Results for the year ended 31 December 2020 and 2021 outlook

25 March 2021

Unless otherwise stated, all figures are on a Business performance basis and are in US Dollars.

EnQuest Chief Executive, Amjad Bseisu, said:

"Our quick and decisive actions in early 2020, combined with our reorganisation, have transformed the Company. We generated $211.1 million of free cash flow in the year, having significantly lowered our cost base and free cash flow breakeven, enabling us to reduce our debt to its lowest level since 2014. Capital and operating expenditures reduced by $295.6 million and free cash flow breakeven[1] for the year was $31.9/Boe, both in line with our targets. Our focus on safety enabled us to minimise successfully the impact of COVID-19 on our workforce and operations.

"The proposed acquisition of the low-cost Golden Eagle area will strengthen our business, providing additional production and strong cash flows which will partially utilise our UK tax assets.

"We successfully managed the unique set of challenges presented in 2020, taking decisive action to protect and enhance our business. Our focus on extending the useful lives of existing assets through operational improvements and reducing emissions is well suited to operating through the energy transition and I am confident that EnQuest is well placed to succeed in a changing world."

2020 performance

- Group production averaged 59,116 Boepd in 2020, in line with guidance (2019: 68,606 Boepd)
- Revenue of $856.9 million (2019: $1,711.8 million) and EBITDA of $550.6 million (2019: $1,006.5 million) reflect lower year on year production and realised oil prices of $41.3/bbl, partially offset by lower operating costs
- Cash generated from operations of $567.8 million (2019: $994.6 million); cash capital expenditure of $131.4 million (2019: $237.5 million)
- Strong free cash flow generation of $211.1 million (2019: $368.5 million)
- Cash and available bank facilities amounted to $284.1 million at 31 December 2020 (2019: $288.6 million), with net debt reduced to $1,279.7 million (2019: $1,413.0 million)
- Statutory reported basic loss after tax was $625.8 million reflecting non-cash impairments, including tax, of $630.3 million, (2019: loss after tax of $449.3 million)

2021 performance and outlook[2]

- Year to date February production averaged 46,635 Boepd, affected by outages, repairs and opportunistic maintenance at Magnus and Kraken, which are now complete
- Hedges in place for c.5 MMbbls of oil with an average floor price of c.$55/bbl and an average ceiling price of c.$64/bbl
- Full year average production expected to be between 46,000 to 52,000 Boepd, excluding Golden Eagle which will add c.10,000 Boepd on a pro forma basis
- Full year operating expenditure of c.$265 million
- Combined cash capital and abandonment expenditure of c.$120 million[3]

[1] Based on the Group's aggregate cash outflows prior to any debt repayments and $37.3 million of Magnus-related third-party gas purchases divided by net working interest production
[2] Existing portfolio
[3] Excludes the costs associated with the PM8/Seligi riser incident repair which are expected to be largely covered by insurance

Production and financial information

	2020	2019	Change %
Production (Boepd)	59,116	68,606	(13.8)
Revenue and other operating income ($m)[1]	856.9	1,711.8	(49.9)
Statutory reported revenue and other operating income ($m)[2]	865.6	1,646.5	(47.4)
Realised oil price ($/bbl)[1, 3]	41.3	65.3	(36.8)
Gross profit ($m)	71.4	468.3	(84.8)
Statutory reported gross profit ($m)	66.6	402.5	(83.4)
EBITDA ($m)[3]	550.6	1,006.5	(45.3)
Profit/(loss) before tax and net finance costs ($m)	(20.0)	442.2	(104.5)
Statutory reported (loss)/profit after tax ($m)	(625.8)	(449.3)	(39.3)
Statutory reported basic (loss)/earnings per share (cents)	(37.8)	(27.4)	(38.0)
Cash generated from operations ($m)	567.8	994.6	(42.9)
Cash expenditures ($m)	173.0	248.6	(30.4)
Capital[3]	131.4	237.5	(44.7)
Abandonment	41.6	11.1	274.8
	End 2020	**End 2019**	
Net (debt)/cash ($m)[3]	(1,279.7)	(1,413.0)	(9.4)

Notes:
[1] Including realised losses of $6.1 million (2019: realised gains of $24.8 million) associated with EnQuest's oil price hedges
[2] Including net realised and unrealised gains of $2.7 million (2019: net realised and unrealised losses of $40.6 million) associated with EnQuest's oil price hedges
[3] See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 68

Production details

Average daily production on a net working interest basis (Boepd)	**1 Jan 2020 to 31 Dec 2020**	**1 Jan 2019 to 31 Dec 2019**
	(Boepd)	**(Boepd)**
UK Upstream		
- Magnus	17,416	18,267
- Kraken	26,450	25,172
- Other Upstream[1]	6,468	5,644
UK Upstream	**50,334**	**49,083**
UK Decommissioning[2]	**2,346**	**10,870**
Total UK	**52,680**	**59,953**
Total Malaysia	**6,436**	**8,653**
Total EnQuest	**59,116**	**68,606**

[1] Other Upstream: Scolty/Crathes, the Greater Kittiwake Area and Alba
[2] UK Decommissioning: Heather/Broom, Thistle/Deveron, the Dons and Alma/Galia

2020 performance summary

The Group's operational focus was to maintain strong production efficiency across its asset base and successfully execute the drilling programmes at Magnus and Kraken. The combined impact of good operational delivery and the successful transformation of the UK business enabled the Group to lower its unit operating expense to $15.2/Boe, reduce its free cash flow breakeven to $31.9/Boe and generate $211.1 million in free cash flow, enabling further reductions in the Group's debt.

EnQuest's average production decreased by 13.8% to 59,116 Boepd, in line with guidance, primarily reflecting a strong performance from Kraken, offset by Thistle, Heather and Alma Galia moving to cessation of production ('CoP') and the impact of the detached riser at PM8/Seligi.

EBITDA and cash generated by operations were $550.6 million and $567.8 million, respectively, with the reduction from 2019 reflecting lower prices and production, offset by lower operating costs.

Cash capital expenditure of $131.4 million was focused on executing the Group's drilling programmes at Kraken and Magnus. Cash abandonment expenditure of $41.6 million reflected decommissioning activities following CoP at Heather/Broom and Alma/Galia.

Liquidity and net debt

At 31 December 2020, net debt was $1,279.7 million, down $133.3 million from $1,413.0 million at 31 December 2019, reflecting a strong operational performance and cash generation. Total cash and available facilities were $284.1 million, including ring-fenced funds held in operational accounts associated with Magnus, the Sculptor Capital facility and other joint venture accounts totalling $108.0 million.

The Group's material free cash flow generation enabled early voluntary repayments of the senior credit facility, which reduced by $97.8 million during the year. This reduction included the $65.0 million associated with the April 2021 scheduled amortisation. Following a further voluntary early repayment of $25.0 million in January 2021, the senior credit facility, including payment in kind interest, totalled $352.3 million at the end of February.

The senior credit facility expires in October 2021. Securing lenders commitment to a new senior secured facility in conjunction with the Golden Eagle acquisition remains on track and the Directors are confident of a successful outcome. Further details on the status of refinancing are provided in the going concern disclosure on page 15.

Reserves and resources

Net 2P reserves at the end of 2020 were 189 MMboe (2019: 213 MMboe) and have been audited on a consistent basis with prior years. During the year, the Group produced 10.1% of its year-end 2019 2P reserves base, with other revisions primarily reflecting the CoP decisions at Thistle/Deveron and the Dons, largely offset by other 2P reserves revisions and transfers from 2C resources at Kraken, Magnus and PM8/Seligi. Net 2C resources are 279 MMboe (2019: 173 MMboe), an increase of 61.3% compared to the end of 2019 primarily as a result of the agreement to acquire 40.81% equity and operatorship of the Bressay field in the UK in July 2020 which added 115 MMboe.

Environmental, Social and Governance performance

The Group's absolute Scope 1 and 2 emissions were 11.2% lower in 2020 compared to 2019 and 25.5% lower than 2018, primarily reflecting the Group's decisions to cease production at its Heather, Thistle/Deveron and Alma/Galia assets. The Group has set itself a challenging target to deliver a further reduction in Scope 1 and 2 emissions of c.10% over the next three years from its existing portfolio through the identification and implementation of economic emission reduction opportunities, with the achievement of this target linked to reward. The Group continues to optimise sales of Kraken cargoes directly into the shipping fuel market, avoiding emissions related to refining and helping reduce sulphur emissions in accordance with the IMO 2020 regulations. The avoidance of emissions related to Kraken's crude is significant, with refining emissions for a typical North Sea crude estimated to be c.32 - 36kgCO2e/bbl[1, 2]. As such, emissions relating to Kraken oil by the time it reaches its end user, compares favourably on a fully-refined basis to even high-performing North Sea fields[3].

The Group's strong safety culture was clearly evidenced as the Company successfully implemented a number of mitigations to minimise the impact of COVID-19 on its people and operations. The Group also achieved a significant reduction in its lost time incident frequency rate of 0.22, materially below the UKCS benchmark of 1.28. However, the Group experienced asset integrity issues with a detached riser in Malaysia and pipeline issues at SVT. EnQuest is committed to continuous improvement in asset integrity and continues to ensure that the Group's integrity management systems appropriately identify focus areas.

To reflect the Board's commitment to ESG matters, the remits of the current Board-level committees were strengthened to ensure the Group's ESG performance is aligned with EnQuest's purpose and appropriately responds to the expectations of our stakeholders. The composition of the Committees was also reviewed to ensure they remained efficient and effective, with some alterations to certain Committee memberships. There were also a number of Board changes during the year and in early 2021, revising the balance of skills, expertise and experience of the Board and improving its gender and ethnic diversity.

[1] kgCO2e/bbl = kilograms of CO_2 equivalent per produced barrel
[2] Based on an the University of Calgary PRELIM model recognised by California Air Resources Board, US Energy Tech. Laboratory, USDOE Office of Energy Efficiency and Renewable Energy, Carnegie Endowment for International Peace and the US Environmental Protection Agency
[3] EnQuest analysis of UK North Sea assets 2019 performance

2021 performance and outlook details

In February, EnQuest signed an agreement to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area, comprising the producing Golden Eagle, Peregrine and Solitaire fields for an initial consideration of $325 million. Upon completion, the acquisition will add immediate material low-cost production and cash flow to EnQuest and will allow the Group to accelerate the use of its tax losses. The four well infill programme is continuing, with the first three wells safely completed and online.

Production performance to the end of February has been slightly behind schedule. An unplanned third-party outage, power related failures and ongoing well repair activities at Magnus, along with a short duration shutdown at Kraken for a riser tether repair have been partially offset by PM8/Seligi wells coming back online ahead of schedule. Repairs are now complete on the Kraken tether and Magnus power systems. In addition, a successful Magnus well intervention and early commissioning of gas lift at Kittiwake have further increased production from the end of February.

For the full year, the Group's net production is expected to be between 46,000 and 52,000 Boepd (excluding any contribution from the proposed Golden Eagle transaction). This guidance includes CoP at the Dons fields which occurred as planned in the first quarter, continued low production at PM8/Seligi until repairs on the riser are completed during the second half of the year and natural declines across the portfolio. Kraken gross production is expected to be between 30,000 and 35,000 Bopd (21,150 and 24,675 Bopd net), reflecting natural declines.

The Group continues to focus on cost control and capital discipline, with operating expenditures expected to be approximately $265 million and combined cash capital and abandonment expenditure expected to be around $120 million, which are lower than 2020. Capital expenditure primarily relates to license to operate activities and guidance excludes the costs associated with the PM8/Seligi riser incident repair which are expected to be largely covered by insurance, while abandonment expense primarily reflects decommissioning programmes at Heather/Broom, including an acceleration of some work scopes, the Thistle/Deveron fields and the Dons.

EnQuest has hedged a total c.5 MMbbls for 2021 using costless collars, with an average floor price of c.$55/bbl and an average ceiling price of c.$64/bbl.

COVID-19 update

The health, safety and wellbeing of EnQuest's employees is the top priority. The Group remains compliant with UK, Malaysia and Dubai government and industry policy. The Group has also been working with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk. The Group's day-to-day operations continue without being materially affected by COVID-19.

Summary financial review of 2020

(all figures quoted are in US Dollars and relate to Business performance unless otherwise stated)

2020 was an extremely challenging year with the oil price collapse of March 2020, the COVID-19 pandemic and the resulting impacts on the macro-economic environment. As a result, the company went through significant changes, including decisions to cease production at some assets and transform the organisation with a focus on cost and capital expenditure reductions. Notwithstanding the very challenging environment, the Group delivered on its 2020 production and cost guidance. The early and decisive action to reduce costs resulted in operating and capital expenditures being $295.6 million lower than 2019, materially lowering the Group's free cash flow breakeven.

Revenue for 2020 was $856.9 million, 49.9% lower than in 2019 ($1,711.8 million), reflecting the materially lower oil prices, a reduction in production following the decision to cease production at Heather, Thistle and Alma/Galia and moving from a net overlift to a net underlift position. Revenue is predominantly derived from crude oil sales which totalled $779.9 million, 49.6% lower than in 2019 ($1,548.2 million). Revenue from the sale of condensate and gas was $60.5 million (2019: $120.2 million), reflecting significantly lower market prices for gas in relation to the onward sale of third-party gas purchases not required for injection activities at Magnus.

The Group's commodity hedge programme resulted in realised losses of $6.1 million in 2020 (2019: gains of $24.8 million). The Group's average realised oil price excluding the impact of hedging was $41.6/bbl, compared to $64.2/bbl for 2019. The Group's average realised oil price including the impact of hedging was $41.3/bbl in 2020, 36.8% lower than in 2019 ($65.3/bbl).

Total cost of sales were $785.5 million for the year ended 31 December 2020, 36.8% lower than in 2019 ($1,243.6 million).

The Group's operating expenditures of $328.6 million were 36.6% lower than in 2019 ($518.1 million), primarily reflecting the Group's focus on cost control, including the decision to cease production at Heather, Thistle and Alma Galia. Unit operating costs decreased by 26.2% to $15.2/Boe (2019: $20.6/Boe).

Total cost of sales also included non-cash depletion expense of $438.2 million, 16.5% lower than in 2019 ($525.1 million), mainly reflecting the decision to cease production at Heather, Thistle and Alma/Galia and a decrease in the unit-of-production rate arising from impairments booked in the first half of the year.

The credit relating to the Group's lifting position and inventory was $34.8 million (2019: $102.9 million). This reflects a switch to a $3.0 million net underlift position at 31 December 2020 from a $28.6 million net overlift position at 31 December 2019.

Other cost of operations of $53.4 million were 45.1% lower than in 2019 ($97.5 million), reflecting the lower cost of Magnus-related third-party gas purchases following the reduction in the market price for gas, partially offset by a $24.9 million inventory write down recognised in the year, which primarily relates to inventory held at assets now scheduled for decommissioning.

EBITDA for 2020 was $550.6 million, down 45.3% compared to 2019 ($1,006.5 million). This was driven by lower revenue, partially offset by lower cost of sales.

The tax credit for 2020 of $172.5 million (2019: $23.6 million tax charge), excluding exceptional items, is mainly due to the Ring Fence Expenditure Supplement on UK activities generated in the year. UK North Sea corporate tax losses at the end of the year increased to $3,183.9 million (2019: $2,903.4 million), primarily as a result of the Ring Fence Expenditure Supplement generated in the year.

Remeasurement and exceptional items for 2020 were a net post-tax loss of $599.6 million (2019: loss of $663.6 million). Revenue included unrealised gains of $8.8 million in respect of the mark-to-market movement on the Group's commodity contracts (2019: unrealised losses of $65.4 million). Other remeasurement and exceptional items includes a $138.2 million gain in relation to the fair value recalculation of the Magnus contingent consideration reflecting the reduction in oil price assumptions. The Group also recognised post-tax non-cash impairment charges on its oil and gas assets of $259.2 million (2019: $397.5 million), reflecting a reduction in oil price assumptions, and a non-cash de-recognition of undiscounted deferred tax assets of $371.1 million.

The Group's reported cash generated from operations for 2020 was $567.8 million (2019: $994.6 million), primarily as a result of lower revenue. Free cash flow for 2020 was $211.1 million (2019: $368.5 million).

Net debt at 31 December 2020 was $1,279.7 million, a decrease of 9.4% compared to 2019 ($1,413.0 million). This includes $205.8 million of payment in kind interest ("PIK interest") that has been capitalised to the principal of the facility and bonds pursuant to the terms of the Group's November 2016 refinancing (31 December 2019: $133.3 million).

In January 2021, EnQuest made an early voluntary repayment of $25.0 million of the senior credit facility. The final payment of $352.3 million, including $17.3 million PIK interest, is due on 1 October 2021.The Group is currently in the process of refinancing the facility in conjunction with the Golden Eagle acquisition.

In June 2020, EnQuest made an early voluntary repayment of the entire $31.7 million of the Tanjong Baram Project Finance facility having received the first of three instalments from Petronas for reimbursement of outstanding net capital expenditure of $51.1 million relating to the Tanjong Baram project. The remaining two reimbursement instalments were received in the second half of the year.

The strong production performance at Kraken has driven a $55.2 million reduction in the Sculptor Capital facility in the year.

Ends

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Presentation to Analysts and Investors
A presentation to analysts and investors will be held at 09:00 today – London time. The presentation will be accessible via an audio webcast, available on the investor relations section of the EnQuest website at www.enquest.com. A conference call facility will also be available at 09:00 on the following numbers:

Conference call details:

UK: +44 (0) 800 279 6619

International: +44 (0) 207 192 8338

Confirmation Code: 8538947

Notes to editors

This announcement has been determined to contain inside information. The person responsible for the release of this announcement is Stefan Ricketts, General Counsel and Company Secretary.

ENQUEST

EnQuest is providing creative solutions through the energy transition. As an independent production and development company with operations in the UK North Sea and Malaysia, the Group'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.

EnQuest PLC trades on both the London Stock Exchange and the NASDAQ OMX Stockholm.

Please visit our website www.enquest.com for more information on our global operations.

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

Chief Executive's report

Overview

2020 presented the Group with a unique set of challenges through the combination of the oil price collapse of March 2020, the COVID-19 pandemic and the resulting crash in the global financial markets, which we have managed successfully. As always, the safety of EnQuest's people and assets remained an absolute priority. The Group minimised successfully the impact of COVID-19 on its workforce and operations, by supplementing its existing communicable disease processes and introducing a number of new protocols in both the pre-mobilisation and onsite management processes. The difficult but decisive action taken in response to the macroeconomic environment saw the cessation of production at a number of the Group's assets, a reduction in the number of employee and contractor roles in the UK and the reorganisation of the UK North Sea business into three directorates: UK Upstream; UK Midstream; and UK Decommissioning. These actions have transformed the business, materially lowering the Group's cost base and enabling the directorates to focus on the most appropriate activities that deliver operational excellence and SAFE Results at each of their assets.

As we transformed our business and lowered our cost base, we have maintained our focus on health and safety, recognising this is our licence to operate. Given the riser incident in Malaysia, we have also initiated a Company-wide asset integrity review and are developing fit-for-purpose safety systems for late life assets.

As an established oil and gas company, EnQuest has always aimed to safely improve the operating, financial and environmental performance of assets for the benefit of its stakeholders. However, over the last few years, and in 2020 in particular, Environmental, Social and Governance ('ESG') factors have continued to grow in importance for companies. As such, the Group undertook a review of the ESG landscape in order to identify those ESG factors which are relevant and applicable to its business model, to ensure its approach was appropriate and easily understood by its stakeholders.

Throughout the year, the Group's operational focus was to maintain strong production efficiency across its asset base and successfully execute the drilling programmes at Magnus and Kraken. The combined impact of good operational delivery and the successful transformation of the UK business enabled the Group to lower its unit operating expense to c.$15.2/Boe, reduce its free cash flow breakeven[1] to c.$31.9/Boe and generate $211.1 million in free cash flow, enabling further reductions in the Group's debt.

