which included the following terms:

- Commitments split into a term facility of $1.125 billion and a revolving facility of $75 million (together the 'credit facility');
- Maturity date extended to October 2021;
- Amortisation profile amended, with 1 April 2018 the first scheduled amortisation date;
- Borrowings subject to mandatory repayment out of excess cash flow (excluding amounts required for approved capital expenditure), assessed on a six-monthly basis;
- Borrowings up to $890.7 million subject to interest at LIBOR plus a margin of 4.75%, paid in cash;
- Borrowings in excess of $890.7 million subject to interest at LIBOR plus a margin of 5.25%, paid in cash, with a further 3.75% interest accrued and added to the Payment In Kind ('PIK') amount at maturity of each loan's maturity period;
- PIK amount repayable at maturity and subject to 9.0% interest, which is capitalised and added to the PIK amount on each 30 June and 31 December;
- Accordion feature cancelled; and
- $12 million waiver fee payable to lenders on 31 March 2018.

The Group concluded that the above amendments to the RCF are a substantial modification, resulting in the previous loan carrying amount of $1,002.3 million ($1,017.3 million principal less unamortised issuance costs of $15.0 million) being derecognised and a new loan of $1,017.3 million being recognised at fair value. The difference of $15.0 million, which equated to the unamortised fees of the previous loan, was recognised as loss on extinguishment. The $12.0 million waiver fee along with $11.1 million of advisers' fees were directly attributable to the modification of the RCF and were also expensed as part of the loss on extinguishment.

During November 2017, the Group agreed additional amendments to its term loan and revolving credit facility. These changes included the deferral of the scheduled $140 million reduction in the term loan facility from 1 April 2018 to 1 October 2018.

At 31 December 2018, the carrying amount of the credit facility on the balance sheet was $799.4 million, comprising the loan principal drawn down of $785.0 million, plus $14.4 million of interest capitalised to the PIK amount (2017: $1,100.0 million, being loan principal drawn down of $1,095.2 million plus $4.8 million of interest capitalised to the PIK amount).

At 31 December 2018, after allowing for letter of credit utilisation of $6.6 million, $68.4 million remained available for drawdown under the credit facility (2017: $7.0 million and $97.8 million respectively).

Oz Management facility

On 24 September 2018, the Group entered into a $175.0 million financing facility with Oz Management LP. The facility was drawn down in full and is repayable in five years from initial availability of the facility. Interest accrues at 6.3% annual effective rate plus one-month USD LIBOR. The financing is ring-fenced on a 15% interest in the Kraken oil field and will be repaid out of the cash flows associated with the interest over a maximum of five years. If second ranking security interest in respect of the assets secured under the credit facility is obtained within six months of the financial close of the Oz Management facility, the interest rate shall decrease to 5.75% annual effective rate plus one-month USD LIBOR.

Crude oil prepayment transaction

On 25 October 2017, the Group entered into an $80 million crude oil prepayment with Mercuria Energy Trading SA.

Repayment is made in equal monthly instalments over 18 months, through the delivery of an aggregate of approximately 1.8 MMbbls of oil. EnQuest will receive the average Brent price over each month subject to a floor of $45/bbl and a cap of approximately $64/bbl. Interest on the prepayment is payable at one-month USD LIBOR plus a margin of 7.0%. The prepayment transaction is being undertaken on an unsecured basis.

At 31 December 2018, the carrying amount of the prepayment on the balance sheet was $22.2 million (2017: $75.6 million).

SVT working capital facility

On 1 December 2017, EnQuest NNS Limited entered into a £42 million revolving loan facility with a joint operator partner to fund the short-term working capital cash requirements on the acquisition of SVT and other interests (see note 29). The facility is able to be drawn down against in instalments and accrues interest at 1.0% per annum plus GBP LIBOR. The facility is repayable three years from the initial availability of the facility.

Tanjong Baram project financing facility

On 25 October 2017, the Group entered into a $34.6 million financing facility in Malaysia with Castleton Commodities Merchant Asia Co. Pte Ltd. The facility is repayable within five years from the drawdown date on 28 February 2018 or on termination of the Risk Services Contract, and is secured against the Tanjong Baram asset. Interest is payable at USD LIBOR plus a margin of 8% per annum.

Trade creditor loan

In October 2016, the Group borrowed $40 million under a loan facility with a trade creditor to fund the settlement of deferred amounts for the Kraken project. The loan will be paid in full in 2019.

Bonds

The Group's bonds are carried at amortised cost as follows:

	2018			2017		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
High yield bond	**760,553**	**(6,475)**	**754,078**	720,827	(8,467)	712,360
Retail bond	**237,778**	**(1,574)**	**236,204**	224,048	(2,057)	221,991
Total bonds due after more than one year	**998,331**	**(8,049)**	**990,282**	944,875	(10,524)	934,351

High yield bond

In April 2014, the Group issued a $650 million high yield bond with an originally scheduled maturity of 15 April 2022 and paying a 7.0% coupon semi-annually in April and October.

On 21 November 2016, the high yield bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new high yield notes continue to accrue a fixed coupon of 7.0% payable semi-annually in arrears. The interest will only be payable in cash if the 'Cash Payment Condition' is satisfied, being the average of the Daily Brent Oil Prices during the period of six calendar months immediately preceding the 'Cash Payment Condition Determination Date' is equal to or above $65/bbl. The 'Cash Payment Condition Determination Date' is the date falling one calendar month prior to the relevant interest payment date. If the 'Cash Payment Condition' is not satisfied, interest will not be paid in cash but instead will be capitalised and satisfied through the issue of additional high yield notes ('Additional HY Notes'). $27.5 million of accrued, unpaid interest as at the restructuring date was capitalised and added to the principal amount of the new high yield notes issued pursuant to the scheme. The maturity of the new high yield notes was extended to 15 April 2022 and the Company has the option to extend the maturity date of the new high yield notes to 15 April 2023. Further, the maturity date of the new high yield notes will be automatically extended to 15 October 2023 if the credit facility is not repaid or refinanced in full prior to 15 October 2020.

At the end of 2016, the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the bonds were amortised over the new life of the bonds, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for $15.4 million was taken through opening reserves and through the amortised value of the bond. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The fair value of the high yield bond was estimated to be $534.4 million (2017: $519.9 million). The price quoted for the retail bond was used to estimate the fair value of the high yield bond on the basis that, since the restructuring, both bonds carry similar rights.

Retail bond

In 2013, the Group issued a £155 million retail bond with an originally scheduled maturity of 15 February 2022 and paying a 5.5% coupon semi-annually in February and August. For the interest period commencing 15 August 2016, in accordance with the terms of the bond, the rate of interest increased to 7.0% following the determination of the Company's leverage ratio at 31 December 2015.

On 21 November 2016, the retail bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new retail notes continue to accrue a fixed coupon of 7.0% payable semi-annually in arrears. The interest will only be payable in cash if the 'Cash Payment Condition' is satisfied, being the average of the Daily Brent Oil Prices during the period of six calendar months immediately preceding the 'Cash Payment Condition Determination Date' is equal to or above $65/bbl. The 'Cash Payment Condition Determination Date' is the date falling one calendar month prior to the relevant interest payment date. If the 'Cash Payment Condition' is not satisfied, interest will not be paid in cash but instead will be capitalised and satisfied through the issue of additional retail notes ('Additional Retail Notes'). The maturity of the new retail notes was extended to 15 April 2022 and the Company has the option to extend the maturity date to 15 April 2023. Further, the maturity date of the new retail notes will be automatically extended to 15 October 2023 if the credit facility is not repaid or refinanced in full prior to 15 October 2020.