[1] Based on the Group's aggregate cash outflows prior to any debt repayments and $37.3 million of Magnus-related third-party gas purchases divided by net working interest production

Operational performance

EnQuest's average production decreased by 13.8% to 59,116 Boepd, slightly below the mid-point of the Group's guidance. The decrease was primarily driven by the Group's decision to cease production at its highest cost assets: Heather/Broom; Thistle/Deveron; and Alma/Galia, and the impact of the detached riser in Malaysia.

Kraken continued to perform well, delivering high production efficiency of 87% and gross production of 37,518 Bopd, above the top end of its guidance range. Overall subsurface and well performance was good and production optimisation activities continued through improved injector-producer well management. By the end of 2020, more than 40 MMbbls (gross) had been produced since first oil, a great achievement by the combined EnQuest and Bumi Armada team. Production at Magnus also remained robust, delivering 17,416 Boepd reflecting the contribution of the two new wells coming onstream in March, partially offset by gas compressor and seawater lift pump system availability. Production at PM8/Seligi was lower than the prior year reflecting the impact of a detached riser at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform. This resulted in a release of gas which initiated an automatic emergency shutdown of the PM8/Seligi field. The Group's safety systems and emergency response procedures were successfully implemented, with all personnel onboard mustered safely within minutes. Following an initial investigation and safety assessment, partial operations were able to be recommenced within two days, although production remained low throughout the fourth quarter.

At Heather and Thistle/Deveron, cessation of production ('CoP') applications were approved, with decommissioning activities commencing in preparation of the well abandonment programmes planned for 2021. At Alma/Galia, CoP occurred on 30 June 2020 as planned, with the EnQuest Producer floating production, storage and offloading vessel moving off station shortly thereafter and transferred to the oil terminal jetty at Nigg.

During the year, the Group produced 10.1% of its year-end 2019 2P reserves base, which overall reduced to 189 MMboe at the end of 2020, down 11.3% on the 213 MMboe at the end of 2019. Following the agreement to acquire 40.81% equity and operatorship of the Bressay field in the UK, the Group's 2C resources increased by 61.3% from the end of 2019 to around 279 MMboe. Other material 2C resources are located at Magnus and Kraken in the UK and PM8/Seligi and PM409, offshore Malaysia. In February, the Group agreed to acquire Suncor's entire 26.69% non-operating interest in the Golden Eagle area. Upon completion, expected before the end of the third quarter 2021, this is expected to add around 23 MMbbls to reserves and resources.

Financial performance

The Group's EBITDA decreased by 45.3% to $550.6 million, reflecting the material decrease in realised oil and gas prices and lower production, partially offset by the Group's transformation and ongoing focus on cost control, which drove operating expenditure down by $189.5 million to $328.6 million, with unit operating costs reduced to around $15.2/Boe. Cash generated by operations decreased to $567.8 million, down 42.9% compared to 2019, with free cash flow generation of $211.1 million.

This strong cash flow performance in difficult macroeconomic conditions facilitated a material reduction in the Group's net debt, which ended the year at $1,279.7 million, down $133.3 million from the end of 2019. Voluntary early repayments of the Group's senior credit facility, including a further $25.0 million in January 2021, has seen the outstanding balance reduce to $352.3 million (including Payment in Kind) with no further amortisations due ahead of the final maturity in October 2021. The strong performance at Kraken has also driven a $55.2 million reduction in the Sculptor Capital facility.

At the year end, the Group recognised non-cash post-tax impairments of $259.2 million, mainly reflecting lower oil price assumptions and non-cash de-recognition of undiscounted deferred tax assets of $3671.1 million.

Environmental, Social and Governance

Environmental

Emissions performance is an area of great importance to EnQuest as a responsible operator of oil and gas assets through the multi-decade energy transition, aiming to extend production lives safely, enhance cash flow profiles and reduce costs and emissions on mature assets, as society's reliance on hydrocarbons is reduced, thereby contributing towards the achievement of national emissions targets. The Group's absolute Scope 1 and 2 emissions were 11.2% lower in 2020 compared to 2019, primarily reflecting the Group's decisions to cease production at its Heather/Broom, Thistle/Deveron and Alma/Galia assets. The Group has also set itself a challenging target to deliver a further reduction in Scope 1 and 2 emissions of c.10% over the next three years from its existing portfolio through the identification and implementation of economic emission reduction opportunities, with the achievement of this target linked to reward. Emission reduction is also part of the acquisition review process, with a carbon price built into economic evaluation. The Group continues to optimise sales of Kraken cargoes directly to the shipping fuel market, avoiding emissions related to refining and helping reduce sulphur emissions in accordance with the IMO 2020 regulations.

Social - Health and safety

EnQuest's absolute priority has consistently been SAFE Results, no harm to our people and respect for the environment. During 2020, an independent review of the safety culture provided positive feedback on the strong commitment to safety throughout EnQuest, with well-motivated and informed people supported by robust processes. This culture was clearly evidenced as the Company successfully implemented a number of mitigations to minimise the impact of COVID-19 on its people and operations. Despite the necessary disruption caused by the Group's enhanced procedures and protocols, the Group achieved: a Lost Time Incident frequency rate of just 0.22, 61% lower than 2019 and well below the UK Continental Shelf benchmark of 1.28; a 79% reduction in safety-critical repair orders; and a reduction in reportable hydrocarbon releases. However, challenges were experienced with pipeline integrity at the Sullom Voe Terminal in the UK and the detached riser on PM8/Seligi in Malaysia. EnQuest is committed to continuous improvement in asset integrity and, with the support of third parties to give an independent viewpoint, there is an ongoing review to identify strengths and opportunities in the Group's integrity management system.

Alongside the ongoing focus on physical safety, the Group offered additional support that focused on the welfare of its employees' mental health and wellbeing throughout the year, recognising the impact the global pandemic and the business transformation had on EnQuest's people. The workforce was provided with access to a number of services and a wide variety of challenges, competitions and communications to help keep people connected.

Social - People

The Group remains committed to improving workforce diversity and inclusion ('D&I'), and there was a renewed examination of the Company's approach during this period of intense change. A Company-wide D&I strategy, aligned to its updated D&I policy, was developed aimed at building awareness by providing education and understanding throughout the workforce. EnQuest also continued to support International Women in Engineering Day and the UK's AXIS Network. During 2021, enhanced diversity balance will continue to be a core driver of the Group's recruitment, employment and training policies and how it attracts, retains and develops a wide range of talent in the organisation. At present, 19% of EnQuest's leadership teams are female and 43% are from diverse ethnic backgrounds. The Group is committed to improving diversity further and an employee-led global community was established to explore and promote a greater sense of connectedness and celebration of difference at EnQuest. The 'EnQlusion' committee has already hosted a talk from the Association for Black and Minority Ethnic Engineers and continue to work on ways to develop a more diverse and inclusive workplace.

Social - Communities

EnQuest has also continued to provide support to the communities in which it works. In Malaysia, EnQuest is sponsoring two university students to study STEM-related subjects at University Malaya and Universiti Teknologi Malaysia and has also signed a Memorandum of Agreement to sponsor the 'IChemE' accreditation of the Chemical Engineering programme at The National University of Malaysia. The Group continues to provide financial support to a local school and other charitable organisations. In the UK, local community support included financial contributions to charitable organisations throughout the year, with donations of excess personal protective equipment from offshore to Shetland NHS and a local care home in Aberdeen and the redeployment of frozen meals to an Aberdeenshire food bank during the COVID-19 pandemic.

2021 performance and outlook

In February, EnQuest signed an agreement to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area, comprising the producing Golden Eagle, Peregrine and Solitaire fields for an initial consideration of $325 million. Upon completion, the acquisition will add immediate material low-cost production and cash flow to EnQuest and will allow the Group to accelerate the use of its tax losses. EnQuest plans to finance the transaction through a combination of a new secured debt facility, interim period post-tax cash flows between the economic effective date of 1 January 2021 and completion, and an equity raise. It is anticipated the new secured debt facility will incorporate the refinancing of the existing outstanding senior credit facility.

Production performance to the end of February has been towards the lower end of the guidance range. An unplanned third-party outage, power-related failures and ongoing well repair activities at Magnus, along with short duration shutdowns at Kraken for tether inspections and repairs, have been partially offset by PM8/Seligi wells coming back online ahead of schedule. Repairs are now complete on the Kraken tethers and Magnus power systems. In addition, a successful Magnus well intervention and early commissioning of gas lift at Kittiwake have further increased production from the end of February.

For the full year, the Group's net production is expected to be between 46,000 and 52,000 Boepd (excluding any contribution from the proposed Golden Eagle transaction) and includes the cessation of production at the Dons which occurred as planned in the first quarter, continued low production at PM8/Seligi until repairs on the riser are completed during the second half of the year and natural declines across the portfolio. Kraken gross production is expected to be between 30,000 and 35,000 Bopd (21,150 and 24,675 Bopd net), reflecting natural declines.

The Group continues to focus on cost control and capital discipline, with operating expenditures expected to be approximately $265 million and combined cash capital and abandonment expenditure is expected to be around $120 million, all of which are lower than 2020. Capital expenditure primarily relates to licence to operate activities and abandonment expense primarily reflects decommissioning programmes at Heather/Broom, including an acceleration of some work scopes, the Thistle/Deveron fields and the Dons.

Longer-term development

EnQuest has been transformed in 2020 with a focused portfolio and a materially lower cost base. At the end of 2020, the Group had c.279 MMbbls of net 2C resources, primarily located at Bressay, Magnus and Kraken in the UK and PM8/Seligi and PM409 in Malaysia. The completion of the Bressay acquisition provides EnQuest with a further opportunity to demonstrate its proven capabilities in low-cost drilling, near-field and heavy oil development. The low-cost Golden Eagle field will provide incremental production, reserves and resources, with a number of unsanctioned activities associated with further sub-sea and platform infill drilling, topsides water debottlenecking and an active well intervention programme being assessed. With a focus on short-cycle projects, EnQuest is able to adjust its capital allocation decisions to match the prevailing oil demand and price environment, balancing debt reduction, the development of its existing portfolio, the acquisition of suitable growth opportunities and returns to shareholders.

EnQuest successfully managed the unique set of challenges presented in 2020, taking decisive action to protect and enhance the business. The focus on extending the useful lives of existing assets through operational improvements and reducing emissions is well suited to operating through the energy transition, meaning EnQuest is well placed to succeed in a changing world.

Operating review

UK Upstream operations

2020 performance summary
Production of 50,334 Boepd was 2.5% higher than in 2019, reflecting strong performances at Kraken and Scolty/Crathes, partially offset by lower than expected performance at Magnus and natural declines across the Upstream portfolio.

Magnus
2020 performance summary
Production of 17,416 Boepd was 4.7% lower than in 2019. Performance was impacted by gas compressor and seawater lift pump availability and natural declines. Offsetting this was the contribution from two new wells, which came onstream in the first quarter combined with good production and water injection efficiency, both of which averaged c.80%.

During the year, the Group continued to focus on activities to improve production, including well interventions, reservoir management and gas compression optimisation, in addition to successfully completing a planned maintenance shutdown in October.

2021 performance and outlook
Average production in the first two months of 2021 was 13,770 Boepd, impacted by an unplanned third-party outage and power failures, which have now been resolved.

Looking ahead, shutdowns with a duration equivalent of around two weeks are planned over the summer to undertake essential maintenance work, while further production enhancement activities will continue to be assessed and implemented throughout the year.

Preparatory works will be undertaken in 2021 ahead of the planned development drilling programme in 2022. In addition, following the award of block 211/12b as part of the 32nd licensing round, the Group will commence subsurface studies to assess the block for future opportunities. With 2C resources of c,35 MMboe, Magnus offers the Group significant low-cost drilling opportunities in the medium term, in addition to an estimated c.250 MMbbls of remaining mobile oil in place that requires further evaluation to identify future drilling and tie-back prospects.

Kraken
2020 performance summary
Average gross production was 37,518 Bopd, 5.1% higher than in 2019 and ahead of the top end of the Group's 2020 guidance range of 30,000 to 35,000 Bopd (gross) (21,150 and 24,675 Bopd net). Production efficiency of 87% and water injection efficiency of 91% remained strong with the FPSO vessel performing well throughout the year. During the third quarter, the Group successfully completed the planned shutdown to undertake essential maintenance work, although unplanned repairs were required to the DC1 riser in the fourth quarter which resulted in two producer wells being shut in for approximately two weeks.

Overall subsurface and well performance has been good, with water cut evolution remaining stable. The Group has continued to focus on optimising production through improved producer-injector well management, incorporating the results of regular well testing programmes. In addition, drilling at Worcester was concluded in the first half of the year with a new producer-injector pair coming onstream late in the second quarter.

Since the delivery of first oil in June 2017, gross output has significantly increased from 7.7 MMbbls in the first 12 months of operation to over 13.7 MMbbls for the full year 2020. This equates to over 40 million barrels produced since inception.

Due to its low sulphur content, the Group is able to optimise Kraken cargo sales into the shipping fuel market with Kraken oil a key component of IMO 2020 compliant low-sulphur fuel oil. As such, the Group benefits from strong pricing in the market and avoids refining-related emissions.

2021 performance and outlook
Average gross production of 33,723 Bopd for the first two months of 2021 is in line with guidance and cargoes have continued to be sold at a premium to Brent.

A very short shutdown was undertaken during the first quarter to complete a riser tether repair, while over the summer, a further short shutdown is being reviewed to undertake essential maintenance work.

The Group is not currently planning to return to drilling until 2023. However, the Group plans to carry out a 3D seismic campaign in the second half of 2021 to support ongoing evaluation work to identify and prioritise near-field drilling and sub-sea tie-back opportunities within the Pembroke, Antrim and Maureen sands discoveries and prospects in the western area, which holds an estimated 70–130 MMbbls of STOIIP.

The Group expects Kraken production to be between 30,000 Bopd and 35,000 Bopd (21,250 and 24,675 Bopd net) in 2021.

Other Upstream assets
2020 performance summary
Production of 6,468 Boepd was 14.6% higher than in 2019, driven by a strong performance at Scolty/Crathes following the completion of the pipeline replacement project in the third quarter of 2019. Both the Scolty and Crathes wells have been performing well, with optimisation activities continuing to partly mitigate expected natural declines. This strong performance was partially offset by lower production elsewhere in the Greater Kittiwake Area ('GKA'), primarily as a result of a failure of an umbilical providing power to the Mallard and Gadwall wells impacting production, along with underlying natural declines.

Given the COVID-19 pandemic, the four-week Forties Pipeline System ('FPS') planned shutdown was deferred to 2021. Instead, a short planned shutdown was completed in the third quarter to undertake essential maintenance work.

At Alba, performance continued in line with the Group's expectations.

2021 performance and outlook
Aggregate production to the end of February was 3,821 Boepd.

At Scolty/Crathes, gas lift was introduced late in the first quarter to support production, while at GKA, a return to normal production levels is expected during the second half of the year, following the reinstatement of power to the Mallard and Gadwell wells. A planned four-week shutdown is expected to be undertaken during the second quarter, in line with the Forties Pipeline System shutdown deferred from 2020.

In January, the Group announced the Bressay transaction had been successfully completed. This acquisition provides the Group with the opportunity to develop around 115 MMbbls (net) 2C resources, offering a long-term, low-risk production opportunity that has similarities to the Group's Kraken field. Under the agreement, EnQuest has assumed operatorship of the licences with a participating interest of 40.81% for an initial consideration of £2.2 million, payable as a carry against 50% of Equinor's net share of costs from the point EnQuest assumed operatorship. During 2021, detailed analysis of existing reservoir data and an assessment of potential development options will be undertaken.

UK Midstream operations

2020 performance summary
The Group's delivery infrastructure in the UK North Sea is, to a significant extent, dependent on the SVT and its associated pipelines. With safe and reliable performance continuing at SVT, the Group has been able to maintain 100% service availability at the terminal.

During the second quarter, a major milestone was achieved in bringing Jetty 3 back into operation after almost seven years, with safe operations maintained throughout project delivery. The re-introduction of operations at the jetty provides the Group with additional capacity which helps to ensure greater service availability for customers. Following this increased capacity, the Group was pleased to welcome the Very Large Crude Carrier ('VLCC') "Front Endurance" to the terminal to load a cargo of c.1.8 MMbbls of Brent oil, the first VLCC to visit SVT since 2010.

Since taking over operatorship at SVT, the Group has worked in close collaboration with all its stakeholders to optimise safely and sustainably the size and scale of plant required to ensure the terminal continues to meet existing and future customer needs. This focus has driven base operating expenditure reductions of around one-third, through progressively reducing the physical infrastructure in place, with the efficiency programme continuing to progress in line with expectations.

In pipelines, good progress has been made undertaking planned repairs and remediation work on delivery infrastructure to ensure continued smooth operations. The Group also successfully completed planned shutdowns on the Ninian Pipeline System and connected sub-sea network.

2021 performance and outlook
It has been a good start to the year, with stable operations and plant availability continuing at SVT and the associated pipeline infrastructure.

In March, the Group was pleased to receive confirmation that negotiations with BP for the long-term export solution for the Clair Development would continue.

During 2021, planned maintenance is scheduled to be undertaken on Jetty 2 which, once completed, will improve the service offering to customers. The Group also expects to undertake a number of planned maintenance inspections on the Northern Leg Gas pipeline.

The Group is continuing to evaluate its options at SVT to optimise and accelerate its drive to deliver further efficiencies, including emissions reductions. EnQuest is focused on maintaining safe and reliable operations at the terminal while transforming its operations to ensure it has the right service footprint in place to deliver a competitive, cost-effective and reliable service to existing and future users.

The strategic importance and geographical positioning of SVT has enabled EnQuest to participate in Project Orion, an initiative being developed by the Shetland Islands Council and the Oil and Gas Technology Centre aiming to deliver a clean, sustainable energy future for Shetland and the UK.

UK Decommissioning

2020 performance summary
Average production of 2,346 Boepd was 78.4% lower than in 2019, primarily reflecting the decisions to cease production at the Heather/Broom and Thistle/Deveron fields, which during 2019 contributed c.6,000 Boepd. At the Dons, production was impacted by a lack of gas lift which was no longer available from Thistle, combined with underlying natural declines. As such, preparations commenced for the field to cease production during the first quarter of 2021. As planned, Alma/Galia ceased production in June 2020, with the EnQuest Producer FPSO moving off station in September and sailing to the oil terminal jetty at Nigg, where the Group continues to evaluate options for its future.

The cessation of production ('CoP') application at Heather was accepted by the regulator in June, reducing EnQuest's share of costs from 100% to 37.5% and allowing decommissioning to commence. The platform remained shut in and depressurised all year, with front end engineering activities being undertaken ahead of the resumption of the well abandonment programme in 2021. At Broom the application for CoP has been submitted to the regulators and approval is expected shortly.

At the Thistle platform, project activities related to the successful removal of the redundant crude oil storage tanks were concluded over the summer. In June, the CoP application for Thistle/Deveron was accepted, resulting in EnQuest's share of post-tax costs reducing from 99% to 6.1% and allowing for the decommissioning phase to begin. The facility remained unmanned all year, although preservation visits to the Thistle platform took place as part of the preparatory works ahead of the planned 2021 well abandonment programme.

2021 performance and outlook
As expected, the Dons ceased production in early 2021 following the receipt of necessary partner and regulatory approvals in respect of CoP. The Northern Producer floating production facility is being used for initial decommissioning activities, such as flushing of the sub-sea infrastructure and to support implementation of effective well isolations. Once these activities have been completed, anticipated early in the second quarter, the vessel will depart the field and be handed back to the owner.

At Thistle/Deveron, work will continue on the rehabilitation project alongside ongoing preparations for commencement of the well abandonment program, which is expected to commence in the fourth quarter.

On Heather/Broom activities to optimise the well abandonment programme and ready the rig for decommissioning have continued. Once completed, plug and abandonment of the development's 41 wells is expected to begin in the third quarter of 2021, with the work programme anticipated to continue for approximately three years.

Malaysia operations

2020 performance summary

In Malaysia, average production was 6,436 Boepd, 25.6% lower than in 2019. This decrease primarily reflected the impact of a riser becoming detached at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform. This resulted in a release of gas which initiated an automatic emergency shutdown of the PM8/Seligi field. The Group's safety systems and emergency response procedures were successfully implemented, with all personnel onboard mustered safely. Following an initial investigation and safety assessment, partial operations were able to be recommenced within two days, with wells flowing under natural pressures.

In June, a short planned maintenance shutdown was successfully completed at PM8/Seligi, with a total outage of two days being achieved, well within the anticipated original five-day outage.

On Block PM409, an area containing several undeveloped discoveries and situated close to the Group's existing PM8/Seligi PSC hub, prospects have been progressed through geotechnical studies. The initial four-year exploration term of the PSC commits the partners to the drilling of one well.

2021 performance and outlook

In line with Group expectations, production has remained impaired for the first two months of 2021, although restoration efforts have been accelerated, with PM8/Seligi wells coming back online ahead of schedule. Normal levels are expected to return during the second half of the year when the damaged riser and pipeline is anticipated to be replaced.

Over the summer, the Group has scheduled a planned five-day shutdown to undertake essential maintenance activities.

EnQuest has significant 2P reserves and 2C resources of c.22 MMboe and c.87 MMboe, respectively, in Malaysia. With a number of low-cost drilling and workover targets having been identified at PM8/Seligi, the Group expects to resume development drilling in 2022, subject to partner approvals. At PM409, the Group continues to high grade the prospects in the block to identify suitable drilling opportunities with the intent for future development.

Financial review

Financial overview

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

2020 was an extremely challenging year with the oil price collapse of March 2020, the COVID-19 pandemic and the resulting impacts on the macro-economic environment. As a result, the Company went through significant changes including decisions to cease production at some assets and transform the organisation with a focus on cost and capital expenditure reduction. Notwithstanding the very challenging environment, the Group delivered on its 2020 production and cost guidance. The early and decisive action to reduce costs resulted in operating and capital expenditures being $295.6 million lower than 2019, materially lowering the Group's free cash flow breakeven.

Revenue and EBITDA were materially lower, impacted by the lower realised commodity prices and lower production compared to 2019. The Group's senior credit facility reduced to $377.3 million including payment in kind ('PIK') following the voluntary early repayment in 2020 of the $65.0 million amortisation due in April 2021.

Production on a working interest basis decreased by 13.8% to 59,116 Boepd, compared to 68,606 Boepd in 2019. This decrease primarily reflected the decisions to cease production at the Heather/Broom and Thistle/Deveron fields, which during 2019 contributed c.6,000 Boepd. In Malaysia, production was lower as a result of the detached riser system at the Seligi Alpha platform. At the Dons, production was impacted by a lack of gas lift which is no longer available from Thistle, combined with underlying natural declines. As planned, Alma/Galia ceased production in June. These decreases were partially offset by higher production at Kraken, driven by a good performance from the FPSO.

Revenue for 2020 was $856.9 million, 49.9% lower than in 2019 ($1,711.8 million) reflecting the materially lower realised prices and lower production. The Group's commodity hedge programme resulted in realised losses of $6.1 million in 2020 (2019: gains of $24.8 million).

The Group's operating expenditures of $328.6 million were 36.6% lower than in 2019 ($518.1 million), primarily reflecting the Group's focus on cost control and its 2020 transformation programme, the decisions to cease production at Heather/Broom and Thistle/Deveron and the cessation of production at Alma/Galia. Unit operating costs decreased to $15.2/Boe (2019: $20.6/Boe).

Other cost of operations of $53.4 million were lower than in 2019 ($97.5 million), principally as a result of lower cost of Magnus-related third-party gas purchases reflecting lower market prices for gas.

EBITDA for 2020 was $550.6 million, down 45.3% compared to 2019 ($1,006.5 million), primarily as a result of lower revenue.

	2020 $ million	2019 $ million
Profit/(loss) from operations before tax and finance income/(costs)	**(20.0)**	442.1
Depletion and depreciation	**445.9**	533.4
Change in provision	**95.2**	-
Change in well inventories	**24.9**	14.6
Net foreign exchange (gain)/loss	**4.6**	16.4
EBITDA	**550.6**	1,006.5

EnQuest's net debt decreased by $133.3 million to $1,279.7 million at 31 December 2020 (31 December 2019: $1,413.0 million). This includes $205.8 million of interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing (PIK) (31 December 2019: $133.3 million) (see note 18 for further details).

	Net debt/(cash)[1]	
	31 December 2020 $ million	31 December 2019 $ million
Bonds	**1,048.3**	971.9
Multi-currency revolving credit facility ('RCF')	**377.3**	475.1
Sculptor Capital facility	**67.7**	122.9
Tanjong Baram Project Finance Facility	**–**	31.7
SVT Working Capital Facility	**9.2**	31.9
Cash and cash equivalents	**(222.8)**	(220.5)
Net debt	**1,279.7**	1,413.0

Note:
1 See reconciliation of net debt within the 'Glossary – Non-GAAP measures' starting on page 68

In January 2021, EnQuest made a voluntarily early repayment of $25.0 million on the RCF, resulting in a final outstanding payment of $352.3 million, including PIK, due on 1 October 2021.

In June 2020, EnQuest repaid the entire $31.7 million of the Tanjong Baram Project Finance facility having received the first of three instalments from Petronas for reimbursement of outstanding net capital expenditure of around $51.1 million relating to the Tanjong Baram project. The remaining two reimbursement instalments were received during the second half of the year (note 5d).

$72.5 million of bond interest was settled through the issue of additional notes (PIK) and capitalised to the principal of the facilities in the year, reflecting an average oil price of less than $65/bbl over the relevant cash payment condition period in accordance with the terms of the bonds.

The strong production performance at Kraken has driven a $55.2 million reduction in the Sculptor Capital facility in the year.

The Group continues to have unrestricted access to its unrecognised UK North Sea corporate tax losses, which at the end of the year increased to $3,183.9 million (2019: $2,903.4 million). In the current environment, no significant corporation tax or supplementary charge is expected to be paid on UK operational activities for the foreseeable future. The Group paid cash corporate income tax on the Malaysian assets, which will continue throughout the life of the Production Sharing Contract.

Income statement

Revenue

On average, market prices for crude oil in 2020 were significantly lower than in 2019. The Group's average realised oil price excluding the impact of hedging was $41.6/bbl, 35.2% lower than in 2019 ($64.2/bbl). Revenue is predominantly derived from crude oil sales, which totalled $779.9 million, 49.6% lower than in 2019 ($1,548.2 million), reflecting the significantly lower oil prices, a reduction of production and moving from a net overlift to a net underlift position at the end of the year. Revenue from the sale of condensate and gas was $60.5 million (2019: $120.2 million), as a result of the significantly lower gas prices. Tariffs and other income generated $22.6 million (2019: $18.7 million). The Group's commodity hedges and other oil derivatives contributed $6.1 million of realised losses (2019: gains of $24.8 million), including gains of $6.2 million of non-cash amortisation of option premiums (2019: gains of $4.9 million) as a result of the timing at which the hedges were entered into. The Group's average realised oil price including the impact of hedging was $41.3/bbl in 2020, 36.8% lower than 2019 ($65.3/bbl).

Note: For the reconciliation of realised oil prices see 'Glossary – Non-GAAP measures' starting on page 68

Cost of sales[1]

	2020 $ million	2019 $ million
Production costs	**265.5**	441.6
Tariff and transportation expenses	**63.7**	74.8
Realised (gain)/loss on derivatives related to operating costs	**(0.6)**	1.7
Operating costs	**328.6**	518.1
(Credit)/charge relating to the Group's lifting position and inventory	**(34.8)**	102.9
Depletion of oil and gas assets	**438.2**	525.1
Other cost of operations	**53.5**	97.5
Cost of sales	**785.5**	1,243.6
Unit operating cost[2]	**$/Boe**	$/Boe
– Production costs	**12.3**	17.6
– Tariff and transportation expenses	**2.9**	3.0
Average unit operating cost	**15.2**	20.6

Notes:
1 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 68
2 Calculated on a working interest basis

Cost of sales were $785.5 million for the year ended 31 December 2020, 36.8% lower than in 2019 ($1,243.6 million).

Operating costs decreased by $189.5 million, primarily reflecting the Group's focus on cost control and its 2020 transformation programme, the decisions to cease production at Heather/Broom and Thistle/Deveron and the cessation of production at Alma/Galia. Unit operating costs decreased by 26.2% to $15.2/Boe (2019: $20.6/Boe) as a result of the material reduction in costs having a greater impact than the lower production in 2020.

The credit relating to the Group's lifting position and inventory was $34.8 million (2019: charge of $102.9 million). This primarily reflects a switch to a $3.0 million net underlift position at 31 December 2020 from a $28.6 million net overlift position at 31 December 2019.

Depletion expense of $438.2 million was 16.5% lower than in 2019 ($525.1 million), mainly reflecting the asset impairments at half-year 2020 and year-end 2019, along with lower production.

Other cost of operations of $53.5 million were lower than in 2019 ($97.5 million). This primarily reflects the lower cost of Magnus-related third-party gas purchases following the reduction in the market price for gas, partially offset by the $24.9 million inventory write down recognised in the year, which principally relates to inventory held at assets now scheduled for decommissioning.

Other income and expenses
Net other expense of $85.3 million (2019: net other expense of $18.4 million) is primarily due to recognising $83.2 million in relation to the increase in the decommissioning provision of fully impaired assets, $12.0 million relating to the change in estimate of Thistle decommissioning liability and foreign exchange losses of $4.6 million, partially offset by $10.2 million gain on the termination of the Tanjong Baram risk service contract.

Finance costs
Finance costs of $179.8 million were 13.0% lower than in 2019 ($206.6 million). This decrease was primarily driven by a reduction of $35.0 million in interest charges associated with the Group's loans (2020: $32.8 million; 2019: $67.8 million) offset by a $10.9 million increase in bond interest (2020: $73.5 million; 2019: $62.6 million). Other finance costs included lease liability interest of $50.9 million (2019: $55.7 million), $15.3 million on unwinding of discount on decommissioning provisions and other liabilities (2019: $14.1 million), $5.4 million amortisation of arrangement fees for financing facilities and bonds (2019: $5.7 million) and other financial expenses of $2.0 million (2019: $2.1 million), primarily being the cost for surety bonds to provide security for decommissioning liabilities.

Taxation
The tax credit for 2020 of $172.5 million (2019: $23.6 million tax charge), excluding exceptional items, is mainly due to the Ring Fence Expenditure Supplement (RFES) on UK activities generated in the year.

Remeasurement and exceptional items
Remeasurements and exceptional items resulting in a post-tax net loss of $599.6 million have been disclosed separately for the year ended 31 December 2020 (2019: loss of $663.6 million).

Revenue included unrealised gains of $8.8 million in respect of the mark-to-market movement on the Group's commodity contracts (2019: unrealised losses of $65.4 million).

Cost of sales included expenses of: $5.9 million in relation to the PM8/Seligi riser repair provision; $5.8 million in relation to the Group's transformation costs; and $1.9 million in relation to unrealised losses on FX derivatives.

Non-cash impairment charges of $422.5 million (2019: $812.4 million) on the Group's oil and gas assets arises from a reduction in the long-term oil price.

Other income included a $138.2 million gain in relation to the fair value recalculation of the Magnus contingent consideration reflecting the reduction in oil price assumption (2019: $15.5 million expense). Other finance costs mainly relates to the unwinding of contingent consideration from the acquisition of Magnus and associated infrastructure and interest charged on the vendor loan of $77.3 million (2019: $57.2 million).

A net tax charge of $232.3 million (2019: credit of $303.5 million) has been presented as exceptional, representing the non-cash de-recognition of undiscounted deferred tax assets of $371.1 million given the Group's lower oil price assumptions, partially offset by the tax impact of the above items. EnQuest continues to have unrestricted access to its full unrecognised UK North sea corporate tax losses of $3,183.9 million at 31 December 2020.

IFRS results
The Group's results on an IFRS basis are shown on the Group Income Statement as 'Reported in the year', being the sum of our Business performance results and our Remeasurements and exceptional items, both of which are explained above.

Our IFRS revenue reflects our Business performance revenue, but adjusted for the impact of unrealised movements on derivative commodity contracts. Business performance Cost of sales is similarly adjusted for the impact of unrealised movements on derivative contracts, together with various exceptional provisions as noted above. Taking account of these items, and the other exceptional items included within the Group income statement which are principally related to impairment charges and the change in fair value of contingent consideration payable, our IFRS loss from operations before tax and finance costs was $310.1 million (2019: loss of $467.8 million), our IFRS loss before tax was $566.0 million (2019: loss of $792.1 million), and our IFRS loss after tax of $625.8 million (2019: loss of $449.3 million).

Earnings per share
The Group's Business performance basic loss per share was 0.2 cents (2019 profit per share: 13.1 cents) and diluted loss per share was 0.2 cents (2019 profit per share: 13.0 cents).

The Group's reported basic loss per share was 37.8 cents (2019 loss per share: 27.4 cents) and reported diluted loss per share was 37.8 cents (2019 loss per share: 27.4 cents).

Cash flow and liquidity

Net debt at 31 December 2020 amounted to $1,279.7 million, including PIK of $205.8 million, compared with net debt of $1,413.0 million at 31 December 2019, including PIK of $133.3 million. The movement in net debt was as follows:

	$ million
Net debt 1 January 2020	**(1,413.0)**
Net cash flows from operating activities	522.1
Cash capital expenditure	(131.4)
Net interest and finance costs paid	(42.2)
Finance lease payments	(123.0)
Repayments on Magnus financing and profit share	(61.8)
Net cash received on termination of Tanjong Baram risk service contract	51.1
Non-cash capitalisation of interest	(73.5)
Other movements, primarily net foreign exchange on cash and debt	(8.0)
Net debt 31 December 2020[1]	**(1,279.7)**

Note:
1 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 68

The Group's reported net cash flows from operating activities for the year ended 31 December 2020 were $522.1 million, down 45.7% compared to 2019 ($962.3 million). The main drivers for this decrease were materially lower realised prices and a decrease in production, partially offset by the significant reduction in operating expenditure.

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

	Year ended 31 December 2020 $ million	Year ended 31 December 2019 $ million
North Sea	**127.0**	224.4
Malaysia	**4.4**	13.0
Exploration and evaluation	**-**	0.1
	131.4	237.5

Cash capital expenditure in 2020 primarily related to Kraken and Magnus drilling activities.

Balance sheet

The Group's total asset value has decreased by $1,069.9 million to $3,706.7 million at 31 December 2020 (2019: $4,776.6 million), mainly due to the impairment charge on the Group's tangible oil and gas assets and depletion of oil and gas assets. Net current liabilities have increased to $536.9 million as at 31 December 2020 (2019: $282.7 million). Included in the Group's net current liabilities are $101.8 million of estimated future obligations where settlement is subject to the financial performance at Kraken and Magnus (2019: $178.7 million).

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

PP&E has decreased by $817.0 million to $2,633.9 million at 31 December 2020 from $3,450.9 million at 31 December 2019 (see note 10). This decrease encompasses the capital additions to PP&E of $83.6 million, a net increase of $10.2 million for changes in estimates for decommissioning and other provisions, offset by non-cash impairments of $422.5 million and depletion and depreciation charges of $445.9 million, and $42.5 million related to disposals and the termination of the Tanjong Baram risk service contract.

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

	2020 $ million
North Sea	**81.4**
Malaysia	**2.2**
	83.6

Trade and other receivables

Trade and other receivables decreased by $160.8 million to $118.7 million at 31 December 2020 compared with $279.5 million at 31 December 2020. The decrease is driven by a reduction in trade and joint venture debtors, mainly attributable to shorter contractual payment terms for cargos lifted at the end of 2020.

Cash and net debt
The Group had $222.8 million of cash and cash equivalents at 31 December 2020 and $1,279.7 million of net debt, including PIK and capitalised interest of $214.2 million (2019: $220.5 million, $1,413.0 million and $140.7 million, respectively).

Net debt comprises the following liabilities:

- $249.2 million principal outstanding on the £155.0 million retail bond, including interest capitalised as PIK of $39.4 million (2019: $225.7 million and $22.1 million, respectively);
- $799.2 million principal outstanding on the high yield bond, including interest capitalised as PIK of $149.2 million (2019: $746.1 million and $96.1 million, respectively);
- $377.3 million of credit facility, comprising amounts drawn down of $360 million and interest capitalised as PIK of $17.3 million (2019: $475.1 million, $460.0 million and $15.1 million, respectively);
- $67.7 million on the Sculptor Capital facility, comprising amounts drawn down of $59.4 million and capitalised interest of $8.4 million (2019: $122.9 million, $115.5 million and $7.4 million, respectively);
- $9.2 million relating to the SVT Working Capital Facility (2019: $31.9 million); and
- $nil relating to the Tanjong Baram Project Finance Facility (2019: $31.7 million).

Provisions
The Group's decommissioning provision increased by $66.3 million to $778.2 million at 31 December 2020 (2019: $711.9 million). The movement is due to an increase in changes in estimates of $85.9 million, $7.5 million of additions and $14.5 million unwinding of discount, partially offset by utilisation of $41.6 million for decommissioning carried out in the year.

Other provisions, including the Thistle decommissioning provision, increased by $11.1 million in 2020 to $62.2 million (2019: $51.1 million). The Thistle decommissioning provision of $53.1 million is in relation to EnQuest's obligation to make payments to BP by reference to 7.5% of BP's decommissioning costs of the Thistle and Deveron fields. Other provisions also include $5.9 million in relation to the PM8/Seligi riser repair provision.

Contingent consideration
The contingent consideration related to the Magnus acquisition decreased by $135.0 million. In 2020, EnQuest paid $74.0 million to BP (2019: $88.4 million). The payment primarily related to the $31.0 million partial repayment of the 75% interest vendor loan and interest and $41.1 million relating to BP's entitlement to share in the cash flows from the 75% interest. A change in fair value estimate charge of $138.2 million (2019: $15.5 million) and finance costs of $77.3 million (2019: $57.2 million) was recognised in the year.

Income tax
The Group had an income tax receivable of $5.6 million (2019: $4.1 million payable) related to the net of corporate income tax on Malaysian assets and North Sea Research and Development Expenditure Credits.

Deferred tax
The Group's net deferred tax asset has decreased from $555.1 million at 31 December 2019 to $497.6 million at 31 December 2020. This is driven by non-cash partial de-recognition of undiscounted deferred tax assets given the Group's lower oil price assumptions partially offset by other movements in relation to capital expenditure and Ring Fence Expenditure Supplement. EnQuest continues to have access to its full unrecognised UK corporate tax losses carried forward at 31 December 2020 amounting to $3,183.9 million (31 December 2019: $2,903.4 million).

Trade and other payables
Trade and other payables of $255.2 million at 31 December 2020 are $164.7 million lower than at 31 December 2019 ($419.9 million). The full balance of $255.2 million is payable within one year. This decrease is driven by a reduced cost base following the Group's transformation programme and a reduction in the Group's overlift position.

Leases obligations
As at 31 December 2020, the Group held a lease liability of $647.8 million (2019: $716.2 million).

Financial risk management
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. The disclosures in relation to financial risk management objectives and policies, including the policy for hedging, and the disclosures in relation to exposure to oil price, foreign currency and credit and liquidity risk, are included in note 27 of the financial statements.

Going concern disclosure
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 costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also settled the required term loan amortisations on or ahead of schedule, with no further scheduled payments required prior to maturity in October 2021 following the voluntary repayment of the April 2021 amortisation in the fourth quarter of 2020.