At the end of 2016, the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the bonds were amortised over the new life of the bonds, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for $22.7 million was taken through opening reserves and through the amortised value of the bond. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The bond had a fair value of $156.8 million (2017: $161.6 million). The fair value of the retail bond has been determined by reference to the price available from the market on which the bond is traded.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2018

20. Other financial assets and financial liabilities
(a) Summary

	2018		2017	
	Assets $'000	**Liabilities $'000**	Assets $'000	Liabilities $'000
Financial liabilities at fair value through profit or loss:				
Commodity contracts	**54,733**	**142**	–	41,996
Foreign exchange contracts	**248**	**–**	–	–
Carbon contracts	**2,077**	**–**	–	–
Financial liabilities at amortised cost:				
Other liabilities	**–**	**–**	–	19,211
Financial assets at fair value through OCI:				
Interest rate swap designated as cash flow hedge	**–**	**–**	36	–
Financial assets at amortised cost:				
Other receivables	**9,517**	**–**	61,701	–
Total current	**66,575**	**142**	61,737	61,207
Financial liabilities at amortised cost:				
Other liabilities	**–**	**–**	–	7,121
Financial assets at amortised cost:				
Other receivables	**5,958**	**–**	8,191	–
Total non-current	**5,958**	**–**	8,191	7,121

(b) Oil commodity contracts
The Group uses put and call options and swap contracts to manage its exposure to the oil price.

Commodity derivative contracts are designated as at FVPL, and gains and losses on these contracts are recognised as a component of revenue. These contracts typically include bought and sold call options, bought put options and commodity swap contracts.

For the year ended 31 December 2018, gains totalling $4.4 million (2017: losses of $28.3 million) were recognised in respect of commodity contracts designated as FVPL. This included losses totalling $93.0 million (2017: losses of $20.6 million) realised on contracts that matured during the year, and mark-to-market unrealised gains totalling $97.4 million (2017: losses of $7.7 million). Of the realised amounts recognised during the year, a loss of $17.2 million (2017: loss of $10.4 million) 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.

In October 2017, the Group entered into an 18-month collar structure for $80 million (see note 19). The collar includes 18 separate call options and 18 separate put options, subject to a floor of $45/bbl and a cap of approximately $64/bbl. Included in the total gains for the year ended 31 December 2018, a loss of $8.0 million was recognised in 'Business performance' revenue (2017: loss of $5.2 million).

The mark-to-market of the Group's open contracts as at 31 December 2018 was an asset of $54.7 million (2017: liability of $42.0 million). The position includes a loss of $0.1 million in respect of fixed price swap contracts for 200,000 barrels of 2019 production at a weighted average price of $54.6/bbl (2017: loss of $29.2 million in respect of fixed price swap contracts for 4,150,000 barrels of 2018 production at a weighted average price of $59.1/bbl).

(c) Foreign currency contracts
The Group enters into a variety of foreign currency contracts, including Sterling, Euros, Swedish Krona, Norwegian Krone and United Arab Emirates Dirhams. During the year ended 31 December 2018, losses totalling $0.4 million (2017: gain of $0.4 million) were recognised in the income statement. This included losses totalling $0.6 million (2017: $nil) realised on contracts maturing in the year.

The mark-to-market of the Group's open contracts as at 31 December 2018 was $0.2 million (2017: $nil).

(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 Group's Malaysian loan into a fixed rate of 1.035% until 2018. The swap, which is effective from a hedge accounting perspective, completed in the year with a loss of $0.4 million recognised within finance expenses on the income statement (2017: gain of $0.02 million). The net asset fair value at 31 December 2017 was $0.04 million.

(e) Carbon commodity contracts
During the year the Group entered forward carbon commodity contracts to manage its exposure to compliance with European emissions regulations. The contracts are designated as at FVPL and gains and losses on these contracts are recognised as a component of cost of sales.

For the year ended 31 December 2018, unrealised gains of $2.1 million (2017: $nil) were recognised in respect of carbon commodity contracts designated as FVPL. No contracts matured during the year.

The mark-to-market of the Group's open contracts as at 31 December 2018 was $2.1 million (2017: $nil).

(f) Income statement impact
The income/(expense) recognised for commodity, currency and interest rate derivatives are as follows:

	Revenue and other operating income		Cost of sales		Finance costs	
Year ended 31 December 2018	**Realised $'000**	**Unrealised $'000**	**Realised $'000**	**Unrealised $'000**	**Realised $'000**	**Unrealised $'000**
Commodity options	**(29,309)**	**63,022**	**–**	**–**	**–**	**–**
Commodity swaps	**(47,740)**	**29,016**	**–**	**–**	**–**	**–**
Commodity futures	**(7,951)**	**84**	**–**	**–**	**–**	**–**
Commodity collar on prepayment transaction	**(8,035)**	**5,310**	**–**	**–**	**–**	**–**
Foreign exchange contracts	**–**	**–**	**(615)**	**248**	**–**	**–**
Carbon forwards	**–**	**–**	**–**	**2,062**	**–**	**–**
Interest rate swap	**–**	**–**	**–**	**–**	**(353)**	**–**
	(93,035)	**97,432**	**(615)**	**2,310**	**(353)**	**–**

	Revenue and other operating income		Cost of sales		Finance costs	
Year ended 31 December 2017	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000
Call options	880	(18,670)	–	–	–	–
Commodity swaps	(23,754)	14,144	–	–	–	–
Commodity futures	(437)	(363)	–	–	–	–
Purchase and sale of crude oil	2,736	(2,827)	–	–	–	–
Foreign exchange swap contracts	–	–	–	433	–	–
Other forward currency contracts	–	–	(4,848)	9,293	–	–
Interest rate swap	–	–	–	–	15	(38)
	(20,575)	(7,716)	(4,848)	9,726	15	(38)

(g) Other receivables and liabilities

	Other receivables $'000	Other liabilities $'000
At 1 January 2017	59,757	19,767
Additions on acquisition	38,420	6,742
Disposed during the year	(3,561)	–
Change in fair value	627	(340)
Utilised during the year	(27,209)	–
Unwinding of discount	1,832	163
Foreign exchange	26	–
At 31 December 2017	**69,892**	**26,332**
Exercised on acquisition (see note 29)	**(20,970)**	**–**
Change in fair value	**(51)**	**(7,283)**
Utilised during the year	**(66,194)**	**(14,907)**
Unwinding of discount	**(1,081)**	**72**
Foreign exchange	**980**	**–**
Classification update	**32,899**	**(4,214)**
At 31 December 2018	**15,475**	**–**
Current	**9,517**	**–**
Non-current	**5,958**	**–**
	15,475	**–**

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

20. Other financial assets and financial liabilities continued

Other receivables

Comprised of:	2018 $'000	2017 $'000
BUMI receivable	**15,475**	24,407
Purchase option	–	22,300
Thistle decommissioning option	–	16,120
KUFPEC receivable	–	7,065
Total	**15,475**	69,892

In August 2016, EnQuest agreed with Armada Kraken PTE Ltd ('BUMI') that BUMI would refund $65 million (EnQuest's share being $45.8 million) of a $100.0 million lease prepayment made in 2014 for the FPSO for the Kraken field. This refund is receivable from 2018 and onwards. Included within other receivables at 31 December 2018 is an amount of $15.5 million representing the discounted value of EnQuest's share of these repayments (2017: $24.4 million). A total of $9.1 million was collected during the period. Unwinding of discount of $0.2 million (2017: $1.6 million) is included within finance costs in the 12 months ended 31 December 2018.

As part of the Magnus and other interests' acquisition (see note 29), the Group had an option to acquire the remaining 75% of the Magnus oil field and BP's interest in the associated infrastructure. The option was exercised on 1 December 2018 and in line with the accounting for step acquisitions the option was remeasured at fair value resulting in a loss of $1.3 million which was recognised through other income in 'Remeasurements and exceptional items' in the statement of comprehensive income.

As part of the Magnus and other interests' acquisition, the Group also entered into an option to undertake the decommissioning of Thistle. At 31 December 2017, the receivable had a carrying value of $16.1 million. The option was exercised in the year and a total of $50.0 million was received with the corresponding liability of $33.6 million recognised within provisions (see note 22).

As part of the 2012 farm-out to the Kuwait Foreign Petroleum Exploration Company ('KUFPEC') of 35% of the Alma/Galia development, KUFPEC agreed to pay EnQuest a total of $23.3 million over a 36-month period after Alma/Galia is deemed to be fully operational. During the year ended 31 December 2018, the arrangement was completed and $7.1 million was received. At 31 December 2017, the receivable had a carrying value of $7.1 million.

Other liabilities

Comprised of:	2018 $'000	2017 $'000
Accrued waiver fee	–	12,000
Financial carry	–	7,211
Decommissioning of Magnus and other interests option	–	4,214
Other	–	2,907
Total	–	26,332

As part of the agreement to acquire an interest in the PM8/Seligi assets in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments. Well commitments were performed during the year and the liability was released during the year. At 31 December 2017, the liability had a carrying value of $7.2 million.

21. Fair value measurement

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

31 December 2018	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Financial assets measured at fair value:				
Derivative financial assets at FVPL				
Oil commodity derivative contracts(i)	**54,733**	**–**	**54,733**	**–**
Foreign currency derivative contracts(ii)	**248**	**–**	**248**	**–**
Carbon commodity derivative contracts(ii)	**2,077**	**–**	**2,077**	**–**
Other financial assets at FVPL				
Quoted equity shares	**31**	**31**	**–**	**–**
Liabilities measured at fair value:				
Derivative financial liabilities at FVPL				
Oil commodity derivative contracts(i)	**142**	**–**	**142**	**–**
Other financial liabilities measured at FVPL				
Contingent consideration	**660,436**	**–**	**–**	**660,436**
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings	**1,050,167**	**–**	**–**	**1,050,167**
Obligations under finance leases	**708,950**	**–**	**–**	**708,950**
Retail bond	**156,764**	**156,764**	**–**	**–**
High yield bond	**534,363**	**–**	**534,363**	**–**

31 December 2017	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Financial assets measured at fair value:				
Derivative financial asset at FVPL				
Interest rate swap[ii]	36	–	36	–
Other financial assets at FVPL				
Quoted equity shares	152	152	–	–
Assets for which fair values are disclosed				
Thistle decommissioning option	16,120	–	–	16,120
Purchase option	22,300	–	–	22,300
Liabilities measured at fair value:				
Derivative financial liabilities at FVPL				
Commodity derivative contracts[i]	41,996	–	41,996	–
Other financial liability at FVPL				
Decommissioning of Magnus and other interests option	4,214	–	–	4,214
Contingent consideration	83,166	–	–	83,166
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings	1,219,675	–	–	1,219,675
Obligations under finance leases	797,933	–	–	797,933
Retail bond	161,595	161,595	–	–
High yield bond	519,896	–	519,896	–

(i) Valued using readily available information in the public markets and quotations provided by brokers and price index developers
(ii) Valued by the counterparties, with the valuations reviewed internally and corroborated with market data

Fair value hierarchy
All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between Level 1 and Level 2 during the period (2017: no transfers).

For recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the Group uses the valuation processes to decide its valuation policies and procedures and analyse changes in fair value measurements from period to period. Level 3 financial instruments consist of interest-bearing loans and borrowings (see note 19) and provisions (see note 22), which are valued in accordance with the Group's accounting policies.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

22. Provisions

	Decommissioning provision $'000	Carry provision $'000	Cost recovery provision $'000	Contingent consideration $'000	Surplus lease provision $'000	Other provisions $'000	Total $'000
At 1 January 2017	493,891	5,491	89,529	22,580	2,816	–	614,307
Additions during the year	63,613	–	10,329	3,131	–	–	77,073
Acquisitions (see note 29)	–	–	–	66,623	–	–	66,623
Changes in estimates	80,881	–	(77,785)	(423)	194	–	2,867
Unwinding of discount	11,471	–	1,838	255	17	–	13,581
Utilisation	(10,605)	(5,491)	–	(9,000)	(394)	–	(25,490)
Foreign exchange	–	–	–	–	253	–	253
At 31 December 2017	**639,251**	**–**	**23,911**	**83,166**	**2,886**	**–**	**749,214**
Additions during the year	**–**	**–**	**–**	**–**	**–**	**41,856**	**41,856**
Acquisitions (see note 29)	**–**	**–**	**–**	**625,296**	**–**	**–**	**625,296**
Changes in estimates	**29,908**	**–**	**(7,947)**	**8,595**	**–**	**657**	**31,213**
Unwinding of discount	**12,617**	**–**	**260**	**20**	**8**	**–**	**12,905**
Utilisation	**(10,036)**	**–**	**(5,261)**	**(56,641)**	**(409)**	**–**	**(72,347)**
Classification update	**–**	**–**	**(5,068)**	**–**	**–**	**4,214**	**(854)**
Foreign exchange	**–**	**–**	**–**	**–**	**(141)**	**–**	**(141)**
At 31 December 2018	**671,740**	**–**	**5,895**	**660,436**	**2,344**	**46,727**	**1,387,142**
Classified as:							
Current	10,395	–	–	69,680	388	587	81,050
Non-current	661,345	–	5,895	590,756	1,956	46,140	1,306,092
	671,740	–	5,895	660,436	2,344	46,727	1,387,142

Decommissioning provision

The Group makes full provision for the future contractual costs of decommissioning its production facilities and pipelines on a discounted basis.

The Group's total provision represents the present value of decommissioning costs which are expected to be incurred up to 2042 assuming no further development of the Group's assets. The liability is discounted at a rate of 2.0% (2017: 2.0%). The unwinding of the discount is classified as a finance cost (see 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.

The Group enters into surety bonds principally to provide security for its decommissioning obligations. The surety bond facilities which expired in December 2018 were renewed for 12 months, subject to ongoing compliance with the terms of the Group's borrowings. At 31 December 2018, the Group held surety bonds totalling $123.2 million (2017: $129.6 million).

Carry provision

Consideration for the acquisition of 40% of the Kraken field from Cairn (previously Nautical) and First Oil PLC in 2012 was through development carries. The 'contingent' carry is dependent upon a reserves determination which took place in Q2 2016. During 2017, $5.5 million of the carry had been paid, with no remaining liability recognised on the balance sheet as at 31 December 2018 (2017: $nil).

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 had not been recovered or deemed to have been recovered, EnQuest would pay KUFPEC an additional 20% share of net revenue. This additional revenue is to be paid 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 2018 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 2.0% per annum from 2012. These cash flows have been discounted at a rate of 2.0% (2017: 2.0%).

During 2017, the Group entered into discussions with PETRONAS in relation to the prior period PM8 cost recovery. During 2017, a provision was made for the expected payments that the Group will make as part of the settlement agreement. During the year ended 31 December 2018, $5.3 million was paid. At 31 December 2018, the remaining balance to be paid was recognised within accruals for a value of $5.1 million (2017: $10.3 million).

Contingent consideration
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 $3.0 million in November 2015, following FDP approval in October 2015, and $9.0 million during 2017. During 2018, $8.0 million was paid with no remaining liability recognised on the balance sheet as at 31 December 2018 (2017: $8.1 million). Change in estimate of $0.1 million is included within finance costs for the year ended 31 December 2018 (2017: $0.4 million).