The Group continues to monitor actively the impact on operations from COVID-19 and the health, safety and wellbeing of its employees is its top priority. The Group remains compliant with UK, Malaysia and Dubai government and industry policy. The Group has also been working with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk. At the time of publication of EnQuest's full year results, the Group's day-to-day operations continue without being materially affected by COVID-19.

The Group's latest approved business plan underpins management's base case ('Base Case') and is in line with the Group's production guidance, assumes a refinancing of the existing Revolving Credit Facility ('RCF') prior to maturity in October 2021 with a new facility and uses oil price assumptions of $60/bbl from March to December 2021 and $58/bbl to the end of the first quarter 2022.

The Base Case has been subjected to stress testing by considering the impact of the following plausible downside risks (the 'Downside Case'):

- 10.0% discount to Base Case prices resulting in Downside Case prices of $54.0/bbl from March to December 2021 and $52.2/bbl for 2022;
- Production risking of c.4.0% for 2021; and
- Incremental decommissioning security of $43 million is met through letters of credit resulting in a reduction in headroom as letters of credit are drawings under the RCF.

The Base Case and Downside Case indicate that the Group is able to operate as a going concern with refinanced borrowing facilities for 12 months from the date of publication of its full year results. The Directors have also performed reverse stress testing on the Base Case, with the breakeven price for liquidity in the Going Concern period being c.$30/bbl under the assumption the existing facility is refinanced. In addition, under the Base Case prices, a minimum size of facility or alternative financing arrangement of approximately $100 million would be required to maintain positive headroom should the existing facility not be refinanced.

The quarterly liquidity covenant in the existing facility (the 'Liquidity Test') requires that the Group shows it has sufficient funds available to meet all liabilities of the Group when due and payable for the period commencing on each quarter and ending on the date falling 12 months after the final maturity date of 1 October 2021. The Liquidity Test will be applied for the quarters ended March 2021 and June 2021. The Liquidity Test assumptions include a price deck of the average forward oil price curve, minus a 10% discount, of 15 consecutive business days starting from approximately the middle of the previous quarter.

Under these prices, the Group forecasts no breaches in the Base Case for the Liquidity Test. By applying a discount in excess of 29% (19% in addition to the 10% discount stipulated in the Facility agreement), the Group would breach this covenant, prior to any mitigations such as asset divestments or other funding options. Under such an oil price scenario, the covenant breach would therefore require a covenant waiver to be obtained. The Directors are confident that waivers from the facility providers would be forthcoming. Should circumstances arise that differ from the Group's projections, the Directors believe that a number of mitigating actions, including refinancing, 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.

Within the going concern period, the RCF expires in October 2021 (see note 18). The Directors are confident that the Group will be able to refinance the RCF based on the Group's Base Case cash flow projections.

On 4 February 2021, the Group announced it had signed an agreement with Suncor Energy UK Limited ('Suncor') to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area for an initial consideration of $325 million, excluded from the Base Case. The Group also advised plans to finance the transaction through the combination of a new secured debt facility, an equity raise, and the interim period post-tax cash flows generated from the economic date of 1 January 2021 to transaction completion.

A final term sheet has been agreed following bilateral discussions with DNB and BNP (lead and co-technical banks) and has been approved by their respective credit committees. DNB and BNP have also received credit committee approval for material commitments to the new financing. The Directors are confident they will be able to complete the new financing given the feedback it has had from both current lenders and also potential new lenders. In the unlikely event the Suncor acquisition does not complete, the Directors are also confident they will be able to negotiate a new facility based on the Group's existing asset base or alternative financing arrangements such as a prepayment facility would be available to bridge any shortfall.

Whilst securing lenders commitment to the new facility remains on track, the new facility has not been signed at the time of publication of the Group's results. Although the Directors are confident that the new facility will be executed, the facility has not yet been signed; in these circumstances they have to conclude that this represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern, such that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the material uncertainty as described above, after making appropriate enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, and in particular the advanced state of the proposed refinancing agreement, the Directors have a reasonable expectation that the Group will 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 these financial statements.

Viability statement

The Directors have assessed the viability of the Group over a three-year period to March 2024. The viability assumptions are consistent with the going concern assessment, with the additional inclusion of an oil price of $58/bbl for the remainder of 2022, a longer term price of $60/bbl and refinancing of both the High Yield and Retail Bonds in October 2023. This assessment has taken into account the Group's financial position as at March 2021, 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 16 to 25. 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, covering repayment of the Group's term loan and maturation of both its High Yield and Retail bonds. Notwithstanding the material uncertainty as described above in the going concern disclosure, based on the Group's projections, including refinancing of the current facility and of both the High Yield and Retail bonds, 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 2024.

The Base Case 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.

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 have been reviewed on both an individual and combined basis by the Directors, while considering the effectiveness and achievability of potential mitigating actions.

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 5 MMbbls at an average floor price of around $55/bbl in 2021. The Directors, in line with Group policy, will continue to pursue hedging at the appropriate time and price.

Access to funding
Prolonged low oil prices, cost increases and production delays or outages could threaten the Group's liquidity and/or ability to refinance the RCF. In assessing viability, the Directors recognise the conclusion that the Group expects to negotiate a new facility or alternative financing arrangements.

The maturity date of the existing $799 million High Yield Bond and the £186 million Retail Notes (both figures at year end 2020 and inclusive of the PIK notes) is October 2023. The Directors recognise that refinancing would be required at or before the maturity date of the bonds, and believe this would be achievable subject to market conditions at that time. Under the oil price assumptions outlined above, the total amount of the High Yield Bond and Retail Notes outstanding at October 2023 would be $954 million and £228 million respectively. If oil prices were to be lower than those assumptions, then a refinancing of the bonds may require asset sales or other financing or funding options.

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 2024. Accordingly, the Directors therefore support this viability statement.

Risks and uncertainties

Management of risks and uncertainties
Consistent with the Company's purpose, 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, including those associated with reducing emissions, 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 the continued reduction in the Group's debt. In this regard, the Board has developed certain guiding strategic tenets that link with EnQuest's strategy and appetite for risk. Broadly, these reflect a focus by the Company on:

- Maintaining discipline across financial metrics such as ensuring adequate financial headroom;
- Enhancing diversity within our portfolio of assets, with a focus on underdeveloped producing assets and maturing assets with 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 ('RMF') to enhance effective risk management within the following Board-approved overarching statements of risk appetite:

- The Group makes investments and manages the asset portfolio against agreed key performance indicators consistent with the strategic objectives of enhancing net cash flow, reducing leverage, reducing emissions, managing costs and diversifying its asset base;
- The Group seeks to embed a risk culture within the organisation corresponding to the risk appetite which is articulated for each of its principal risks;
- The Group seeks to avoid reputational risk by ensuring that its operational and HSEA 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
- The Group sets 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; 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); and a continuous improvement plan, 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 Safety, Climate and Risk Committee (a sub-Committee of the Board) provides a forum for the Board to review selected individual risk areas in greater depth.

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 about which the Company should be cognisant of when developing its strategy. They include, for example, long-term supply and demand trends, developments in technology, demographics, the financial and physical risks associated with 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, adapting its strategy accordingly. For example, while climate change is now a discrete, standalone risk within the Group's 'Risk Library', 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 22 – and oil price – see 'Oil and gas prices' risk on page 20). 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. This flexibility also ensures the Group has some inherent mitigation against the potential impact of "stranded assets".

As part of its evolution of the Group's RMF, the Safety, Climate and Risk Committee has refreshed its views on all risk areas faced by the Group (categorising these into a 'Risk Library' of 19 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 Committee and the Safety, Climate and Risk Committee, has reviewed the Group's system of risk management and internal control for the period from 1 January 2020 to the date of this report and carried out a robust assessment of the

Company's emerging and principal risks and the procedures in place to identify and mitigate these risks. The Board 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'.

Near-term and emerging risks

As outlined above, the Group's RMF is embedded in all levels of the organisation with asset risk registers, regional and functional risk registers and ultimately an enterprise level 'Risk Library'. This integration enables the Group to quickly identify, escalate and appropriately manage emerging risks.

During 2020, work was undertaken to enhance the integration of these risk registers to allow management to understand better the various asset risks and how these ultimately impact on the enterprise level risk and their associated 'Risk Bowties'. In turn, this ensures that the preventative and containment controls in place for a given risk are reviewed and robust based upon the identified risk profile. It also drives the required prioritisation of deep dives to be undertaken by the Safety, Climate and Risk Committee. For example, a number of risks in relation to asset integrity at an asset level have been escalated, ultimately resulting in a deep dive of the 'Risk Bowties' in relation to the enterprise level risks that are impacted by asset integrity risk, such as HSEA. After careful analysis and assessment, and in light of the increasing importance of climate change-related issues, the Board recognised climate change as a discrete, standalone risk within the 'Risk Library'.

The most relevant near-term and emerging risks, along with the Group's assessment of their potential impact on the business and associated required mitigations, have been recognised as follows:

Risk	Appetite	
Climate change The Group recognises that climate change concerns and related regulatory developments could impact a number of the Group's principal risks, such as oil price, financial, reputational and fiscal and government take risks, which are disclosed later in this report.	EnQuest recognises that the oil and gas industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reduce the impact of carbon-related emissions on climate change, and is committed to contributing positively towards the drive to net-zero.	
	Mitigation	
	Mitigations against the Group's principal risks potentially impacted by climate change are reported later in this report. The Group endeavours to reduce emissions through improving operational performance, minimising flaring and venting where possible, and applying appropriate and economic improvement initiatives, noting the ability to reduce carbon emissions will be constrained by the original design of our later-life assets. EnQuest has reported on all of the greenhouse gas emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.	The Group has committed to a 10% reduction in Scope 1 and 2 emissions over three years, from a year-end 2020 baseline, with the achievement linked to reward. A working group, which reports to the Safety, Climate and Risk Committee, has been established to identify and implement economically viable emissions savings opportunities across the Group's portfolio of assets. During 2020, the Group developed a clear ESG strategy, which included a focus on emissions reductions. The Group's focus on short-cycle investments drives an inherent mitigation against the potential impact of "stranded assets".

Risk	Appetite	
COVID-19 As a responsible operator, EnQuest continues to monitor the evolving situation and consequent risks with regard to the COVID-19 pandemic, recognising it could impact a number of the Group's principal risks, such as human resources and oil price, which are disclosed later in the key business risks section of this report. At the time of publication of EnQuest's full-year results, the Group's day-to-day operations continue without being materially affected.	EnQuest's employee and contractor workforce are critical to the delivery of SAFE Results and EnQuest's success, and the Group has a very low tolerance for operational risks to its production.	The Group has no tolerance for conduct which may compromise its reputation for integrity and competence. The Group recognises that considerable exposure to price risk is inherent to its business.
	Mitigation	
	The Group continues to work with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk.	See 'Oil and gas price risk on page 20 for more information on how the Group mitigates against price risk.

Brexit
The Safety, Climate and Risk Committee reviewed management's assessment of risk and related mitigations associated with the UK's planned withdrawal from the European Union and was satisfied with its assessment that there was no material risk to EnQuest's business.

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, 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 materially lower oil prices for an extended period due to any potential macroeconomic impact of COVID-19 (see 'Oil and gas prices' risk on page 20), which may impact our ability to refinance debt and/or execute growth opportunities, and/or a materially lower than expected production performance for a prolonged period (see 'Production' risk on page 20 and 'Subsurface risk and reserves replacement' on page 25).

Risk	Appetite	
Health, Safety and Environment ('HSE') Oil and gas development, production and exploration activities are by their very nature complex with HSE risks covering many areas, including major accident hazards, personal health and safety, compliance with regulatory requirements, asset integrity issues and potential environmental impacts, including those associated with climate change. **Potential impact** Medium (2019 Medium) **Likelihood** Medium (2019 Medium) There has been no material change in the potential impact or likelihood of this risk. The Group has a strong, open and transparent reporting culture and monitors both leading and lagging indicators. However, in September, there was a high-potential incident on the Seligi Alpha platform resulting in the shutdown of production. An extensive investigation has been undertaken to determine root causes and implement actions to reduce risk of any re-occurrence. In addition, a Company-wide asset integrity review, supported by independent parties, has commenced. The Group's overall record on HSE remains robust. Their remains a risk to the availability of competent people given the potential impacts of COVID-19.	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 assurance activities and has undertaken a series of deep dives into the Risk Bowties that have demonstrated the robustness of the management process and identified opportunities for improvement. A Group aligned HSE continual improvement programme is in place, promoting a culture of engagement and transparency in relation to HSE matters. HSE performance is discussed at each Board meeting and the mitigation of HSE risk continues to be a core responsibility of the Safety, Climate and Risk Committee. During 2020, 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 its operated sites and this has enabled an increased focus on HSE. There is a strong assurance programme in place to ensure EnQuest complies with its Policy and Principles and regulatory commitments. In 2020, an independent safety review was undertaken across the Group that reported positively on the Group's safety culture with a recognition of a strong commitment towards safety and robust processes in place. Given the importance of asset integrity, a Company-wide review team has been formed to look at integrity management arrangements at a Group, regional and asset level to drive improvements in 2021. The Group continues to monitor the evolving situation with regard to the impacts of COVID-19 in conjunction with a variety of stakeholders, including industry and medical organisations. Appropriate actions will continue to be implemented in accordance with expert advice and the level of risk.

Risk	Appetite	
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 and/or related climate change disclosures, are significant. Similarly, it is increasingly important EnQuest clearly articulates its approach to and benchmarks its performance against relevant and material ESG factors. **Potential impact** High (2019 High) **Likelihood** Low (2019 Low) There has been no material change in the potential impact or likelihood.	The Group has no tolerance for conduct which may compromise its reputation for integrity and competence.	
	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. During 2020, the Group developed a clear ESG strategy, with a focus on health and safety (including asset integrity), emissions reductions, looking after its employees, positively impacting the communities in which the Group operates, upholding a robust RMF and acting with high standards of integrity.

Risk	Appetite
Production	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).

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.
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 or prolonged field shutdowns and/or underperformance requiring high-cost remediation bring forward decommissioning timelines.

Potential impact
High (2019 High)
Likelihood
Medium (2019 Low)

There has been no material change in the potential impact; however, the likelihood has increased to medium as a result of a smaller portfolio and the reduced ability to counter any downside risks.

The Group has delivered within its 2020 guidance range, mainly reflecting strong performances from Kraken and at Scolty/Crathes, offset by lower than expected production in Malaysia following the incident at PM8/Seligi.

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 has continued transforming the Sullom Voe Terminal, including lowering operating costs, to ensure it remains competitive and well placed to maximise its useful economic life and support the future of the North Sea.

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	Appetite
Oil and gas prices	The Group recognises that considerable exposure to this risk is inherent to its business.

Oil and gas prices

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

Potential impact
High (2019 High)
Likelihood
High (2019 High)

The potential impact and likelihood remains high reflecting the uncertain economic outlook due to COVID-19 and the potential acceleration of "peak oil" demand.

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. Further, oil and gas will remain an important part of the energy mix, especially in developing regions.

Mitigation

This risk is being mitigated by a number of measures including hedging the oil price, and institutionalising a lower cost base.

As an operator of mature producing assets with limited appetite for exploration, the Group 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.

The Group monitors oil price sensitivity relative to its capital commitments and has a policy which allows hedging of its production. As at 24 March 2021, the Group had hedged approximately 5 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 an established 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	Appetite	
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 (2019 Medium) **Likelihood** Medium (2019 Low) There has been no change to the potential impact. However, the likelihood has increased reflecting an increase in personnel working from home.	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 Safety, Climate and Risk Committee undertook additional analyses of cyber-security risks in 2020. The Group has a dedicated cyber-security manager and work on assessing the cyber-security environment and implementing improvements as necessary will continue during 2021.

Risk	Appetite	
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, or the availability of competent people given the potential impacts of COVID-19, could also impact the operations of the Group. **Potential impact** Medium (2019 Medium) **Likelihood** Medium (2019 High) The impact is unchanged; the likelihood is lower due to the downturn in the industry.	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, flexible and diverse organisation requires creativity and 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, 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. The Group recognises that its people are critical to its success and so is continually evolving EnQuest's end-to-end people management processes, including recruitment and selection, career development and performance management. This ensures that EnQuest has the right person for the job and that appropriate training, support and development opportunities are provided, with feedback collated to drive continuous improvement whilst delivering SAFE Results. The culture of the Group is an area of ongoing focus and employee surveys and forums have been undertaken to understand employees' views on a number of key areas in order to develop appropriate action plans. 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 and also that fewer young people may join the industry due to climate change-related factors. EnQuest aims to attract the best talent, recognising the value and importance 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. Following its introduction in 2019, the Group employee forum has continued to add to EnQuest's employee communication and engagement strategy, improving interaction between the workforce and the Board. The Group continues to monitor the evolving situation with regard to the impacts of COVID-19 in conjunction with a variety of stakeholders, including industry and medical organisations. Appropriate actions will continue to be implemented in accordance with expert advice and the prevailing level of risk.

Risk	Appetite
Financial Inability to fund financial commitments or maintain adequate cash flow and liquidity and/or reduce costs. The outstanding amount on the Group's term loan and revolving credit facility at 31 December 2020 was $377.3 million (including payment in kind interest) which requires repayment or refinancing by October 2021. While the Board remains confident it will be able to complete a refinancing as part of the funding arrangements associated with the Golden Eagle area acquisition, significant reductions in the oil price or material reductions in production will likely have a material impact on the Group's ability to repay or refinance the loan facility in 2021. The Group's term loan and revolving credit facility also 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. Similar conditions could impact the Group's ability to refinance the bonds ahead of maturity in October 2023. Further information is contained in the Financial review, particularly within the going concern and viability disclosures on pages 14 and 15. **Potential impact** High (2019 High) **Likelihood** High (2019 High) There is no change to the potential impact or likelihood, reflecting the continued economic uncertainty and potential impact of oil price fluctuations. The Group has made material progress in reducing its term loan facility ahead of schedule, and has voluntarily repaid early a further $25.0 million in January 2021. There is potential for the availability and cost of capital to increase and insurance availability to erode, as factors such as climate change and other ESG concerns and oil price volatility may reduce investors' and insurers' acceptable levels of oil and gas sector exposure, and the cost of emissions trading certificates may trend higher along with insurers' reluctance to provide surety bonds for decommissioning, thereby requiring the Group to fund decommissioning security through its balance sheet.	The Group recognises that significant leverage was required to fund its growth as low oil prices impacted revenues. However, it is intent on further reducing its leverage levels, maintaining liquidity, enhancing profit margins, controlling 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 2020, the Group repaid a total of $100.0 million of the term facility, with the $65.0 million due in April 2021 voluntarily repaid early. 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. EnQuest generates 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. The quick and decisive actions management took following the combined impacts of the COVID-19 pandemic, the oil price decline and resulting economic crisis in early 2020 have materially lowered the Group's free cash flow breakeven.

Risk	Appetite	
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 (2019 High) **Likelihood** Medium (2019 Medium) There has been no material change in the potential impact or likelihood, although the exit of the UK from the European Union may impact the regulatory environment going forward, for example by affecting the cost of emissions trading certificates.	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	Appetite	
Project execution and delivery The Group's success will be partially dependent upon the successful execution and delivery of potential future projects, including decommissioning in the UK, that are undertaken. **Potential impact** Medium (2019 Medium) **Likelihood** Low (2019 Low) The potential impact and likelihood remain unchanged. As the Group focuses on reducing its debt, its current appetite is to pursue short-cycle development projects and to manage its UK decommissioning projects over an extended period of time.	The efficient delivery of projects has been a key feature of the Group's long-term strategy. The Group's appetite is to identify and implement 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 project (for example, by incurring costs against oil price assumptions), or a decommissioning programme, it requires that risks to efficient project delivery 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, notably the Capital Projects Delivery Process, 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's UK decommissioning programmes are managed by a dedicated directorate with an experienced team who are driven safely to deliver projects at the lowest possible cost and associated emissions.	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.