In addition, there was potential consideration due subject to future exploration success which, having been reassessed, are deemed not to be probable. No remaining liability has been recognised on the balance sheet as at 31 December 2018 (2017: $5.3 million). The reversal of provision is included within other income for the year ended 31 December 2018.

On 1 December 2017, the acquisition of the initial 25% interest in the Magnus oil field ('Magnus') and associated interests (collectively the 'Transaction assets') was funded through a vendor loan from BP (see note 29). The loan is repayable solely out of the cash flows, which are achieved above operating cash flows from the acquired assets and is secured over the interests in the Transaction assets. The loan accrues interest at a rate of 5.0% per annum on the base consideration. The fair value has been estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10.0% (2017: 10.0%) and assumed repayment of around three years. A total of $48.6 million was repaid during 2018. Change in fair value of $9.7 million is recognised within finance costs in the 12 months ended 31 December 2018. The provision of $33.9 million is expected to be paid during 2019, as disclosed within current provisions (2017: $69.8 million).

On 1 December 2018, the acquisition of the additional 75% interest in the Magnus oil field and associated interests (see note 29) was part funded through a vendor loan and profit share arrangement with BP, originally recognised at a discounted value of $625.3 million. The loan is repayable solely out of the cash flows which are achieved above operating cash flows from Magnus and is secured over the acquired assets. The loan accrues interest at a rate of 7.5% per annum on the base consideration. The fair value has been estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10.0% and assumed repayment over the life of the field.

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 2.0% discount rate (2017: 2.0%). At 31 December 2018, the provision was $2.3 million (2017: $2.9 million).

Other provisions
As part of the Magnus and associated interests acquisition (see note 29), EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. At 31 December 2018, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Magnus on an after-tax basis was $12.6 million (2017: $4.2 million).

The Thistle decommissioning option was exercised during the year resulting in receipt of cash of $50.0 million. At 31 December 2018, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron on an after-tax basis was $33.6 million (2017: $nil). Unwinding of discount of $0.7 million is included within finance income for the year ended 31 December 2018 (2017: $nil).

23. Trade and other payables

	2018 $'000	2017 $'000
Current		
Trade payables	**162,686**	144,584
Accrued expenses	**296,758**	271,686
Over-lift position	**12,837**	23,173
Joint venture creditors	**1,701**	1,632
VAT payable	**23,543**	–
Other payables	**4,465**	5,014
	501,990	446,089
Classified as:		
Current	**483,781**	367,312
Non-current	**18,209**	78,777
	501,990	446,089

Trade payables are normally non-interest-bearing and settled on terms of between 10 and 30 days. The Group has arrangements with various suppliers to defer payment of a proportion of its capital spend. The majority of these deferred payments fall due in 2019 and the balance is expected to be fully settled in 2020.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

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:

	2018 $'000	2017 $'000
Due in less than one year	**5,058**	7,177
Due in more than one year but not more than five years	**20,096**	27,286
Due in more than five years	**62,238**	75,536
	87,392	109,999

Lease payments recognised as an operating lease expense during the year amounted to $5.1 million (2017: $5.3 million).

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 $7.8 million (2017: $7.1 million).

(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:

	2018 $'000	2017 $'000
Due in less than one year	**1,568**	1,638
Due in more than one year but not more than five years	**6,952**	7,141
Due in more than five years	**2,927**	4,686
	11,447	13,465

Sub-lease rent recognised during the year amounted to $1.1 million (2017: $1.3 million).

(iii) Finance lease commitments

The Group had the following obligations under finance leases as at the balance sheet date:

	2018 Minimum payments $'000	2018 Present value of payments $'000	2017 Minimum payments $'000	2017 Present value of payments $'000
Due in less than one year	**144,188**	**93,169**	173,846	118,009
Due in more than one year but not more than five years	**460,960**	**313,500**	460,960	289,949
Due in more than five years	**341,212**	**302,281**	456,374	389,975
	946,360	**708,950**	1,091,180	797,933
Less future financing charges	**237,410**	**–**	293,247	–
	708,950	**708,950**	797,933	797,933

The FPSO finance lease liability is carried at $709.0 million as at 31 December 2018 (2017: $797.9 million), of which $93.2 million is classified as a current liability. Finance lease interest of $55.8 million (2017: $31.3 million) has been recognised within finance costs. The finance leases have an effective borrowing rate of 8.12%.

(iv) Capital commitments

At 31 December 2018, the Group had capital commitments excluding the above lease commitments amounting to $15.7 million (2017: $33.8 million).

Contingencies

The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. Other than as discussed below, the Company is not, nor has been during the past 12 months, involved in any governmental, legal or arbitration proceedings which, either individually or in the aggregate, have had, or are expected to have, a material adverse effect on the Company's and/or the Group's financial position or profitability, nor, so far as the Company is aware, are any such proceedings pending or threatened.

The Group is currently engaged in a dispute with KUFPEC, the Group's field partner in respect of Alma/Galia. KUFPEC has commenced a court action in the High Court of Justice claiming an alleged breach of one of the Group's warranties provided under the Alma/Galia Farm-in Agreement and seeking damages of $91.0 million (the maximum breach of warranty claim permitted under the Alma/Galia Farm-in Agreement), together with interest. The court proceedings are ongoing and the Directors believe that a considerable period will elapse before a final decision is reached by the courts.

The Directors consider the merits of the claim to be poor and the Group is defending itself vigorously. The Group has not made any provisions in respect of this claim as the Directors believe the claim is unlikely to be successful; and in any event the Directors believe the chances of an outcome exposing the Group to material damages are remote. There can, however, be no assurances that this claim will not ultimately be successful, or that the Group would not otherwise seek to enter into a settlement or compromise in respect of this claim, or that in the event of any such circumstances the Group would not incur costs and expenses in excess of its estimates.

The Group is also currently engaged in discussions with EMAS, one of the Group's contractors on Kraken who performed the installation of a buoy and mooring system, in relation to the payment of approximately $15.0 million of variation claims which EMAS claims is due as a result of soil conditions at the work site being materially different from those reasonably expected to be encountered based on soil data previously provided. The Group is confident that such variation claims are not valid and that accordingly such amount is not due and payable by the Group under the terms of the contract with EMAS. The parties are currently in discussions pursuant to the dispute resolution process under the contract.

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 27 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. With the exception of the transactions disclosed below, there have been no transactions with related parties who are not members of the Group during the year ended 31 December 2018 (2017: none).

Share subscription

In 2018, subscription for new Ordinary shares pursuant to the rights issue (see note 17) at the issue price of £0.21 per share:
- Double A Limited ('Double A'), a company beneficially owned by the extended family of Amjad Bseisu, took up its entitlement in the rights issue, subscribing for 43,849,727 shares;
- Double A participated in the rump placing for 5,000,000 shares; and
- Directors and key management personnel took up their entitlement in the rights issue, subscribing for 382,273 shares.

Office sublease

During the year ended 31 December 2018, the Group recognised $0.1 million (2017: $0.1 million) of rental income in respect of an office sublease arrangement with Levendi Investment Management, a company where 72% of the issued share capital is held by Amjad Bseisu.

Contracted services

During the year ended 31 December 2018, the Group obtained contracting services from Influit UK Production Solutions for a value of $0.06 million (2017: $0.04 million). Amjad Bseisu has an indirect interest in Influit UK Production Solutions.

Compensation of key management personnel

The following table details remuneration of key management personnel of the Group. Key management personnel comprise of Executive and Non-Executive Directors of the Company and other senior personnel. This includes the Executive Committee for the year ended 31 December 2018.

	2018 $'000	2017 $'000
Short-term employee benefits	**7,052**	5,057
Share-based payments	**1,300**	1,305
Post-employment pension benefits	**218**	55
	8,570	6,417

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 2018 and 2017, 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 2018 are disclosed in note 20.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

26. Risk management and financial instruments continued

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. As the derivatives on hand at 31 December 2018 have not been designated as hedges, there is no impact on equity.

	Pre-tax profit		Total equity	
	+$10/bbl increase $'000	-$10/bbl decrease $'000	+$10/bbl increase $'000	-$10/bbl decrease $'000
31 December 2018	**(40,310)**	**45,146**	**–**	**–**
31 December 2017	(68,350)	48,320	–	–

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from movements in currency exchange rates. Such exposure arises from sales or purchases in currencies other than the Group's functional currency (US Dollars) 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 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. Approximately 3% (2017: 1%) of the Group's sales and 42% (2017: 81%) of costs (including capital expenditure) are denominated in currencies other than the functional currency.

The Group also enters into foreign currency swap contracts from time to time to manage short-term exposures.

The following table summarises the sensitivity to a reasonably possible change in the US 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	
	+$10% rate increase $'000	-$10% rate decrease $'000
31 December 2018	**(41,852)**	**41,852**
31 December 2017	(43,100)	43,100

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 in note 26). For banks and financial institutions, only those rated with an 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 companies and at 31 December 2018 there were $5.0 million of trade receivables past due (2017: $23.6 million), $1.6 million of joint venture receivables past due (2017: $1.7 million) and $nil (2017: $nil) of other receivables past due but not impaired. Subsequent to year end, $4.6 million of these outstanding balances have been collected (2017: $1.5 million). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables	**2018 $'000**	2017 $'000
Less than 30 days	**4,649**	1,726
30-60 days	**16**	–
60-90 days	**8**	253
90-120 days	**–**	–
120+ days	**1,933**	23,301
	6,606	25,280

At 31 December 2018, the Group had three customers accounting for 81% of outstanding trade receivables (2017: four customers, 84%) and two joint venture partners accounting for 41% of outstanding joint venture receivables (2017: three joint venture partners, 97%).

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 its borrowings. 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. At 31 December 2018, $68.4 million (2017: $97.8 million) was available for drawdown under the Group's credit facility (see note 19).

The following tables detail the maturity profiles of the Group's non-derivative financial liabilities including projected interest thereon. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis and include future interest payments.

Year ended 31 December 2018	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Loans and borrowings	–	**364,135**	**272,189**	**546,611**	–	**1,182,935**
Bonds[i]	–	**34,234**	**36,521**	**1,229,314**	–	**1,300,069**
Obligations under finance leases	–	**93,169**	**69,689**	**243,811**	**302,282**	**708,951**
Trade and other payables	–	**419,855**	**18,209**	–	**50,412**	**488,476**
	–	**911,393**	**396,608**	**2,019,736**	**352,694**	**3,680,431**

Year ended 31 December 2017	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Loans and borrowings	–	424,886	347,603	667,975	–	1,440,464
Bonds[i]	–	66,141	66,141	1,112,842	–	1,245,124
Obligations under finance leases	–	118,009	64,142	225,807	389,975	797,933
Trade and other payables	–	364,472	157,554	–	–	522,026
Other financial liabilities	–	7,211	–	–	–	7,211
	–	980,719	635,440	2,006,624	389,975	4,012,758

(i) Maturity analysis profile for the Group's bonds includes semi-annual coupon interest. This interest is only payable in cash if the average dated Brent oil price is equal to or greater than $65/bbl for the six months preceding one month before the coupon payment date (see note 19)

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. When the amount receivable or payable is not fixed, the amount disclosed has been determined by reference to a projected forward curve at the reporting date.

Year ended 31 December 2018	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	**10,069**	**52,382**	**1,852**	–	–	**64,303**
Foreign exchange derivative contracts	–	**249**	–	–	–	**249**
Carbon derivative contracts	**(837)**	**9,542**	–	–	–	**8,705**
	9,232	**62,173**	**1,852**	–	–	**73,257**

Year ended 31 December 2017	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	(4,991)	(29,616)	(10,850)	(1,531)	–	(46,988)
Chooser contract	(1,035)	–	–	–	–	(1,035)
Interest rate swaps	–	(13)	(19)	–	–	(32)
	(6,026)	(29,629)	(10,869)	(1,531)	–	(48,055)

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 company, 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. On 21 November 2016, the Group completed a comprehensive package of financial restructuring measures (see notes 17 and 19 for further details).

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, 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. This is designed to reduce the risk of adverse movements in exchange rates and market 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 CONTINUED

For the year ended 31 December 2018

26. Risk management and financial instruments continued

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

	2018 $'000	2017 $'000
Loans, borrowings and bond(i) (A)	**2,048,498**	2,164,550
Cash and short-term deposits	**(240,604)**	(173,128)
Net debt/(cash) (B)	**1,807,894**	1,991,422
Equity attributable to EnQuest PLC shareholders (C)	**983,552**	760,866
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**127,278**	(60,830)
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**78,195**	(33,554)
Gross gearing ratio (A/C)	**2.1**	2.8
Net gearing ratio (B/C)	**1.8**	2.6
Shareholders' return on investment (D/C)	**13%**	(8%)
Shareholders' return on investment excluding exceptionals (E/C)	**8%**	(4%)

(i) Principal amounts drawn, excludes netting off of fees (see note 19)

27. Subsidiaries

At 31 December 2018, 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)	Exploration, extraction and production of hydrocarbons	England	100%
Stratic UK (Holdings) Limited(i)	Intermediate holding company	England	100%
Grove Energy Limited[1]	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)2	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[3]	Construction, ownership and operation of an oil pipeline	Scotland	100%
EnQuest Global Services Limited(i)4	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 Petroleum Developments Malaysia SDN. BHD(i)5	Exploration, extraction and production of hydrocarbons	Malaysia	100%
EnQuest NNS Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest NNS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Advance Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest Advance Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%

(i) Held by subsidiary undertaking

The Group has three branches outside the UK (all held by subsidiary undertakings): EnQuest Global Services Limited (Dubai); EnQuest Petroleum Production Malaysia Limited (Malaysia); and EQ Petroleum Sabah Limited (Malaysia).

Registered office addresses:
1 Suite 2200, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9
2 Fabrikkveien 9, Stavanger, 4033, Norway
3 Annan House, Palmerston Road, Aberdeen, Scotland, AB11 5QP, United Kingdom
4 Ground Floor, Colomberie House, St Helier, JE4 0RX, Jersey
5 c/o TMF, 10th Floor, Menara Hap Seng, No 1 & 3, Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia

28. Cash flow information

Cash generated from operations

	Notes	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Profit/(loss) before tax		**93,985**	(243,773)
Depreciation	5(c)	**5,287**	4,500
Depletion	5(b)	**437,104**	224,698
Exploration costs impaired/(reversed) and written off	5(e)	**1,407**	(193)
Net impairment (reversal)/charge to oil and gas assets	4	**126,046**	171,971
Write down of inventory	5(b)	**5,837**	(2,682)
Write down of asset	4	**3,602**	2,808
Excess of fair value over consideration	4	**–**	(48,734)
Loss on fair value of purchase option	4	**1,329**	–
Gain on step acquisition accounting for 25% of Magnus and other interests	4	**(74,345)**	–
Gain on disposal of loan notes	5(d)	**–**	(1,263)
Impairment (reversal)/charge to investments	4	**121**	19
Share-based payment charge	5(f)	**4,645**	2,849
Shares purchased on behalf of Employee Benefit Trust	17	**–**	(1,763)
Change in deferred consideration		**14,028**	–
Change in surplus lease provision	22	**8**	(200)
Change in decommissioning provision	22	**12,617**	–
Change in other provisions	22	**(3,907)**	10,161
Amortisation of option premiums	20	**17,208**	(10,445)
Unrealised (gain)/loss on commodity financial instruments	5(a)(b)	**(97,432)**	(2,010)
Unrealised (gain)/loss on other financial instruments	5(a)(b)	**(2,310)**	–
Unrealised exchange loss/(gain)	5(d)(e)	**(21,911)**	23,910
Net finance (income)/expense	6	**219,191**	147,079
Operating profit before working capital changes		**742,510**	276,932
Decrease/(increase) in trade and other receivables		**6,844**	(13,611)
(Increase)/decrease in inventories		**22,255**	2,039
(Decrease)/increase in trade and other payables		**17,020**	61,674
Cash generated from operations		**788,629**	327,034