Risk	Appetite	
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 (2019 High) **Likelihood** High (2019 High) The Group is currently focused on oil production and does not have significant exposure to gas or other sources of income. The decisions taken to accelerate cessation of production at a number of the Group's assets has further reduced the number of producing assets and so increased portfolio concentration in the near term. During the year, the Group signed a sales and purchase agreement with Equinor to purchase a 40.81% operating interest in the Bressay oil field in the UK North Sea, with the transaction completing in January 2021. Furthermore, in February 2021, the Group announced it had signed an agreement with Suncor Energy UK Limited ('Suncor') to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area. Separately, a number of licence awards were granted to EnQuest during the 32nd Offshore licensing round. The Group continues to assess acquisition growth opportunities with a view to improving its asset diversity over time.	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, both in the UK and internationally, to liaise with vendors/governments and evaluate and transact acquisitions. 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. In February 2021, the Group announced it had signed an agreement to farm-down an 85% equity interest in and transfer operatorship of the Eagle discovery to Anasuria Hibiscus UK Limited. The transaction is subject to customary regulatory and third-party approvals.	

Risk	Appetite
Joint venture partners Failure by joint venture parties to fund their obligations. Dependence on other parties where the Group is non-operator. **Potential impact** Medium (2019 Medium) **Likelihood** Low (2019 Low) There has been no material change in the potential impact. The likelihood has also been maintained reflecting the Group's current low exposure to capital-intensive projects requiring funding from third parties.	The Group requires partners of high integrity. It recognises that it must accept a degree of exposure to the credit worthiness 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, taking account of the impact of any wider developments (e.g. 'Brexit').

Risk	Appetite	
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 (2019 High) **Likelihood** Medium (2019 Medium) There has been no material change in the potential impact or likelihood. Low oil prices or prolonged field shutdowns requiring high-cost remediation which accelerate cessation of production can potentially affect development of contingent and prospective resources and/or reserves certifications.	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. The Group has material reserves and resources at Magnus, Kraken and PM8/Seligi that it believes can primarily be accessed through low-cost sub-sea drilling and tie-backs to existing infrastructure. EnQuest continues to evaluate the substantial 2C resources at PM409 to identify future drilling prospects. PM409 is contiguous to the Group's existing PM8/Seligi PSC, providing low-cost tie-back opportunities to the Group's existing Seligi main production hub.	The Group continues to consider potential opportunities to acquire new production resources that meet its investment criteria.

Risk	Appetite	
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 (2019 High) **Likelihood** High (2019 High) The potential impact and likelihood have remained unchanged, with a number of competitors assessing the acquisition of available oil and gas assets and the rising potential for consolidation (e.g. through reverse mergers).	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, commercial and business development capabilities to ensure that it is well positioned to identify and execute potential acquisition opportunities, utilising innovative structures as may be appropriate. The Group maintains good relations with oil and gas service providers and constantly keeps the market under review. EnQuest has a dedicated marketing and trading group of experienced professionals responsible for maintaining relationships across relevant energy markets, thereby ensuring the Company achieves the highest possible value for its production.	A recent example of the marketing and trading group's capability has been moving Kraken from the crude oil market into fuel oil. In addition, the marketing and trading group is responsible for the Company's commodity price risk management activities in accordance with the Group's business strategy.

Risk	Appetite	
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. HSEA, 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 (2019 Medium) **Likelihood** Medium (2019 Medium) There has been no material change in the impact or likelihood.	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. **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, ethical 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.	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. 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.

Stefan Ricketts
Company Secretary

The Strategic report was approved by the Board and signed on its behalf by the Company Secretary on 24 March 2021.

KEY PERFORMANCE INDICATORS

	2020	2019	2018
ESG metrics:			
Group LTIF[1]	**0.22**	0.57	0.43
Emissions (kilo-tonnes of CO_2 equivalent)	**1,342.8**	1,511.6	1,802.4
Business performance data:			
Production (Boepd)	**59,116**	68,606	55,447
Unit opex (production and transportation costs) ($/Boe)[2]	**15.2**	20.6	23.0
EBITDA ($ million)[2]	**550.6**	1,006.5	716.3
Cash expenditures ($ million)	**173.0**	248.6	230.2
Capital[2]	**131.4**	237.5	220.2
Abandonment	**41.6**	11.1	10.0
Reported data:			
Cash generated from operations ($ million)	**567.8**	994.6	788.6
Net debt including PIK ($ million)[2]	**1,279.7**	1,413.0	1,774.5
Net 2P reserves (MMboe)	**189**	213	245

[1] Lost time incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)
[2] See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 68

OIL AND GAS RESERVES AND RESOURCES

EnQuest oil and gas reserves and resources

	UKCS[13]		Other regions[13]		Total[13]
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and probable reserves[1, 2, 3 and 4]					
At 31 December 2019		190		22	213
Revisions of previous estimates					
Cessation of production[5]	(15)		-		
Other revisions and transfers from contingent resources[6]	10		3		
		(5)		3	(2)
Production:					
Export meter	(20)		(3)		
Volume adjustments[7]	0		1		
		(19)		(2)	(22)
Total proven and probable reserves at 31 December 2020[8]		**166**		**22**	**189**
Contingent resources[1, 2 and 9]					
At 31 December 2019		97		76	173
Revisions of previous estimates					
Cessation of production[5]	(15)		-		
Other revisions[10]	-		16		
		(15)		16	1
Promoted to reserves[11]		(5)		(5)	(10)
Total contingent resources at 31 December 2020		**77**		**87**	**164**
Acquisitions and disposals[12]		115		-	115
Total contingent resources		**192**		**87**	**279**

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 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 All UKCS volumes are presented pre-SVT value adjustment
5 Accelerated cessation of production at Thistle/Deveron and the Dons
6 Technical revisions and transfers from 2C resources at Kraken, Magnus and PM8/Seligi
7 Correction of export to sales volumes
8 The above proven and probable reserves include c.6 MMboe that will be consumed as fuel gas on Magnus
9 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
10 Additional contingent resources from PM409
11 Kraken, Magnus and PM8/Seligi opportunity maturation
12 Acquisition of 40.81% interest in Bressay agreed in July 2020 (completed on 20 January 2021)
13 Rounding may apply

Group Income Statement
For the year ended 31 December 2020

	Notes	2020 Business performance $'000	2020 Remeasurements and exceptional items (note 4) $'000	2020 Reported in year $'000	2019 Business performance $'000	2019 Remeasurements and exceptional items (note 4) $'000	2019 Reported in year $'000
Revenue and other operating income	5(a)	**856,870**	**8,778**	**865,648**	1,711,834	(65,375)	1,646,459
Cost of sales	5(b)	**(785,455)**	**(13,626)**	**(799,081)**	(1,243,570)	(378)	(1,243,948)
Gross profit/(loss)		**71,415**	**(4,848)**	**66,567**	468,264	(65,753)	402,511
Net impairment to oil and gas assets	4	**–**	**(422,495)**	**(422,495)**	–	(812,448)	(812,448)
General and administration expenses	5(c)	**(6,105)**	**–**	**(6,105)**	(7,661)	–	(7,661)
Other income	5(d)	**16,304**	**138,249**	**154,553**	3,446	–	3,446
Other expenses	5(e)	**(101,633)**	**(956)**	**(102,589)**	(21,881)	(31,735)	(53,616)
Profit/(loss) from operations before tax and finance income/(costs)		**(20,019)**	**(290,050)**	**(310,069)**	442,168	(909,936)	(467,768)
Finance costs	6	**(179,818)**	**(77,259)**	**(257,077)**	(206,596)	(57,165)	(263,761)
Finance income	6	**1,171**	**–**	**1,171**	2,416	–	2,416
Profit/(loss) before tax		**(198,666)**	**(367,309)**	**(565,975)**	237,988	(967,101)	(729,113)
Income tax	7	**172,479**	**(232,306)**	**(59,827)**	(23,648)	303,460	279,812
Profit/(loss) for the year attributable to owners of the parent		**(26,187)**	**(599,615)**	**(625,802)**	214,340	(663,641)	(449,301)
Total comprehensive loss for the year, attributable to owners of the parent				**(625,802)**			(449,301)

There is no comprehensive income attributable to the shareholders of the Group other than the loss for the year. Revenue and operating (loss)/profit are all derived from continuing operations.

	Notes	2020 Business performance	2020 Reported in year	2019 Business performance	2019 Reported in year
Earnings per share	8	**$**	**$**	$	$
Basic		**(0.016)**	**(0.378)**	0.131	(0.274)
Diluted		**(0.016)**	**(0.378)**	0.130	(0.274)

The attached notes 1 to 30 form part of these Group financial statements.

Group Balance Sheet
At 31 December 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,633,917**	3,450,929
Goodwill	11	**134,400**	134,400
Intangible oil and gas assets	12	**27,546**	27,553
Deferred tax assets	7(c)	**503,946**	576,038
Other financial assets	19	**7**	11
		3,299,816	4,188,931
Current assets			
Inventories	13	**59,784**	78,644
Trade and other receivables	16	**118,715**	279,502
Current tax receivable		**5,601**	–
Cash and cash equivalents	14	**222,830**	220,456
Other financial assets	19	**–**	9,083
		406,930	587,685
TOTAL ASSETS		**3,706,746**	4,776,616
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	20	**345,420**	345,420
Merger reserve	20	**–**	662,855
Share-based payment reserve	20	**1,016**	(1,085)
Retained earnings	20	**(411,076)**	(448,129)
TOTAL EQUITY		**(64,640)**	559,061
Non-current liabilities			
Borrowings	18	**37,854**	493,424
Bonds	18	**1,045,041**	966,231
Leases liability	24	**548,407**	614,818
Contingent consideration	22	**448,384**	545,550
Provisions	23	**741,453**	706,190
Deferred tax liabilities	7(c)	**6,385**	20,919
		2,827,524	3,347,132
Current liabilities			
Borrowings	18	**414,430**	165,589
Leases liability	24	**99,439**	101,348
Contingent consideration	22	**73,877**	111,711
Provisions	23	**98,954**	56,769
Trade and other payables	17	**255,155**	419,855
Other financial liabilities	19	**2,007**	11,073
Current tax payable		**–**	4,078
		943,862	870,423
TOTAL LIABILITIES		**3,771,386**	4,217,555
TOTAL EQUITY AND LIABILITIES		**3,706,746**	4,776,616

The attached notes 1 to 30 form part of these Group financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 March 2021 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital and share premium $'000	Merger reserve $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2019	345,331	662,855	(6,884)	1,172	1,002,474
Profit/(loss) for the year	–	–	–	(449,301)	(449,301)
Total comprehensive loss for the year	–	–	–	(449,301)	(449,301)
Share-based payment	–	–	5,888	–	5,888
Shares issued on behalf of Employee Benefit Trust	89	–	(89)	–	–
Balance at 31 December 2019	**345,420**	**662,855**	**(1,085)**	**(448,129)**	**559,061**
Profit/(loss) for the year	**–**	**–**	**–**	**(625,802)**	**(625,802)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(625,802)**	**(625,802)**
Share-based payment	**–**	**–**	**3,401**	**–**	**3,401**
Shares purchased on behalf of Employee Benefit Trust	**–**	**–**	**(1,300)**	**–**	**(1,300)**
Write down of oil and gas assets	**–**	**(662,855)**	**–**	**662,855**	**–**
Balance at 31 December 2020	**345,420**	**–**	**1,016**	**(411,076)**	**(64,640)**

The attached notes 1 to 30 form part of these Group financial statements.

Group Statement of Cash Flows
For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	29	**567,830**	994,618
Cash received/(paid) on sale/(purchase) of financial instruments		**6,226**	4,936
Decommissioning spend	23	**(41,605)**	(11,131)
Income taxes paid		**(10,366)**	(26,152)
Net cash flows from/(used in) operating activities		**522,085**	962,271
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(131,376)**	(234,241)
Purchase of intangible oil and gas assets		**-**	(3,241)
Net cash received on termination of Tanjong Baram risk service contract	5(d)	**51,054**	–
Repayment of Magnus contingent consideration – Profit share	22	**(41,071)**	(21,581)
Interest received		**796**	1,225
Net cash flows (used in)/from investing activities		**(120,597)**	(257,838)
FINANCING ACTIVITIES			
Repayment of loans and borrowings		**(210,671)**	(394,025)
Repayment of Magnus contingent consideration – Vendor loan	22	**(20,702)**	(52,669)
Shares purchased by Employee Benefit Trust		**(1,153)**	–
Repayment of obligations under financing leases	24	**(123,001)**	(135,125)
Interest paid		**(42,961)**	(146,047)
Other finance costs paid		**(2,526)**	(2,130)
Net cash flows from/(used in) financing activities		**(401,014)**	(729,996)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**474**	(25,563)
Net foreign exchange on cash and cash equivalents		**2,482**	6,562
Cash and cash equivalents at 1 January		**218,199**	237,200
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**221,155**	218,199
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows	14	**221,155**	218,199
Restricted cash	14	**1,675**	2,257
Cash and cash equivalents per balance sheet		**222,830**	220,456

The attached notes 1 to 30 form part of these Group financial statements.

Notes to the Group Financial Statements

For the year ended 31 December 2020

1. Corporate information
EnQuest PLC ('EnQuest' or the 'Company') is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales and listed on the London Stock Exchange and on the Stockholm NASDAQ OMX.

The principal activities of the Company and its subsidiaries (together the 'Group') are 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 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 24 March 2021.

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

2. Summary of significant accounting policies
General information
The preliminary results for the year ended 31 December 2020 have been extracted from audited accounts which have not yet been delivered to the Registrar of Companies. The Financial Statements set out in this announcement do not constitute statutory accounts for the year ended 31 December 2020 or 31 December 2019. The financial information for the year ended 31 December 2019 is derived from the statutory accounts from that year. The report of the auditors on the statutory accounts for the year ended 31 December 2020 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

Basis of preparation
The consolidated Financial Statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020.

The Group financial information has been prepared on an historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives and contingent consideration, as set out in the accounting policies. The presentation currency of the Group financial information is US Dollars ('$') and all values in the Group financial information are rounded to the nearest thousand ($'000) except where otherwise stated.

The Group's results on an IFRS basis are shown on the Group Income Statement as 'Reported in the year', being the sum of our Business performance results and our Remeasurements and exceptional items as permitted by IAS 1 (Revised) Presentation of Financial Statements. Remeasurements and exceptional items are items that management considers not to be part of underlying business performance and are disclosed in order to enable shareholders to understand better and evaluate the Group's reported financial performance. For further information see note 4.

Going concern
The financial statements have been prepared on the going concern basis.

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 costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also settled the required term loan amortisations on or ahead of schedule, with no further scheduled payments required prior to maturity in October 2021 following the voluntary repayment of the April 2021 amortisation in the fourth quarter of 2020.

The Group continues to monitor actively the impact on operations from COVID-19 and the health, safety and wellbeing of its employees is its top priority. The Group remains compliant with UK, Malaysia and Dubai government and industry policy. The Group has also been working with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk. At the time of publication of EnQuest's full year results, the Group's day-to-day operations continue without being materially affected by COVID-19.

The Group's latest approved business plan underpins management's base case ('Base Case') and is in line with the Group's production guidance, assumes a refinancing of the existing Revolving Credit Facility ('RCF') prior to maturity in October 2021 with a new facility and uses oil price assumptions of $60/bbl from March to December 2021 and $58/bbl to the end of the first quarter 2022.

The Base Case has been subjected to stress testing by considering the impact of the following plausible downside risks (the 'Downside Case'):

- 10.0% discount to Base Case prices resulting in Downside Case prices of $54.0/bbl from March to December 2021 and $52.2/bbl for 2022;
- Production risking of c.4.0% for 2021; and
- Incremental decommissioning security of $43 million is met through letters of credit resulting in a reduction in headroom as letters of credit are drawings under the RCF.

The Base Case and Downside Case indicate that the Group is able to operate as a going concern with refinanced borrowing facilities for 12 months from the date of publication of its full year results. The Directors have also performed reverse stress testing on the Base Case, with the breakeven price for liquidity in the Going Concern period being c.$30/bbl under the assumption the existing facility is refinanced. In addition, under the Base Case prices, a minimum size of facility or alternative financing arrangement of approximately $100 million would be required to maintain positive headroom should the existing facility not be refinanced.

The quarterly liquidity covenant in the existing facility (the 'Liquidity Test') requires that the Group shows it has sufficient funds available to meet all liabilities of the Group when due and payable for the period commencing on each quarter and ending on the date falling 12 months after the final maturity date of 1 October 2021. The Liquidity Test will be applied for the quarters ended March 2021 and June 2021. The Liquidity Test assumptions include a price deck of the average forward oil price curve, minus a 10% discount, of 15 consecutive business days starting from approximately the middle of the previous quarter.

2. Summary of significant accounting policies (continued)
Under these prices, the Group forecasts no breaches in the Base Case for the Liquidity Test. By applying a discount in excess of 29% (19% in addition to the 10% discount stipulated in the Facility agreement), the Group would breach this covenant, prior to any mitigations such as asset divestments or other funding options. Under such an oil price scenario, the covenant breach would therefore require a covenant waiver to be obtained. The Directors are confident that waivers from the facility providers would be forthcoming. Should circumstances arise that differ from the Group's projections, the Directors believe that a number of mitigating actions, including refinancing, 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.

Within the going concern period, the RCF expires in October 2021 (see note 18). The Directors are confident that the Group will be able to refinance the RCF based on the Group's Base Case cash flow projections.

On 4 February 2021, the Group announced it had signed an agreement with Suncor Energy UK Limited ('Suncor') to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area for an initial consideration of $325 million, excluded from the Base Case. The Group also advised plans to finance the transaction through the combination of a new secured debt facility, an equity raise, and the interim period post-tax cash flows generated from the economic date of 1 January 2021 to transaction completion.

A final term sheet has been agreed following bilateral discussions with DNB and BNP (lead and co-technical banks) and has been approved by their respective credit committees. DNB and BNP have also received credit committee approval for material commitments to the new financing. The Directors are confident they will be able to complete the new financing given the feedback it has had from both current lenders and also potential new lenders. In the unlikely event the Suncor acquisition does not complete, the Directors are also confident they will be able to negotiate a new facility based on the Group's existing asset base or alternative financing arrangements such as a prepayment facility would be available to bridge any shortfall.

Whilst securing lenders commitment to the new facility remains on track, the new facility has not been signed at the time of publication of the Group's results. Although the Directors are confident that the new facility will be executed, the facility has not yet been signed; in these circumstances they have to conclude that this represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern, such that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the material uncertainty as described above, after making appropriate enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, and in particular the advanced state of the proposed refinancing agreement, the Directors have a reasonable expectation that the Group will 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 these financial statements.

New standards and interpretations
The following new standards became applicable for the current reporting period. No material impact was recognised upon application:

- Amendments to References to Conceptual Framework in IFRS Standards
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7)
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Impact of the initial application of COVID-19-Related Rent Concessions (Amendment to IFRS 16)

Standards issued but not yet effective
At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment—Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of EnQuest PLC and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

2. Summary of significant accounting policies (continued)

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. The joint operating agreement is the underlying contractual framework to the joint arrangement, which is historically referred to as the joint venture ('JV'). The Annual Report and Accounts therefore refers to 'joint ventures' as standard terms used in the oil and gas industry, which is used interchangeably with joint operations.

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. During 2020, the Group did not have any material interests in joint ventures or in associates. During 2020, the Group did not have any material interests in joint ventures or in associates as defined in IAS 28.

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 US Dollars, the currency which the Group has elected to use as its presentation currency.

In the financial statements 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 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 Group income statement.