Changes in liabilities arising from financing activities

Year ended 31 December 2018	Loans and borrowings (see note 19) $'000	Bonds (see note 19) $'000	Finance leases (see note 24) $'000	Total $'000
At 1 January 2017	(1,102,366)	(868,740)	–	(1,971,106)
Cash flows	(112,001)	–	–	(112,001)
Additions	–	–	(771,975)	(771,975)
Foreign exchange adjustments	(552)	(18,828)	–	(19,380)
Capitalised PIK	–	(58,242)	–	(58,242)
Unwind of finance discount	–	–	(31,273)	(31,273)
Other non-cash movements	(4,756)	935	5,315	1,494
At 31 December 2017	**(1,219,675)**	**(944,875)**	**(797,933)**	**(2,962,483)**
Adjustment on adoption of IFRS 9	**–**	**(38,117)**	**–**	**(38,117)**
At 1 January 2018	**(1,219,675)**	**(982,992)**	**(797,933)**	**(3,000,600)**
Cash flows	**357,072**	**–**	**144,820**	**501,892**
Additions	**(175,000)**	**–**	**–**	**(175,000)**
Foreign exchange adjustments	**814**	**11,745**	**–**	**12,559**
Capitalised interest and PIK	**(13,179)**	**(16,220)**	**–**	**(29,399)**
Unwind of finance discount	**–**	**–**	**(55,837)**	**(55,837)**
Other non-cash movements	**(199)**	**(10,864)**	**–**	**(11,063)**
At 31 December 2018 (see note 19)	**(1,050,167)**	**(998,331)**	**(708,950)**	**(2,757,448)**

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

29. Business combinations

Acquisitions in 2018

Acquisition of 75% interest in Magnus oil field and associated interests

On 1 December 2018, EnQuest completed the acquisition from BP of the remaining 75% interest in the Magnus oil field ('Magnus'), an additional 9.0% interest in Sullom Voe Oil terminal and supply facility ('SVT') and other additional interests in associated infrastructure (collectively the 'Transaction assets'). This acquisition followed from the acquisition of initial interests completed in December 2017 (see below). The transaction is in keeping with EnQuest's strategy of maximising value from late life assets with significant remaining resource potential.

The Transaction assets constitute a business and the acquisition has been accounted for using the acquisition method, in accordance with IFRS 3 Business Combinations. The consolidated financial statements include the fair values of the identifiable assets and liabilities as at the date of acquisition and the results of the assets for the one month period from the acquisition date. Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 13 Fair Value Measurement. The standard defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly fashion between willing market participants at the measurement date.

Accounts receivable are recognised at gross contractual amounts due, as they relate to large and creditworthy customers. Historically, there has been no significant uncollectible accounts receivable in the Transaction assets. At 31 December 2018, none of the trade receivables have been impaired.

The fair value of the identifiable assets and liabilities of the Transaction assets as at the date of acquisition were:

	Fair value recognised on acquisition[i] $'000
Assets	
Property, plant and equipment (see note 10)	745,350
Inventory	50,977
Trade and other receivables (see note 15)	2,927
Liabilities	
Trade and other payables (see note 23)	(44,617)
Financial liabilities (see note 20)	(8,370)
Deferred tax liability (see note 7)	(94,634)
Total identifiable net assets	**651,633**
Technical goodwill arising on acquisition	94,633
Purchase option derecognition	(20,970)
Purchase consideration	**725,296**
Purchase consideration transferred:	
Cash transferred	100,000
Deferred consideration: Vendor loan	116,530
Contingent consideration: Future cash flow share arrangement	508,766
Total purchase consideration	**725,296**

(i) The initial accounting for the acquisition of the Transaction assets has only been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the Directors' best estimates. Thus, the fair value of the net assets may be subsequently adjusted, with a corresponding adjustment to goodwill prior to 1 December 2019 (one year after the transaction)

Goodwill arising on acquisition

The option to purchase the remaining 75% in Magnus and other interests was included with the acquisition of the initial 25% interest. As at 31 December 2017, the option was recognised as a financial asset of $22.3 million. The option was revalued on exercise on 1 December 2018 to the fair value of the acquisition assets, resulting in a financial asset of $21.0 million. The revaluation of the option in the year resulted in an expense of $1.3 million and has been recognised in the statement of comprehensive income through other income in 'Remeasurements and exceptional items'. The option value captures the ability of EnQuest to extend the life of existing mature assets and from the Group's ability to maximise the value from the late life assets with significant remaining resource potential and the increase in underlying oil prices during the year.

On acquisition, the option was derecognised as part of the acquisition assets and liabilities. The goodwill of $94.6 million arises principally due to the requirement to recognise deferred tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. The assessment of the fair value of property, plant and equipment is based on cash flows after tax. Nevertheless, in accordance with IAS 12 sections 15 and 19, a provision is made for deferred tax corresponding to the tax rate multiplied with the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is goodwill. Hence, goodwill arises as a technical effect of deferred tax ('technical goodwill'). None of the goodwill recognised will be deductible for income tax purposes.

Fair value of consideration

The consideration for the acquisition of the Transaction assets was $300 million, consisting of $100 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200 million deferred consideration financed by BP, which are to be repaid out of future cash flows from the assets. With an effective date of 1 January 2017, the deferred consideration was adjusted for the interim period and working capital adjustments, resulting in contingent consideration of $116.5 million as at 1 December 2018. The deferred consideration is secured over the interests in the Transaction assets and accrues interest at a rate of 7.5% per annum on the base consideration.

The consideration also included a cash flow sharing arrangement whereby EnQuest and BP share the net cash flow generated by the 75% interest on a 50:50 basis, subject to a cap of $1 billion received by BP. The present value of the contingent future cash flow share arrangement over the estimated life of the field has resulted in the recognition of contingent consideration of $508.8 million.

The present value of the deferred and contingent profit share consideration is calculated from the future expected cash flows, at a discount rate of 10.0%. These are recognised within contingent consideration within provisions (see note 22).

From the date of acquisition, the Transaction assets have contributed $41.7 million of revenue and a $1.2 million gain to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of 2018, revenue from continuing operations would have been an additional $264.7 million and the profit before tax from continuing operations would have been an additional $103.7 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

Fair value uplift

The acquisition of the remaining 75% interest is considered a step acquisition as per IFRS 3 Business Combinations. The property, plant and equipment acquired with the initial 25% has been fair valued as at 1 December 2018, recognising an uplift of $123.9 million to property, plant and equipment and a corresponding deferred tax liability of $49.6 million. The gain on uplift of $74.3 million has been recognised through other income in 'Remeasurements and exceptional items' in the statement of comprehensive income.

Acquisitions in 2017

Acquisition of 25% interest in Magnus oil field and associated interests

On 1 December 2017, EnQuest completed the acquisition from BP of an initial 25% interest in the Magnus oil field ('Magnus') as well as a 3.0% interest in SVT, 9.0% of Northern Leg Gas Pipeline ('NLGP'), and 3.8% of Ninian Pipeline System ('NPS') (collectively the 'Transaction assets').