Critical accounting judgements

The Group assesses critical accounting judgements annually. The following are the critical judgements, apart from those involving estimations which are dealt with in the policy 'Key sources of estimation uncertainty' below, that the Directors have made in the process of applying the Group's accounting policies, which have the most significant effect on the amounts recognised in the financial statements.

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. The process in determining the estimates of oil and gas reserves requires critical judgement. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity and drilling of new wells all impact on the determination of the Group's estimates of its oil and gas reserves and result in different future production profiles affecting prospectively the discounted cash flows used in impairment testing and the calculation of contingent consideration, the anticipated date of decommissioning and the depletion charges in accordance with the unit of production method, as well as the going concern assessment.

The Group uses proven and probable ('2P') reserves (see page 27) as the basis for calculations of expected future cash flows from underlying assets because this represents the reserves management intend to develop. Third-party audits of EnQuest's reserves and resources are conducted annually.

Key sources of estimation uncertainty

The key sources of estimation uncertainty concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Future oil prices

Future oil prices are a key driver of estimation affecting the recoverable amount of oil and gas assets and are used in the calculation of future cash flows which impact contingent consideration and decommissioning. Oil and gas price assumptions are reviewed and, where necessary, adjusted on a periodic basis. The estimates take into account existing prices impacted by changes in supply and demand as a result of COVID-19, historical trends and variability and other macroeconomic factors. Significant uncertainty exists regarding future long term oil and gas prices with factors such as the energy transition to a lower carbon economy being considered in the updated assumptions. Review includes benchmarking and analysis against forward curves from available market data and other third-party forecasts, as well as review and challenge by the Audit Committee.

A reduction or increase in future oil prices of 10%, based on the approximate volatility of historical oil prices, are considered to be reasonably possible changes for the purposes of sensitivity analysis and reflects the inherent uncertainty of forecasting future oil price and the uncertainty of the impact of the energy transition. The impact of this sensitivity is disclosed in notes 7, 10 and 22.

As a result of the decline in global oil demand resulting from the COVID-19 pandemic, and the potential for weaker demand to continue as the energy transition to a lower-carbon economy continues, the Group revised its price assumptions for impairment testing. Oil price assumptions based on an internal view of forward curve prices at 31 December 2020 are $47/bbl (2021), $55/bbl (2022), $60/bbl (2023) and $60/bbl real thereafter, inflated at 2.0% per annum from 2024 (2019: $63.0/bbl (2020), $65.0/bbl (2021), $67.0/bbl (2022) and $70.0/bbl real thereafter , inflated at 2% per annum from 2024). Discounts or premiums are applied to price assumptions based on the characteristics of the oil produced and of the terms of the relevant sales contracts.

Impairment testing of oil and gas assets and goodwill and valuation of Magnus contingent consideration

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 cash generating units ('CGU') to which oil and gas assets and goodwill have been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using the same discounted cash flow model used to assess the impairment of assets, which comprises asset-by-asset life of field projections using management's best estimates of oil and gas reserves, future oil prices and other Level 3 inputs (based on the IFRS 13 fair value hierarchy).

Determination of the Magnus contingent consideration valuation requires an estimation of the fair value less costs to dispose of the cash generating unit, the Magnus asset. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using the same discounted cash flow model used to assess the impairment of assets.

2. Summary of significant accounting policies (continued)
The calculation of the discounted cash flow models are based on the following:

- Oil prices (see above);
- Oil and gas reserves (see above);
- Production profiles based on internal life of field estimates including assumptions on performance of assets;
- Related life of field opex, capex and decommissioning costs derived from the Group's business plan adjusted for changes in timing based on the production profiles used as above; and
- Discount rates driven by a market participant's weighted average cost of capital.

The discount rate applied to fair value less costs of disposal calculations reflects management's estimate of a market participant weighted average cost of capital ('WACC'). The discount rate is a post-tax discount rate and is reviewed and, where necessary, adjusted on an annual basis. The post-tax discount rate applied to the Group's post-tax cash flow projections was 10.0% (2019: 10.0%). A reduction or increase in the discount rate of 1.0% are considered to be reasonably possible changes for the estimated purposes of sensitivity analysis. Sensitivities related to the discount rates are disclosed in note 10.

Decommissioning provision
Provisions for decommissioning and restoration costs are estimates based on current legal and constructive requirements, current technology and price levels for the removal of facilities and plugging and abandoning of wells. These parameters are based on information and estimates deemed to be appropriate by the Group at the current time. The eventual decommissioning and restoration costs are uncertain and estimates can vary in response to many factors, including changes to relevant legal requirements, estimates of the extent and costs of decommissioning activities, the emergence of new restoration techniques or experience at other production sites, cost increases as compared to the inflation rates, and changes in discount rates. The expected timing, extent and amount of expenditure may also change, for example, in response to changes in oil and gas reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. Due to the significant estimates and assumptions, the carrying amounts of decommissioning provisions are reviewed on a regular basis.

The present value of the provision for decommissioning is calculated using amounts discounted over the useful economic life of the assets. The Group applies an annual inflation rate of 2.0% (2019: 2.0%) and an annual discount rate of 2.0% to the UK ('North Sea') assets and 3.0% to the Malaysian assets (2019: 2.0% for both the UK and Malaysia). A reduction or increase in the discount rate of 0.5% are considered to be reasonably possible changes for the estimated purposes of sensitivity analysis. Sensitivities related to the discount rates are disclosed in note 23.

Deferred taxation
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 assumptions and estimates relating to future oil prices and oil and gas reserves (as discussed above) and the estimated future costs, to assess the amount of deferred tax that can be recognised.

3. Segment information

Management has 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 2020 **$'000**	**North Sea**	**Malaysia**	**All other segments**	**Total segments**	**Adjustments and eliminations**(i)	**Consolidated**
Revenue:						
Revenue from contracts with customers	**792,508**	**62,917**	**–**	**855,425**	**–**	**855,425**
Other income	**7,224**	**–**	**280**	**7,504**	**2,719**	**10,223**
Total revenue	**799,732**	**62,917**	**280**	**862,929**	**2,719**	**865,648**
Income/(expenses) line items:						
Depreciation and depletion	**(430,169)**	**(15,638)**	**(56)**	**(445,863)**	**–**	**(445,863)**
Net impairment (charge)/reversal to oil and gas assets	**(422,495)**	**–**	**–**	**(422,495)**	**–**	**(422,495)**
Segment profit/(loss)(ii)	**(318,952)**	**4,153**	**3,372**	**(311,427)**	**1,358**	**(310,069)**
Other disclosures:						
Capital expenditure(iii)	**81,504**	**2,144**	**–**	**83,648**	**–**	**83,648**

Year ended 31 December 2019 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue:						
Revenue from contracts with customers	1,530,343	145,749	–	1,676,092	–	1,676,092
Other income	10,500	–	486	10,986	(40,619)	(29,633)
Total revenue	1,540,843	145,749	486	1,687,078	(40,619)	1,646,459
Income/(expenses) line items:						
Depreciation and depletion	(518,785)	(14,490)	(77)	(533,352)	–	(533,352)
Net impairment (charge)/reversal to oil and gas assets	(812,448)	–	–	(812,448)	–	(812,448)
Impairment reversal of investments	(20)	–	–	(20)	–	(20)
Exploration write offs and impairments	(150)	–	–	(150)	–	(150)
Segment profit/(loss)(ii)	(470,351)	49,429	(4,142)	(425,064)	(42,704)	(467,768)
Other disclosures:						
Capital expenditure(iii)	164,818	15,837	–	180,655	–	180,655

(i) 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
(ii) Inter-segment revenues are eliminated on consolidation. All other adjustments are part of the reconciliations presented further below
(iii) Capital expenditure consists of property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries

Reconciliation of profit/(loss):

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Segment profit/(loss)	**(311,427)**	(425,064)
Finance income	**1,171**	2,416
Finance expense	**(257,077)**	(263,761)
Gain/(loss) on oil and foreign exchange derivatives	**1,358**	(42,704)
Profit/(loss) before tax	**(565,975)**	(729,113)

Revenue from four customers relating to the North Sea operating segment each exceeds 10% of the Group's consolidated revenue arising from sales of crude oil, with amounts of $188.9 million, $143.4 million, $113.1 million and $84.9 million per each single customer (2019: Three customers; $307.1 million, $266.1 million and $211.0 million per each single customer).

4. Remeasurements and exceptional items

Accounting policy

As permitted by IAS 1 (Revised) Presentation of Financial Statements, certain items of income or expense which are material are presented separately. Additional line items, headings, sub-totals and disclosures of nature and amount are presented to provide relevant understanding of the Group's financial performance.

Remeasurements and exceptional items are items that management considers not to be part of underlying business performance and are disclosed in order to enable shareholders to understand better and evaluate the Group's reported financial performance. The items that the Group separately presents as exceptional on the face of the Group income statement 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. Remeasurements relate to those items which are remeasured on a periodic basis and are applied consistently year-on-year. If an item is assessed as a remeasurement or exceptional item, then subsequent accounting to completion of the item is also taken through remeasurement and exceptional items. Management has exercised judgement in assessing the relevant material items disclosed as exceptional.

The following items are classified as remeasurements and exceptional items ('exceptional'):

- Unrealised mark-to-market changes in the remeasurement of open derivative contracts at each period end are recognised within remeasurements, with the recycling of realised amounts from remeasurements into Business performance income when a derivative instrument matures;
- Impairments on assets, including other non-routine write-offs/write-downs where deemed material, are remeasurements and are deemed to be exceptional in nature;
- Fair value accounting arising in relation to business combinations is deemed as exceptional in nature, as these transactions do not relate to the principal activities and day-to-day Business performance of the Group. The subsequent remeasurement of contingent assets and liabilities arising on acquisitions, including contingent consideration, are presented within remeasurements and are presented consistently year-on-year; and

Other items that arise from time to time that are reviewed by management as non-Business performance and are disclosed further below.

Year ended 31 December 2020 **$'000**	**Fair value remeasurement**(i)	**Impairments and write offs**(ii)	**Other**(iii)	**Total**
Revenue and other operating income	**8,778**	**–**	**–**	**8,778**
Cost of sales	**(1,932)**	**–**	**(11,694)**	**(13,626)**
Net impairment (charge)/reversal on oil and gas assets	**–**	**(422,495)**	**–**	**(422,495)**
Other income	**138,249**	**–**	**–**	**138,249**
Other expense	**–**	**–**	**(956)**	**(956)**
Finance costs	**–**	**–**	**(77,259)**	**(77,259)**
	145,095	**(422,495)**	**(89,909)**	**(367,309)**
Tax on items above	**(57,687)**	**163,267**	**33,175**	**138,755**
De-recognition of undiscounted deferred tax asset(IV)	**–**	**(371,061)**	**–**	**(371,061)**
	87,408	**(630,289)**	**(56,734)**	**(599,615)**

Year ended 31 December 2019 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	(65,375)	–	–	(65,375)
Cost of sales	(378)	–	–	(378)
Net impairment (charge)/reversal on oil and gas assets	–	(812,448)	–	(812,448)
Other expenses	(15,520)	(170)	(16,045)	(31,735)
Finance costs	–	–	(57,165)	(57,165)
	(81,273)	(812,618)	(73,210)	(967,101)
Tax on items above	31,735	250,235	21,490	303,460
	(49,538)	(562,383)	(51,720)	(663,641)

(i) Fair value remeasurements include unrealised mark-to-market movements on derivative contracts and other financial instruments and the impact of recycled realised gains and losses out of 'Remeasurements and exceptional items' and into Business performance profit or loss of $6.8 million. Other income relates to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure of $138.2 million (note 22) (2019: other loss of $15.5 million)

(ii) Impairments and write offs include an impairment of tangible oil and gas assets totalling $422.5 million (note 10) (2019: impairment of $637.5 million plus other related intangibles)

(iii) Other items mainly relate to unwinding of discount on contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $77.3 million (note 22) (2019: $57.2 million), provision for the PM8/Seligi riser repair $5.9 million (note 23), loss on decrecognition of assets related to the Seligi riser detachment $1.0m (note 5(b)) and the redundancy costs in relation to the Group's transformation programme of $5.8 million (2019: the cost for settlement of the historical KUFPEC claim of $15.6 million)

(iv) Non-cash partial de-recognition of undiscounted deferred tax assets given the Group's lower oil price assumptions

5. Revenue and expenses

(a) Revenue and other operating income

Accounting policy

Revenue from contracts with customers

The Group generates revenue through the sale of crude oil, gas and condensate to third parties, and through the provision of infrastructure to its customers for tariff income. Revenue from contracts with customers is recognised when control of the goods or services is 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. The normal credit term is 30 days or less upon performance of the obligation.

Sale of crude oil, gas and condensate

The Group sells crude oil, gas and condensate directly to customers. The sale represents a single performance obligation, being the sale of barrels equivalent to the customer on taking physical possession or on delivery of the commodity into an infrastructure. At this point the title passes to the customer and revenue is recognised. The Group principally satisfies its performance obligations at a point in time; the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. Transaction prices are referenced to quoted prices, plus or minus an agreed discount rate, if applicable.

Tariff revenue for the use of Group infrastructure

Tariffs are charged to customers for the use of infrastructure owned by the Group. The revenue represents the performance of an obligation for the use of Group assets over the life of the contract. 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 as the performance obligations are satisfied over the period of the contract, generally a period of 12 months or less, on a monthly basis based on throughput at the agreed contracted rates.

Other operating income

Other revenue includes rental income, which is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured.

The Group enters into oil derivative trading transactions which can be settled net in cash. Accordingly, any gains or losses are not considered to constitute revenue from contracts with customers in accordance with the requirements of IFRS 15, and are included within other operating income (see note 19).

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	**779,865**	1,548,177
Revenue from gas and condensate sales(i)	**60,486**	120,242
Tariff revenue	**15,074**	7,673
Total revenue from contracts with customers	**855,425**	1,676,092
Rental income	**5,706**	7,082
Realised (losses)/gains on oil derivative contracts (see note 19)	**(6,059)**	24,756
Other	**1,798**	3,904
Business performance revenue and other operating income	**856,870**	1,711,834
Unrealised (losses)/gains on oil derivative contracts(ii) (see note 19)	**8,778**	(65,375)
Total revenue and other operating income	**865,648**	1,646,459

(i) Includes onward sale of third-party gas purchases not required for injection activities at Magnus
(ii) Unrealised gains and losses on oil derivative contracts are disclosed as fair value remeasurement items in the income statement (see note 4)

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2020 $'000		Year ended 31 December 2019 $'000	
	North Sea	**Malaysia**	North Sea	Malaysia
Revenue from contracts with customers:				
Revenue from crude oil sales	**719,504**	**60,361**	1,405,956	142,221
Revenue from gas and condensate sales	**57,930**	**2,556**	116,714	3,528
Tariff revenue	**15,074**	**–**	7,673	–
Total revenue from contracts with customers	**792,508**	**62,917**	1,530,343	145,749

5. Revenue and expenses (continued)

(b) Cost of sales

Accounting policy

Production imbalances, movements in under/over-lift and movements in inventory are included in cost of sales. The over-lift liability is recorded at the cost of the production imbalance to represent a provision for production costs attributable to the volumes sold in excess of entitlement. The under-lift asset is recorded at the lower of cost and net realisable value, consistent with IAS2, to represent a right to additional physical inventory. An under-lift of production from a field is included in current receivables and an over-lift of production from a field is included in current liabilities.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Production costs	**265,529**	441,624
Tariff and transportation expenses	**63,685**	74,782
Realised loss/(gain) on derivative contracts related to operating costs (see note 19)	**(572)**	1,707
Change in lifting position	**(31,508)**	96,886
Crude oil inventory movement	**(3,293)**	5,967
Depletion of oil and gas assets(i)	**438,247**	525,145
Other cost of operations(ii)	**53,367**	97,459
Business performance cost of sales	**785,455**	1,243,570
Unrealised (gains)/losses on derivative contracts related to operating costs(iii) (see note 19)	**1,932**	378
Redundancy costs related to the transformation programme	**5,792**	–
PM8/Seligi riser repair provision (see note 23)	**5,902**	–
Total cost of sales	**799,081**	1,243,948

(i) Includes $68.5 million Kraken FPSO right-of-use asset depreciation charge and $10.5 million of vessels within right-of-use assets depreciation charge
(ii) Includes $24.7 million of inventory provisions and also includes purchases of third-party gas not required for injection activities at Magnus which is sold on
(iii) Unrealised gains and losses on derivative contracts are disclosed as fair value remeasurement in the income statement (see note 4)

(c) General and administration expenses

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Staff costs (see note 5(f))	**85,813**	90,764
Depreciation(i)	**7,616**	8,207
Other general and administration costs	**21,831**	23,094
Recharge of costs to operations and joint venture partners	**(109,155)**	(114,404)
Total general and administration expenses	**6,105**	7,661

(i) Includes $3.7 million right-of-use assets depreciation charge on buildings

(d) Other income

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Gain on termination of Tanjong Baram risk service contract	**10,209**	–
Other income	**6,095**	3,446
Business performance other income	**16,304**	3,446
Fair value changes in contingent consideration (see note 22)	**138,249**	–
Total other income	**154,553**	3,446

On 3 March 2020, the Group terminated the Tanjong Baram small field risk service contract with Petronas. Following the termination, the Group received three instalments from Petronas for the reimbursement of net outstanding capital expenditure of $51.1 million. The Group received $72.9 million from Petronas in 2020, of which $21.8 million was received on behalf of the non-operating partner and immediately transferred. The amount has been presented net in the statement of cash flows to represent the substance of the transaction. On termination, the Tanjong Baram assets were carried at c.$40 million resulting in the $10.2 million gain (see note 10).

(e) Other expenses

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Net foreign exchange losses	**4,625**	16,427
Change in decommissioning provisions	**83,199**	–
Change in Thistle decommissioning provisions (note 23)	**11,998**	–
Other	**1,811**	5,454
Business performance other expenses	**101,633**	21,881
Loss on derecognition of assets related to the Seligi riser detachment	**956**	–
Fair value changes in contingent consideration (see note 22)	**–**	15,520
Settlement provision (see note 23)	**–**	15,630
Other	**–**	585
Total other expenses	**102,589**	53,616

5. Revenue and expenses (continued)

(f) Staff costs

Accounting policy

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

The Group's pension obligations consist of defined contribution plans. The Group pays fixed contributions with no further payment obligations once the contributions have been paid. The amount charged to the Group income statement 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.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Wages and salaries	**85,913**	88,951
Social security costs	**9,118**	9,511
Defined contribution pension costs	**6,871**	7,115
Expense of share-based payments (see note 21)	**3,401**	5,886
Other staff costs	**12,781**	12,609
Total employee costs	**118,084**	124,072
Contractor costs	**39,371**	50,975
Total staff costs	**157,455**	175,047
General and administration staff costs (see note 5(c))	**85,813**	90,764
Non-general and administration costs	**71,642**	84,283
Total staff costs	**157,455**	175,047

In 2020 the Group changed its methodology for disclosing staff costs and therefore the 2019 allocation of staff costs has been restated to ensure consistency.

The average number of persons, excluding contractors, employed by the Group during the year was 885, with 383 in the general and administration staff costs and 502 directly attributable to assets (2018: 958 of which 407 in general and administration and 551 directly attributable to assets).

Compensation of key management personnel is disclosed in note 26.

(g) Auditor's remuneration

Following a comparative tender process held during 2019, Deloitte LLP ('Deloitte') was appointed as auditor replacing Ernst and Young LLP ('EY'). The following amounts for the year ended 31 December 2020 were payable by the Group to Deloitte and for the year ended 31 December 2019 to EY:

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**649**	682
The audit of the Company's subsidiaries	**178**	176
Total audit	**827**	858
Audit related assurance services(i)	**180**	136
Total audit and audit related assurance services	**1,007**	994
Tax services	**10**	12
Total auditor's remuneration	**1,017**	1,006

(i) Audit-related assurance services include the review of the Group's interim results and assurance work in respect of the Group's joint venture activities.

6. Finance costs/income

Accounting policy

Borrowing costs are recognised as interest payable within finance costs in accordance with the effective interest method.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Finance costs:		
Loan interest payable	**32,791**	67,749
Bond interest payable	**73,476**	62,694
Unwinding of discount on decommissioning provisions (see note 23)	**14,512**	13,410
Unwinding of discount on Thistle decommissioning provisions (see note 23)	**796**	671
Finance charges payable under leases	**50,851**	55,686
Amortisation of finance fees on loans and bonds	**5,417**	5,727
Other financial expenses	**1,975**	2,055
	179,818	207,992
Less: amounts capitalised to the cost of qualifying assets	**–**	(1,396)
Business performance finance expenses	**179,818**	206,596
Finance costs on contingent consideration (see note 22)	**77,259**	57,165
Total finance costs	**257,077**	263,761
Finance income:		
Bank interest receivable	**896**	1,511
Unwinding of discount on financial asset (see note 19(e))	**275**	905
Total finance income	**1,171**	2,416

7. Income tax

(a) Income tax

Accounting policy

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.

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.

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 charge 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 allowances which could reduce future supplementary charge taxation. The Group's policy is that investment allowance is recognised as a reduction in the charge to taxation in the years claimed.

7. Income tax (continued)

The major components of income tax (credit)/expense are as follows:

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Current UK income tax		
Current income tax charge	**–**	354
Adjustments in respect of current income tax of previous years	**140**	(745)
Current overseas income tax		
Current income tax charge	**2,424**	20,894
Adjustments in respect of current income tax of previous years	**(295)**	(4,102)
Total current income tax	**2,269**	16,401
Deferred UK income tax		
Relating to origination and reversal of temporary differences	**58,184**	(277,198)
Adjustments in respect of changes in tax rates	**1**	–
Adjustments in respect of deferred income tax of previous years	**2,660**	(21,309)
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**(5,135)**	(953)
Adjustments in respect of deferred income tax of previous years	**1,848**	3,247
Total deferred income tax	**57,558**	(296,213)
Income tax (credit)/expense reported in profit or loss	**59,827**	(279,812)

(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 2020 $'000	Year ended 31 December 2019 $'000
Profit/(loss) before tax	**(565,975)**	(729,113)
UK statutory tax rate applying to North Sea oil and gas activities of 40% (2019: 40%)	**(226,390)**	(291,645)
Supplementary corporation tax non-deductible expenditure	**17,761**	18,593
Petroleum revenue tax (net of income tax benefit)	**(2,548)**	–
Non-deductible expenditure/income	**(3,449)**	89,746
North Sea tax reliefs	**(106,685)**	(84,273)
Tax in respect of non ring-fence trade	**6,737**	11,269
Deferred tax asset impairment	**371,061**	–
Deferred tax rate changes	**1**	–
Adjustments in respect of prior years	**4,352**	(22,909)
Overseas tax rate differences	**(1,250)**	(1,064)
Share-based payments	**1,097**	2,013
Other differences	**(860)**	(1,542)
At the effective income tax rate of (11)% (2019: 38%)	**59,827**	(279,812)

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	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Deferred tax liability				
Accelerated capital allowances	**821,253**	1,057,805	**(236,551)**	(343,152)
	821,253	1,057,805		
Deferred tax asset				
Losses	**(825,588)**	(1,102,534)	**276,945**	110,455
Decommissioning liability	**(310,697)**	(284,057)	**(26,640)**	(16,103)
Other temporary differences	**(182,529)**	(226,333)	**43,804**	(47,413)
	(1,318,814)	(1,612,924)		
Deferred tax expense			**57,558**	(296,213)
Net deferred tax (assets)/liabilities	**(497,561)**	(555,119)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(503,946)**	(576,038)		
Deferred tax liabilities	**6,385**	20,919		
Net deferred tax (assets)/liabilities	**(497,561)**	(555,119)		

Reconciliation of net deferred tax assets/(liabilities)

	2020 $'000	2019 $'000
At 1 January	**555,119**	258,906
Tax income/(expense) during the period recognised in profit or loss	**(57,558)**	296,213
At 31 December	**497,561**	555,119

(d) Tax losses

The Group's deferred tax assets at 31 December 2020 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. At 31 December 2020, $371.1 million of the Group's ring-fence deferred tax assets have not been recognised as there are currently insufficient future profits forecast to utilise them fully. In accordance with IAS 12 Income Taxes, the Group assesses the recoverability of its deferred tax assets at each period end. Sensitivities have been run on the oil price assumption, with a 10% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10% reduction in oil price would result in an additional deferred tax asset impairment of $328.9 million and a 10% increase in oil price would result in a reduction in deferred tax asset impairment of $285.4 million.

The Group has unused UK mainstream corporation tax losses of $320.7 million (2019: $297.8million) for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of the creation of non-ring-fence profits and therefore uncertainty over the 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. The benefit of this deduction is taken over ten years with a deduction of $2.2 million being taken in the current period with the remaining benefit of $15.1 million remaining unrecognised.

The Group has unused overseas tax losses in Canada of approximately CAD$13.5 million (2019: CAD$13.5 million) for which no deferred tax asset has been recognised at the balance sheet date. The tax losses in Canada have expiry periods of 20 years, none of which expire in 2020, and which arose following the change in control of the Stratic Group in 2010.

The Group has unused Malaysian income tax losses of $14.3 million (2019: $12.2 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) Changes in legislation

Finance Act 2020 enacted a change in the mainstream corporation tax rate to 19% with effect from 1 April 2020. As all UK mainstream corporation tax losses are not recognised there is minimal impact in 2020 resulting from this change. In the Budget statement on 3 March 2021, it was announced that the corporation tax rate will increase to 25% from 1 April 2023. This change is expected to have no impact.

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. Diluted earnings per share is adjusted for the effects of Ordinary shares granted under the share-based payment plans, which are held in the Employee Benefit Trust , unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Basic and diluted earnings per share are calculated as follows:

	Profit/(loss) after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2020 $'000	2019 $'000	**2020 million**	2019 million	**2020 $**	2019 $
Basic	**(625,802)**	(449,301)	**1,655.0**	1,640.1	**(0.378)**	(0.274)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**15.1**	14.7	**–**	–
Diluted(i)	**(625,802)**	(449,301)	**1,670.1**	1,654.8	**(0.378)**	(0.274)
Basic (excluding remeasurements and exceptional items)	**(26,187)**	214,340	**1,655.0**	1,640.1	**(0.016)**	0.131
Diluted (excluding remeasurements and exceptional items)(i)	**(26,187)**	214,340	**1,670.1**	1,654.8	**(0.016)**	0.130

(i) Potential ordinary shares are not treated as dilutive when they would decrease a loss per share

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2020 (2019: none). At 31 December 2020, there are no proposed dividends (2019: none).

10. Property, plant and equipment

Accounting policy

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment charges.

Cost

Cost comprises the purchase price or cost relating to development, including the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells and any other 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.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the other operating income or expense line item in the consolidated income statement when the asset is derecognised.

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.

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.

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 capitalised during the development phase of the project until such time as the assets are substantially ready for their intended use.

Depletion and depreciation

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. Changes in factors which affect unit of production calculations are dealt with prospectively. Depletion of oil and gas assets is taken through cost of sales.

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

Office furniture and equipment	Five years
Fixtures and fittings	Ten years
Right-of-use assets*	Lease term

* excludes Kraken FPSO which is depleted using the unit of production method in accordance with the related oil and gas assets.

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.

10. Property, plant and equipment (continued)

Impairment of tangible and intangible assets (excluding goodwill)

At each balance sheet date, the Group assesses assets or groups of assets, called cash generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. 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. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, 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

basis at management's estimate of a market participant WACC. See note 2 'Key estimates used in calculations'. 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 Group income statement.

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 Group income statement.

	Oil and gas assets $'000	Office furniture, fixtures and fittings $'000	Right-of-use assets (note 24) $'000	Total $'000
Cost:				
At 1 January 2019	8,365,591	60,572	832,502	9,258,665
Additions	149,503	3,324	24,587	177,414
Change in decommissioning provision	40,097	–	–	40,097
Change in cost recovery provision	(5,895)	–	–	(5,895)
Reclass within asset class	(2,591)	(86)	–	(2,677)
Reclass from/(to) other assets and intangibles (see note 12)	1,064	(1,357)	–	(293)
At 1 January 2020	**8,547,769**	**62,453**	**857,089**	**9,467,311**
Additions	**78,926**	**1,910**	**2,812**	**83,648**
Change in decommissioning provision (see notes 23)	**10,200**	**–**	**–**	**10,200**
Disposals and termination of Tanjong Baram risk service contract (i)	**(84,724)**	**(143)**	**(1,412)**	**(86,279)**
At 31 December 2020	**8,552,171**	**64,220**	**858,489**	**9,474,880**
Accumulated depreciation, depletion and impairment:				
At 1 January 2019	4,724,614	42,378	81,233	4,848,225
Charge for the year	438,242	4,453	90,657	533,352
Impairment charge for the year	637,500	–	–	637,500
Reclass within asset class	(2,591)	(86)	–	(2,677)
Reclass from/(to) other assets and intangibles (see note 12)	159	(177)	–	(18)
At 1 January 2020	**5,797,924**	**46,568**	**171,890**	**6,016,382**
Charge for the year	**359,258**	**3,902**	**82,703**	**445,863**
Disposals and termination of Tanjong Baram risk service contract (i)	**(42,958)**	**(113)**	**(706)**	**(43,777)**
Impairment charge for the year	**314,335**	**–**	**108,160**	**422,495**
At 31 December 2020	**6,428,559**	**50,357**	**362,047**	**6,840,963**
Net carrying amount:				
At 31 December 2020	**2,123,612**	**13,863**	**496,442**	**2,633,917**
At 31 December 2019	2,749,845	15,885	685,199	3,450,929
At 1 January 2019	3,640,977	18,194	751,269	4,410,440

(i) For details on the termination of the Tanjong Baram risk service contract see note 5(d)

The net book value at 31 December 2020 includes nil (2019: $70.7 million) of pre-development assets and development assets under construction. The amount of borrowing costs capitalised during the year ended 31 December 2020 was nil (2019: $1.4 million relating to the Dunlin bypass project).

Impairment testing of oil and gas assets

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(i)	
	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000	**31 December 2020 $'000**	31 December 2019 $'000
North Sea	**(422,495)**	(637,500)	**1,086,348**	46,462
Malaysia	**–**	–	**–**	–
Net pre-tax impairment reversal/(charge)	**(422,495)**	(637,500)		

(i) Recoverable amount has been determined on a fair value less costs of disposal basis (see note 2 for further details of 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

Impairment charges of $314.3 million (2019: $637.5 million) and $108.2 (2019: nil) were recognised in respect of oil and gas assets and right-of-use assets respectively within the North Sea reportable segment. The impairments are attributable primarily to producing assets and principally arose as a result of changes to the Group's oil price assumptions during the year.

10. Property, plant and equipment (continued)
The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. As stated in note 2, there is uncertainty due to climate change and international governmental intervention to reduce emissions and the likely impact this will have on gas and oil demand in respect of future prices. A sensitivity has been run on the oil price assumption, with a 10.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10.0% reduction in oil price would increase the net pre-tax impairment by approximately $266.0 million, with the additional impairment attributable to the fields in the North Sea.

A sensitivity has also been run on the discount rate assumption, with a 1.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 1.0% increase in discount rate would increase the net impairment by approximately $53.6 million, with the additional impairment attributable to the fields in the North Sea.

The oil price sensitivity analysis above does not, however, represent management's best estimate of any impairments that might be recognised as they do not fully incorporate consequential changes that may arise, such as reductions in costs and changes to business plans, phasing of development, levels of reserves and resources, and production volumes. As the extent of a price reduction increases, the more likely it is that costs would decrease across the industry. The oil price sensitivity analysis therefore does not reflect a linear relationship between price and value that can be extrapolated.

11. Goodwill
Accounting policy
Cost
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.

Impairment of goodwill
Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. In accordance with IAS 36 Impairment of Assets, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the CGU to which the goodwill relates should be assessed.

For the purposes of impairment testing, goodwill acquired is allocated to the CGU that is 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 containing goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

A summary of goodwill is presented below:

	2020 $'000	2019 $'000
Cost and net carrying amount		
At 1 January	**134,400**	283,950
Impairment	**–**	(149,550)
At 31 December	**134,400**	134,400

The majority of the goodwill, $94.6 million, relates to the 75% acquisition of the Magnus oil field and associated interests. The remaining goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Impairment testing of goodwill
Goodwill, which has been acquired through business combinations, has been allocated to the UK North Sea segment CGU, and this is therefore the lowest level at which goodwill is reviewed. The UK North Sea is a combination of oil and gas assets, as detailed within property, plant and equipment (note 10).

The recoverable amounts of the CGU and fields have been determined on a fair value less costs of disposal basis. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. See 'Key estimates used in calculations' (note 2). The cash flows have been modelled on a post-tax basis at management's estimate of a market participant WACC. An impairment charge of nil was taken in 2020 (2019: $149.6 million) based on a fair value less costs to dispose valuation of the North Sea CGU, as described above.

Sensitivity to changes in assumptions
The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. A sensitivity has been run on the oil price assumption, with a 10.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10.0% reduction in oil price would result in a net impairment of $14 million (2019: full impairment of goodwill). A 12.6% reduction in oil price would fully impair goodwill (2019: 5.0%).

12. Intangible oil and gas assets

Accounting policy

Exploration and appraisal assets

Exploration and appraisal have indefinite useful lives and are accounted for using the successful efforts method of accounting. 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 Group income statement. When exploration licences are relinquished without further development, any previous impairment loss is reversed and the carrying costs are written off through the Group income statement. 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 Group income statement.

During the year ended 31 December 2020, there was no impairment of historical exploration and appraisal expenditures (2019: $25.4 million).

	Cost $'000	Accumulated impairment $'000	Net carrying amount $'000
At 31 December 2018	165,586	(113,783)	51,803
Additions	3,241	–	3,241
Write-off of relinquished licences previously impaired	(583)	583	–
Unsuccessful exploration expenditure written off	–	(150)	(150)
Change in decommissioning provision (see note 23)	(2,218)	–	(2,218)
Impairment charge for the year	–	(25,398)	(25,398)
Reclass within asset class	8,645	(8,645)	–
Reclass from/(to) tangible fixed assets (see note 10)	293	(18)	275
At 31 December 2019	**174,964**	**(147,411)**	**27,553**
Write-off of relinquished licences previously impaired	**(12,645)**	**12,645**	**–**
Other	**(7)**	**–**	**(7)**
At 31 December 2020	**162,312**	**(134,766)**	**27,546**

13. Inventories

Accounting policy

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

	2020 $'000	2019 $'000
Hydrocarbon inventories	**20,509**	17,216
Well supplies	**39,275**	61,428
	59,784	78,644

During 2020, inventories of $21.6 million (2019: $20.6 million) were recognised within cost of sales in the Group income statement.

The inventory valuation at 31 December 2020 is stated net of a provision of $56.7 million (2019: $31.8 million) to write down well supplies to their estimated net realisable value. The net charge to the income statement in the year in respect of well supplies provisions, primarily associated with decommissioned assets, was $24.9 million (2019: $14.6 million).

14. Cash and cash equivalents

	2020 $'000	2019 $'000
Available cash		
Cash at bank	**113,185**	137,365
Short-term deposits	**–**	6,849
Total available cash	**113,185**	144,214
Ring-fenced cash		
Joint venture accounts	**74,447**	32,365
Operational accounts	**33,523**	41,620
Total ring-fenced cash	**107,970**	73,985
Total cash at bank and in hand	**221,155**	218,199
Restricted cash – Cash subject to currency controls or other legal restrictions		
Cash held in escrow	**1,675**	1,611
Cash collateral	**–**	646
Total restricted cash – Cash subject to currency controls or other legal restrictions	**1,675**	2,257
Total cash and cash equivalents	**222,830**	220,456

14. Cash and cash equivalents (continued)

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. Ring-fenced cash includes joint venture accounts and cash held in operational accounts, as detailed below.

Short-term deposits

At 31 December 2020, nil (2019: $6.8 million) was placed on short-term deposit in order to cash collateralise the Group's letter of credit.

Joint venture accounts

Joint venture accounts include the cash called for the operations of the relevant asset, from both EnQuest and partners, based on equity share.

Operational accounts

Operational accounts include cash balances that are available for the operating, investing and financing activities of the following specific assets. This cash includes:

- $17.4 million Sculptor Capital working capital for use only for the activities of the ring-fenced 15% interest in the Kraken oil field (see note 18);
- Nil Magnus asset working capital for use only for activities of Magnus and maintained for the repayment mechanism with BP for the contingent consideration (see note 22); and
- $16.2 million SVT working capital for use only with the activities of SVT (see note 18).

Restricted cash

Included within the cash balance at 31 December 2020 is restricted cash of $1.7 million (2019: $2.3 million). The restricted cash balance is stated net of a provision of $2.5 million (2019: $2.5 million) which relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources.

15. Financial instruments and fair value measurement

Accounting policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are offset and the net amount is reported in the Group balance sheet 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

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 assets' contractual cash flow characteristics and the Group's business model for managing them. The Group does not currently hold any financial assets at FVOCI, i.e. debt financial assets.

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.

Financial assets at amortised cost

Trade receivables, other receivables and joint operation receivables are measured initially at fair value and subsequently recorded at amortised cost, using the effective interest rate ('EIR') method, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired and EIR amortisation is included within finance costs.

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.

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Prepayments, which are not financial assets, are measured at historical cost.

Impairment of financial assets

The Group recognises a provision for expected credit loss ('ECL'), where material, for all financial assets held at the balance sheet date. ECLs are based on the difference between the contractual cash flows due to the Group, and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

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) and is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. 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. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Financial liabilities

Financial liabilities are classified, at initial recognition, as amortised cost or at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, discharged, cancelled or they expire. 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 Group income statement.

Financial liabilities at amortised cost

Loans and borrowings, trade payables and other creditors are measured initially at fair value net of directly attributable transaction costs and subsequently recorded at amortised cost, using the EIR method. Loans and borrowings are interest bearing. Gains and losses are recognised in profit or loss when the liability is derecognised and EIR amortisation is included within finance costs.

15. Financial instruments and fair value measurement (continued)

Financial instruments at fair value through profit or loss

The Group holds derivative financial instruments classified as held for trading, not designated as effective hedging instruments. The derivative financial instruments include forward currency contracts and commodity contracts, to address the respective risks, see note 27. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Financial instruments at FVPL are carried in the Group balance sheet at fair value with net changes in fair value recognised in the Group income statement. Unrealised mark-to-market changes in the remeasurement of open derivative contracts at each period end is recognised within remeasurements, with the recycling of realised amounts from remeasurements into Business performance income when a derivative instrument matures. Option premium received or paid for commodity derivatives are recognised in remeasurements.

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. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVPL. Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group also holds contingent consideration (see note 22) and a listed equity investment (see note 19). The movements of both are recognised within remeasurements in the Group income statement.