The fair value of the identifiable assets and liabilities of the Transaction assets as at the date of acquisition were:

	Fair value recognised on acquisition $'000
Assets	
Property, plant and equipment (see note 10)	124,542
Purchase option[(i)]	22,300
Financial asset[(ii)]	16,120
Inventory	14,884
	177,846
Liabilities	
Trade and other payables (see note 23)	(8,459)
Financial liabilities[(iii)]	(4,214)
Deferred tax liability (see note 7)	(49,816)
	(62,489)
Total identifiable net assets at fair value	**115,357**
Excess of fair value over cost arising on acquisition:	
Purchase option[(i)]	(22,300)
Thistle decommissioning option[(ii)]	(16,120)
25% acquisition value	(10,314)
Total excess of fair value over cost arising on acquisition	**(48,734)**
Purchase consideration through vendor loan	**66,623**

(i) The financial asset related to the purchase option to acquire the remaining 75% of Magnus oil field and BP's interest in the associated infrastructure for a value of $300 million. At 31 December 2017, the option was recognised as a financial asset of $22.3 million (see note 20)

(ii) The financial asset related to the Thistle decommissioning option, and represents the difference between the $50 million cash that BP would transfer to EnQuest upon exercise of the option, and the net present value of the estimated cash outflow to settle the liability assumed

(ii) The financial liability related to the amount due to BP by reference to 7.5% of BP's actual decommissioning costs on an after-tax basis. The additional consideration EnQuest may pay is capped at the amount of cumulative positive cash flows received by EnQuest from the Transaction assets

The new assets recognised in the 31 December 2017 financial statements were based on a provisional assessment of their fair value while the Group determined the necessary market valuations and other calculations. During 2018, the calculations were completed resulting in a $1.5 million decrease to accruals and underlift, with the corresponding balance taken through acquisition property, plant and equipment.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

29. Business combinations continued

In addition to the above identifiable assets and liabilities, under the terms of the agreement, the Group had the option to acquire the remaining 75% of the Magnus oil field and BP's interest in the associated infrastructure as exercised and described above. EnQuest also had the option to receive $50 million from BP in exchange for undertaking the management of the physical decommissioning activities for Thistle and Deveron and making payments by reference to 6.0% of the gross decommissioning costs of Thistle and Deveron fields. The option was exercised in full during 2018 (see note 20).

The excess of fair value of the net assets acquired over the purchase consideration has arisen primarily due to BP's strategic decision to partner with EnQuest to extend the life of existing mature assets and from the Group's ability to maximise the value from the late life assets with significant remaining resource potential. The gain has been immediately recognised through exceptionals in the statement of comprehensive income.

Fair value of consideration

The consideration payable has been satisfied via a vendor loan from BP. The loan is repayable solely out of the cash flows which are achieved above operating cash flows from the Transaction assets and is secured over the interests in the Transaction assets. The loan accrues interest at a rate of 5.0% per annum on the base consideration. The base consideration was $85 million, which was adjusted for the interim period and working capital adjustments since the economic date of 1 January 2017, resulting in contingent consideration of $66.6 million. The present value of the deferred consideration was calculated from the future expected cash flows, at a discount rate of 10.0% and assumed repayment of around three years. This is recognised within contingent consideration within provisions (see note 22).

During 2017 from the date of acquisition, the Transaction assets contributed $14.0 million of revenue and $2.1 million to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of 2017, revenue from continuing operations would have been $73.9 million and the profit before tax from continuing operations would have been $25.9 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017. At 31 December 2017, none of the trade receivables have been impaired.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PARENT COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the parent company financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

COMPANY BALANCE SHEET

At 31 December 2018

	Note	2018 $'000	2017 $'000
Fixed assets			
Investments	3	**1,378,619**	894,512
Current assets			
Trade and other receivables			
– due within one year	5	**6,442**	10,323
– due after one year	5	**1,094,298**	1,042,427
Cash at bank and in hand	4	**480**	60
		1,101,220	1,052,810
Trade and other payables: amounts falling due within one year	7	**(115,303)**	(236,851)
Net current assets		**985,917**	815,959
Total assets less current liabilities		**2,364,536**	1,710,471
Trade and other payables: amounts falling due after one year	8	**(990,283)**	(934,352)
Net assets		**1,374,253**	776,119
Share capital and reserves			
Share capital and premium	9	**345,331**	210,402
Merger reserve		**905,890**	905,890
Other reserve		**40,143**	40,143
Share-based payment reserve		**(6,884)**	(5,516)
Profit and loss account		**89,773**	(374,800)
Shareholders' funds		**1,374,253**	776,119

The attached notes 1 to 12 form part of these Company financial statements.

The Company reported a gain for the financial year ended 31 December 2018 of $502.7 million (2017: loss of $77.0 million). There were no other recognised gains or losses in the period (2017: $nil).

The financial statements were approved by the Board of Directors on 20 March 2019 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital and share premium $'000	Merger reserve $'000	Other reserve $'000	Share-based payments reserve $'000	Profit and loss account $'000	Total $'000
At 1 January 2017	208,639	905,890	40,143	(6,602)	(297,799)	850,271
Loss for the year	–	–	–	–	(77,001)	(77,001)
Total comprehensive income for the year	–	–	–	–	(77,001)	(77,001)
Share-based payment charge	–	–	–	2,849	–	2,849
Shares issued on behalf of Employee Benefit Trust	1,763	–	–	(1,763)	–	–
At 31 December 2017 (as previously reported)	**210,402**	**905,890**	**40,143**	**(5,516)**	**(374,800)**	**776,119**
Adjustment on adoption of IFRS 9	**–**	**–**	**–**	**–**	**(38,117)**	**(38,117)**
Balance as at 1 January 2018	**210,402**	**905,890**	**40,143**	**(5,516)**	**(412,917)**	**738,002**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**502,690**	**502,690**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**502,690**	**502,690**
Issue of share capital	**128,916**	**–**	**–**	**–**	**–**	**128,916**
Share-based payment charge	**–**	**–**	**–**	**4,645**	**–**	**4,645**
Shares purchased on behalf of Employee Benefit Trust	**6,013**	**–**	**–**	**(6,013)**	**–**	**–**
At 31 December 2018	**345,331**	**905,890**	**40,143**	**(6,884)**	**89,773**	**1,374,253**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. Corporate information
The separate parent company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 20 March 2019.

EnQuest PLC ('EnQuest' or the 'Company') is a limited liability company incorporated and registered in England and is the holding company for the Group of EnQuest subsidiaries (together the 'Group').

2. Summary of significant accounting policies
Basis of preparation
These separate financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101') and the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council. The Company has previously notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

These financial statements are prepared under the historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives, as set out in the accounting policies below. The functional and presentation currency of the separate financial statements is United States Dollars and all values in the separate financial statements are rounded to the nearest thousand ($'000) except where otherwise stated.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, fair value measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the Group accounts.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the parent company. The parent company's accounts present information about it as an individual undertaking and not about its Group.

Going concern
The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its commitments as they fall due over the going concern period. See the Financial Review for further details.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

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:

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.

Impairment of investments in subsidiaries
Determination of whether investments have suffered any impairment requires an estimation of the assets recoverable value. The recoverable value is based on the discounted cash flows expected to arise from the subsidiaries oil and gas assets, using asset-by-asset life of field projections as part of the Group's assessment for the impairment of the oil and gas assets. See Group critical accounting estimates and judgements.

Taxation
The tax provision is prepared before the tax returns are filed with the tax authority and, significantly, before these have been agreed. As a result, the tax provision process necessarily involves the use of a number of estimates and judgements including those required in calculating the effective tax rate.

The Company 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
Transactions in currencies other than the 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 the statement of comprehensive income.

Financial instruments (policy applicable from 1 January 2018)
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets
Initial recognition and initial measurement
Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL').

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Subsequent measurement
Financial assets at amortised cost
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest ('EIR') method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVPL.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Summary of significant accounting policies continued

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss ('ECL') model'. This replaces IAS 39's 'incurred loss model'.

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a '12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a 'lifetime ECL').

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. It is the Group's policy to measure ECLs on such instruments on a 12-month basis.

Financial liabilities

Initial recognition and initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings, trade and other payables, quoted and unquoted financial liabilities, and derivative financial instruments.

Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to address its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any changes in fair value are recognised immediately in the profit or loss within 'Remeasurements and exceptional items' profit or loss on the face of the income statement. When a derivative reaches maturity, the realised gain or loss is included within the Group's 'Business performance' results with a corresponding reclassification from 'Remeasurements and exceptional items'.

Option premium received or paid for commodity derivatives are amortised into 'Business performance' revenue over the period between the inception of the option, and that option's expiry date. This results in a corresponding reclassification from 'Remeasurements and exceptional items' revenue.

The Group has not designated any derivative financial instruments as hedging instruments for the periods contained within these financial statements.

Loans and borrowings
This is the category most relevant to the Group and includes the measurement of the bonds. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. This category generally applies to interest-bearing loans and borrowings.

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 is included as finance costs in the statement of profit or loss.

Investments
Investments in subsidiaries are accounted for at cost less any provision for impairment.

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.

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 Company financial statements. 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 Company to make a single net payment.

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 profit and loss account on the purchase, sale, issue or cancellation of equity shares.

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 (market conditions) or 'non-vesting' conditions, if applicable.

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 profit and loss account 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 market or non-vesting conditions, 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 profit and loss account. The Company operates a number of share award schemes on behalf of the employees of the Group which are described in detail within note 18 of the Group financial statements.

The reserve for the share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

3. Investments

	Subsidiary undertakings $'000	Other financial assets at FVPL $'000	Total $'000
Cost			
At 1 January 2017	1,371,094	1,797	1,372,891
Additions	2,849	–	2,849
At 31 December 2017	**1,373,943**	**1,797**	**1,375,740**
Additions	**4,645**	**–**	**4,645**
At 31 December 2018	**1,378,588**	**1,797**	**1,380,385**
Provision for impairment			
At 1 January 2017	386,307	1,626	387,933
Impairment charge/(reversal) for the year	93,276	19	93,295
At 31 December 2017	**479,583**	**1,645**	**481,228**
Impairment charge/(reversal) for the year	**(479,583)**	**121**	**(479,462)**
At 31 December 2018	**–**	**1,766**	**1,766**
Net book value			
At 31 December 2018	**1,378,588**	**31**	**1,378,619**
At 31 December 2017	894,360	152	894,512
At 31 December 2016	984,787	171	984,958

The Company has recognised a reversal of impairment of its investment in subsidiary undertakings of $479.6 million (2017: impairment of $93.3 million). The reversal of impairment for the year ended 31 December 2018 is attributable primarily to the acquisition of Magnus and other interests as described in note 29 to the Group financial statements.

Details of the Company's subsidiaries at 31 December 2018 are provided in note 27 of the Group financial statements.

The interest in other listed investments at the end of the year is part of the Group's investment in the Ordinary share capital of Ascent Resources plc, which is incorporated in Great Britain and registered in England and Wales. See note 13 of the Group financial statements for more detail on the impairment.

4. Cash at bank and in hand

	2018 $'000	2017 $'000
Cash at bank and in hand	**480**	60

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying value of the Company's cash and cash equivalents as stated above is considered to be a reasonable approximation to their fair value.

5. Trade and other receivables

	2018 $'000	2017 $'000
Due within one year		
Amounts due from subsidiaries	**6,442**	10,231
Other financial assets	**–**	92
	6,442	10,323
Due after one year		
Amounts due from subsidiaries	**1,094,298**	1,042,427

As per the application of IFRS 9, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of intercompany balances with similar loss patterns (i.e. by geographical region and security). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The Group evaluates the concentration of risk with respect to intercompany receivables as low, as its customers are intercompany ventures, and has considered the risk relating to the probability of default on loans that are repayable on demand. The Group has evaluated an expected credit loss of $2.5 million for the year ended 31 December 2018.

6. Deferred tax

The Company has unused UK mainstream corporation tax losses of $52.7 million (2017: $57.8 million) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

7. Trade and other payables: amounts falling due within one year

	2018 $'000	2017 $'000
Bond interest	**16,810**	16,574
Amounts due to subsidiaries	**98,375**	220,056
Accruals	**118**	221
	115,303	236,851

8. Trade and other payables: amounts falling due after one year

	2018 $'000	2017 $'000
Bonds	**990,283**	934,352

At 31 December 2018, bonds comprise a high yield bond with principal of $746.1 million (2017: $720.8 million) and a retail bond with principal of £171.9 million (2017: £166.0 million). The bonds mature in April 2022 and pay a coupon of 7.0% bi-annually. See note 19 of the Group financial statements.

9. Share capital and share premium

The movement in the share capital and share premium of the Company was as follows:

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2018	**1,186,084,304**	**85,105**	**125,297**	**210,402**
Issuance of equity shares	**508,321,844**	**33,077**	**105,849**	**138,926**
Expenses on issue of equity shares	–	–	(3,997)	(3,997)
At 31 December 2018	**1,694,406,148**	**118,182**	**227,149**	**345,331**

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

At 31 December 2018, there were 73,180,394 shares held by the Employee Benefit Trust (2017: 56,023,671). On 22 October 2018, 22,126,481 shares were acquired by the Employee Benefit Trust pursuant to the rights issue. The remainder of the movement in the year is due to shares used to satisfy awards made under the Company's share-based incentive schemes.

On 22 October 2018, the Company completed a rights issue, pursuant to which 508,321,844 new Ordinary shares were issued at a price of £0.21 per share, generating gross aggregate proceeds of $138.9 million. 485,477,620 of the new shares issued resulted from existing shareholders taking up their entitlement under the rights issue to acquire three new Ordinary shares for every seven Ordinary shares previously held. Following the admission to the market of an additional 508,321,844 Ordinary shares on 22 October 2018, there were 1,694,406,148 Ordinary shares in issue at the end of the year.

10. Reserves

Share premium

The excess contribution over the nominal value on the issuance of shares is accounted for as share premium.

Merger reserve

The Company merger reserve is used to record the difference between the market value of EnQuest shares issued to effect the business combinations less the nominal value of the shares issued where merger relief applies to the transaction. The reserve is adjusted for any write down in the value of the investment in the subsidiary.

Other reserve

The other reserve is used to record any other transactions taken straight to reserves as non-distributable.

Share-based payments reserve

The reserve for share-based payments is used to record the value of equity-settled share-based payments awards to employees and the balance of the shares held by the Company's Employee Benefit Trust. Transfers out of this reserve are made upon vesting of the original share awards.

Share-based payment plan information is disclosed in note 18 of the Group financial statements.

11. Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in note 5(g) of the Group financial statements.

12. Directors' remuneration

The emoluments of the Directors are paid to them in their capacity as Directors of the Company for qualifying services in to the Company and the EnQuest Group. Further information is provided in the Directors' Remuneration Report on page 58.

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EnQuest PLC shares are traded on the London Stock Exchange and on the NASDAQ OMX Stockholm, in both cases using the code 'ENQ'.

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Financial calendar
23 May 2019: Annual General Meeting
5 September 2019: Half year results (subject to change)

NOTES

NOTES

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