Fair value measurement

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

31 December 2020		**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:					
Other financial assets at FVPL					
Quoted equity shares		**7**	**7**	**–**	**–**
Liabilities measured at fair value:					
Derivative financial liabilities at FVPL					
Oil commodity derivative contracts	19	**2,007**	**–**	**2,007**	**–**
Other financial liabilities measured at FVPL					
Contingent consideration	22	**522,261**	**–**	**–**	**522,261**
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	18	**454,209**	**–**	**–**	**454,209**
Obligations under leases	24	**647,846**	**–**	**–**	**647,846**
Retail bond	18	**225,943**	**225,943**	**–**	**–**
High yield bond	18	**537,602**	**537,602**	**–**	**–**

31 December 2019		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	19	288	–	288	–
Foreign currency derivative contracts	19	1,932	–	1,932	–
Other financial assets at FVPL					
Quoted equity shares		11	11	–	–
Liabilities measured at fair value:					
Derivative financial liabilities at FVPL					
Oil commodity derivative contracts	19	11,073	–	11,073	–
Other financial liabilities measured at FVPL					
Contingent consideration	22	657,261	–	–	657,261
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	18	661,638	–	–	661,638
Obligations under leases	24	716,166	–	–	716,166
Retail bond	18	195,948	195,948	–	–
High yield bond	18	655,462	655,462	–	–

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 (i.e. as prices) or indirectly (i.e. derived from prices) observable; Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Derivative financial instruments are valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data (Level 2). Contingent consideration is measured at FVPL using the Level 3 valuation processes disclosed in note 22. There have been no transfers between Level 1 and Level 2 during the period (2019: no transfers).

For the financial liabilities measured at amortised costs but for which fair value disclosures are required, the fair value of the bonds classified as Level 1 was derived from quoted prices for that financial instrument. Both interest-bearing loans and borrowings and obligations under finance leases were calculated using the discounted cash flow method to capture the present value (Level 3).

16. Trade and other receivables

	2020 $'000	2019 $'000
Current		
Trade receivables	**24,604**	117,149
Joint venture receivables	**53,121**	119,519
Under-lift position	**15,690**	17,651
VAT receivable	**10,307**	6,887
Other receivables	**1,441**	3,374
	105,163	264,580
Prepayments and accrued income	**13,552**	14,922
	118,715	279,502

The carrying value of the Group's trade, joint venture and other receivables as stated above are considered to be a reasonable approximation to their fair value largely due to their short-term maturities. Under-lift is valued at the lower of cost or NRV at the prevailing balance sheet date (note 5(b)).

Trade receivables are non-interest-bearing and are generally on 15 to 30 day terms. Joint venture receivables relate to amounts billable to, or recoverable from, joint venture partners. Receivables are reported net of any ECL with no losses recognised as at 31 December 2020 or 2019. The Group's ECL estimates were not significantly impacted by Brexit or COVID-19 during 2020.

17. Trade and other payables

	2020 $'000	2019 $'000
Current		
Trade payables	**41,090**	92,238
Accrued expenses	**179,590**	258,539
Over-lift position	**12,732**	46,201
Joint venture creditors	**16,647**	1,788
Other payables	**5,096**	21,089
	255,155	419,855
Classified as:		
Current	**255,155**	419,855
Non-current	**–**	–
	255,155	419,855

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. Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in Sterling. Trade payables are normally non-interest-bearing and settled on terms of between 10 and 30 days.

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

18. Loans and borrowings

	2020 $'000	2019 $'000
Borrowings	**452,284**	659,013
Bonds	**1,045,041**	966,231
	1,497,325	1,625,244

(a) Borrowings

The Group's borrowings are carried at amortised cost as follows:

	2020			2019		
	Principal $'000	**Fees $'000**	**Total $'000**	Principal $'000	Fees $'000	Total $'000
Credit facility	**377,270**	**–**	**377,270**	475,097	–	475,097
Sculptor Capital facility	**67,701**	**(1,925)**	**65,776**	122,912	(2,625)	120,287
SVT working capital facility	**9,238**	**–**	**9,238**	31,899	–	31,899
Tanjong Baram project financing facility	**–**	**–**	**–**	31,730	–	31,730
Total borrowings	**454,209**	**(1,925)**	**452,284**	661,638	(2,625)	659,013
Due within one year			**414,430**			165,589
Due after more than one year			**37,854**			493,424
Total borrowings			**452,284**			659,013

See liquidity risk – note 27 for the timing of cash outflows relating to loans and borrowings

18. Loans and borrowings (continued)

Credit facility

On 21 November 2016, the Group completed a loan restructuring and 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 of October 2021;
- Amortisation payable from 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 USD LIBOR plus a margin of 4.75%, paid in cash;
- Borrowings in excess of $890.7 million subject to interest at USD 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.

At 31 December 2020, the carrying amount of the credit facility on the balance sheet was $377.8 million, comprising the loan principal drawn down of $360.0 million, $17.3 million of interest capitalised to the PIK amount and $0.5 million accrued interest (note 17) (2019: carrying amount $477.4 million, principal drawn down $460.0 million, PIK $15.8 million and accrued interest $1.6 million).

At 31 December 2020, after allowing for letter of credit utilisation of $28.8 million, $46.2 million remained available for drawdown under the credit facility (2019: $6.8 million and $68.2 million, respectively).

Sculptor Capital facility

On 24 September 2018, the Group entered into a $175.0 million financing facility with Sculptor Capital Management Inc. 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.

SVT working capital facility

On 1 December 2020, EnQuest NNS Limited extended, for a further three years, the £42.0 million revolving loan facility with a joint operator partner to fund the short-term working capital cash requirements on the acquisition of SVT and associated interests. The facility is able to be drawn down against, in instalments, and accrues interest at 1.0% per annum plus GBP LIBOR.

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. In June 2020, EnQuest made an early voluntary repayment of the entire $31.7 million of the Tanjong Baram project finance facility.

Trade Creditor Facility

In April 2020, the Group entered into a $15.0 million facility with a supplier, in relation to the provision of a drilling contract. Any amounts drawn down under the facility, along with associated accrued interest at 4%, would be repayable in two instalments in 2021. No amounts were drawn as at 31 December 2020.

(b) Bonds

The Group's bonds are carried at amortised cost as follows:

	2020			2019		
	Principal $'000	**Fees $'000**	**Total $'000**	Principal $'000	Fees $'000	Total $'000
High yield bond	**799,194**	**(2,666)**	**796,528**	746,056	(4,483)	741,573
Retail bond	**249,161**	**(648)**	**248,513**	225,747	(1,089)	224,658
Total bonds due after more than one year	**1,048,355**	**(3,314)**	**1,045,041**	971,803	(5,572)	966,231

High yield bond

In April 2014, the Group issued a $650.0 million high yield bond. 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 is only 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.

During the year the maturity date of the new high yield notes was automatically extended to 15 October 2023 as the credit facility had not been repaid or refinanced in full prior to 15 October 2020.

The total carrying value of the bond as at 31 December 2020 is $796.5 million (2019: $741.6 million). This includes bond principal of $799.2 million (2019: $746.1 million) less unamortised fees of $2.7 million (2019: $4.5 million). The high yield bond does not include accrued interest of $11.8 million (2019: $11 million) and liability for the IFRS 9 Financial Instruments loss on modification of $4.6 million (2019: $2.2 million), which are reported within trade and other payables. The fair value of the high yield bond is disclosed in note 15.

18. Loans and borrowings (continued)

Retail bond

In 2013, the Group issued a £155.0 million retail bond. 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 is only 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').

During the year the maturity date of the new high yield notes was automatically extended to 15 October 2023 as the credit facility had not been repaid or refinanced in full prior to 15 October 2020.

The total carrying value of the bond as at 31 December 2020 is $248.5 million (2019: $224.7 million). This includes bond principal of $249.2 million (2019: $225.7 million) less unamortised fees of $0.6 million (2019: $1.1 million). The retail yield bond does not include accrued interest of $6.3 million (2019: $6.0 million) and liability for the IFRS 9 Financial Instruments loss on modification of $11.9 million (2019: $10.5 million), which are reported within trade and other payables. The fair value of the retail bond is disclosed in note 15.

19. Other financial assets and financial liabilities

(a) Summary as at year end

	2020		2019	
	Assets $'000	**Liabilities $'000**	Assets $'000	Liabilities $'000
Fair value through profit or loss:				
Derivative commodity contracts	**–**	**2,007**	288	11,073
Derivative foreign exchange contracts	**–**	**–**	1,932	–
Amortised cost:				
Other receivables	**–**	**–**	6,863	–
Total current	**–**	**2,007**	9,083	11,073
Fair value through profit or loss:				
Quoted equity shares	**7**	**–**	11	–
Total non-current	**7**	**–**	11	–

(b) Income statement impact

The income/(expense) recognised for derivatives are as follows:

	Revenue and other operating income		**Cost of sales**	
Year ended 31 December 2020	**Realised $'000**	**Unrealised $'000**	**Realised $'000**	**Unrealised $'000**
Commodity options	**24,659**	**(136)**	**–**	**–**
Commodity swaps	**(36,912)**	**8,941**	**–**	**–**
Commodity futures	**6,194**	**(27)**	**–**	**–**
Foreign exchange contracts	**–**	**–**	**572**	**(1,932)**
	(6,059)	**8,778**	**572**	**(1,932)**

	Revenue and other operating income		Cost of sales	
Year ended 31 December 2019	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000
Commodity options	10,517	(55,513)	–	–
Commodity swaps	19,813	(10,021)	–	–
Commodity futures	(4,467)	159	–	–
Commodity collar on prepayment transaction	(1,107)	–	–	–
Foreign exchange contracts	–	–	(2,713)	1,684
Carbon forwards	–	–	1,006	(2,062)
	24,756	(65,375)	(1,707)	(378)

(c) Commodity contracts

The Group uses derivative financial instruments to manage its exposure to the oil price, including put and call options, swap contracts and futures.

For the year ended 31 December 2020, gains totalling $2.7 million (2019: losses of $40.6 million) were recognised in respect of commodity contracts designated as FVPL. This included losses totalling $6.1 million (2019: gains of $24.8 million) realised on contracts that matured during the year, and mark-to-market unrealised gains totalling $8.8 million (2019: losses of $65.4 million). Of the realised amounts recognised during the year, a gain of $6.2 million (2019: gain of $4.9 million) was realised in Business performance revenue in respect of the premium income received on sale of these options.

The mark-to-market value of the Group's open contracts as at 31 December 2020 was a liability of $2.0 million (2019: liability of $10.8 million).

19. Other financial assets and financial liabilities (continued)

(d) Foreign currency contracts

The Group enters into a variety of foreign currency contracts, primarily in relation to Sterling. During the year ended 31 December 2020, losses totalling $1.4 million (2019: losses of $1.0 million) were recognised in the income statement. This included realised gains totalling $0.6 million (2019: loss of $2.7 million) on contracts that matured in the year.

The mark-to-market value of the Group's open contracts as at 31 December 2020 was nil (2019: asset of $1.9 million).

(e) Other receivables

	2020 $'000	2019 $'000
At 1 January	**6,874**	15,506
Change in fair value	**(4)**	(20)
Utilised during the year	**(7,138)**	(9,517)
Unwinding of discount	**275**	905
At 31 December	**7**	6,874
Current	**–**	6,863
Non-current	**7**	11
	7	6,874

Other receivables

Comprised of:	**2020 $'000**	2019 $'000
BUMI receivable	**–**	6,863
Other	**7**	11
Total	**7**	6,874

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 onwards. A total of $7.1 million was collected during the period, with the refund now fully settled.

20. Share capital and premium

Accounting policy

Share capital and share premium

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

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. During the year the merger reserve was released to retained earnings as the assets which gave rise to its original recognition are now fully written down.

Retained earnings

Retained earnings contain the accumulated profits/(losses) of the Group.

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. EnQuest PLC shares held by the Group in the Employee Benefit Trust are recognised at cost and are deducted from the share-based payments reserve. 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 Group income statement on the purchase, sale, issue or cancellation of equity shares.

Authorised, issued and fully paid	**Ordinary shares of £0.05 each Number**	**Share capital $'000**	**Share premium $'000**	**Total $'000**
At 1 January 2020	1,695,801,955	118,271	227,149	345,420
At 31 December 2020	**1,695,801,955**	**118,271**	**227,149**	**345,420**

At 31 December 2020, there were 46,492,546 shares held by the Employee Benefit Trust (2018: 43,232,936). 9,562,007 shares were purchased across 2020 to the Employee Benefit Trust with the remaining movement in the year due to shares used to satisfy awards made under the Company's share-based incentive schemes.

21. Share-based payment plans

Accounting policy

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 of EnQuest PLC.

The Directors of the Company have approved four share schemes for the benefit of Directors and employees, being a Deferred Bonus Share Plan, a Restricted Share Plan, a Performance Share Plan and a Sharesave Plan.

The cost of these equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value of awards is calculated in reference to the scheme rules 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 cost of equity-settled transactions is recognised over the vesting period in which the relevant employees become fully entitled to the award. 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 Group income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

In valuing the 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. 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 Group income statement.

The share-based payment expense recognised for each scheme was as follows:

	2020 **$'000**	2019 $'000
Deferred Bonus Share Plan	**95**	303
Restricted Share Plan	**221**	580
Performance Share Plan	**3,277**	3,988
Sharesave Plan	**(240)**	858
Executive Director bonus awards	**48**	159
	3,401	5,888

The following disclosure and tables show the number of shares potentially issuable under equity-settled employee share awards, including the number of options outstanding and those options which been exercised and are exercisable at the end of each year.

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 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:

	2020	2019
Weighted average fair value per share	**31p**	36p

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

	2020 **Number**	2019 Number
Outstanding at 1 January	**925,510**	2,147,103
Granted during the year	**–**	–
Exercised during the year	**(705,683)**	(1,127,850)
Forfeited during the year	**(58,989)**	(93,743)
Outstanding at 31 December	**160,838**	925,510
Exercisable at 31 December	**–**	–

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 0.3 years (2019: 0.6 years).

21. Share-based payment plans (continued)

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.

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:

	2020	2019
Weighted average fair value per share	**24p**	31p

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

	2020 Number	2019 Number[ii]
Outstanding at 1 January	**4,848,299**	12,672,753
Granted during the year	**399,089**	45,303
Exercised during the year	**(2,229,196)**	(7,826,383)
Forfeited during the year	**(68,552)**	(43,374)
Outstanding at 31 December	**2,949,640**	4,848,299
Exercisable at 31 December	**1,821,724**	2,822,934

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 2.1 years (2019: 2.6 years).

Performance Share Plan ('PSP')

PSP vesting is subject to performance conditions. PSP share awards granted before 2020 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.

For 2020 the PSP share awards granted during the year have only one performance condition, 100% 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. 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:

	2020	2019
Weighted average fair value per share	**18p**	27p

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

	2020 Number	2019 Number
Outstanding at 1 January	**69,637,698**	77,898,199
Granted during the year	**52,520,457**	33,000,603
Exercised during the year	**(3,353,253)**	(19,644,786)
Forfeited during the year	**(13,919,026)**	(21,616,318)
Outstanding at 31 December	**104,885,876**	69,637,698
Exercisable at 31 December	**8,248,209**	3,852,953

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 5.8 years (2019: 6.3 years).

21. Share-based payment plans (continued)

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:

	2020	2019
Weighted average fair value per share	**12p**	22p

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

	2020 Number	2019 Number
Outstanding at 1 January	**42,589,522**	35,747,677
Granted during the year	**34,719,941**	39,101,971
Exercised during the year	**(452,545)**	(6,385,608)
Forfeited during the year	**(34,473,264)**	(25,874,518)
Outstanding at 31 December	**42,383,654**	42,589,522
Exercisable at 31 December	**449,912**	2,879,900

The weighted average contractual life for the share options outstanding as at 31 December 2020 was 2.6 years (2019: 2.8 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:

	2020	2019
Weighted average fair value per share	**15p**	28p

The following table shows the movement in the number of share awards held under the Executive Director bonus plan:

	2020 Number	2019 Number
Outstanding at 1 January	**1,963,454**	3,159,786
Granted during the year	**303,862**	138,483
Exercised during the year	**–**	(1,334,815)
Outstanding at 31 December	**2,267,316**	1,963,454
Exercisable at 31 December	**1,824,971**	1,526,678

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 1.3 years (2019: 0.6 years).

22. Contingent consideration

Accounting policy

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

	Magnus 75% $'000	Magnus decommissioning-linked liability $'000	Total $'000
At 31 December 2019	**641,400**	**15,861**	**657,261**
Change in fair value (see note 5(d))	**(137,356)**	**(893)**	**(138,249)**
Unwinding of discount (see note 6)	**64,140**	**1,586**	**65,726**
Interest on vendor loan (see note 6)	**11,533**	**-**	**11,533**
Utilisation	**(72,056)**	**(1,954)**	**(74,010)**
At 31 December 2020	**507,661**	**14,600**	**522,261**
Classified as:			
Current	**73,676**	**201**	**73,877**
Non-current	**433,984**	**14,400**	**448,384**
	507,660	**14,601**	**522,261**

75% Magnus acquisition contingent consideration

On 1 December 2018, EnQuest completed the acquisition of the additional 75% interest in the Magnus oil field ('Magnus') and associated interests (collectively the 'Transaction assets') which was part funded through a vendor loan and profit share arrangement with BP. This acquisition followed on from the acquisition of initial interests completed in December 2017.

The consideration for the acquisition was $300.0 million, consisting of $100.0 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200.0 million deferred consideration financed by BP. The deferred consideration, which is repayable solely out of cash flows which are in excess of operating cash flows from Magnus, is secured over the interests in the Transaction assets and accrues interest at a rate of 7.5% per annum on the deferred consideration. The consideration also included a contingent profit-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. Together, the deferred consideration and contingent profit-sharing arrangement are known as contingent consideration.

The contingent consideration is a financial liability classified as measured at fair value through profit or loss. The fair value of contingent consideration has been determined by calculating the present value of the future expected cash flows expected to be paid and is considered a level 3 valuation under the fair value hierarchy. Future cash flows are estimated based on inputs including future oil prices, production volumes, and operating costs. The discount rate assumption and other inputs are detailed in note 2. The contingent consideration was fair valued at 31 December 2020, which resulted in a decrease in fair value of $137.4 million (2019: increase $13.5 million), reflecting the change in oil price assumptions. The fair value accounting effect and finance costs of $77.3 million (2019: $55.0 million) on the contingent consideration were recognised through remeasurements and exceptional items in the Group income statement. The contingent profit sharing arrangement cap of $1 billion was not met in 2020 in the present value calculations (2019: cap was met). Within the statement of cash flows the profit share element of the repayment, $41.1 million (2019: $21.6 million) is disclosed separately under investing activities; the repayment of the vendor loan, $20.7 million (2019: $17.9 million) is disclosed under financing activities; and the interest paid on the vendor loan, $10.3 million (2019: $14.2 million) is included within Interest paid under financing activities. At 31 December 2020, the contingent consideration was $507.7million (31 December 2019: $641.4 million).

Management has considered alternative scenarios to assess the valuation of the contingent consideration including, but not limited to, the key accounting estimate relating to oil price and the interrelationship with production and the profit share arrangement. As detailed in key accounting estimates, a reduction or increase in the price assumptions of 10% are considered to be reasonably possible changes, resulting in a reduction of $91.7 million or an increase of $91.7 million to the contingent consideration, respectively (2019: reduction of $97.8 million and increase of $54.3 million, respectively). The change in value represents a change in timing of cash flows, with the contingent profit sharing arrangement cap of $1 billion not met in either sensitivity.

The payment of contingent consideration is limited to cash flows generated from Magnus. Therefore, no contingent consideration is payable if insufficient cash flows are generated over and above the requirements to operate the asset. By reference to the conditions existing at 31 December 2020, the maturity analysis of the loan is disclosed in Risk management and financial instruments – liquidity risk (note 27).

Magnus decommissioning-linked contingent consideration

As part of the Magnus and associated interests acquisition, BP retained the decommissioning liability in respect of the existing wells and infrastructure and EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. At 31 December 2020, the amount due to BP calculated on an after-tax basis by reference to 30% of BP's decommissioning costs on Magnus was $14.6 million (2019: $15.9 million).

23. Provisions

Accounting policy

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 Group's provision primarily relates to the future decommissioning of production facilities and pipelines.

A decommissioning asset and liability are recognised, within property plant and equipment and provisions respectively, at the present value of the estimated future decommissioning costs. The decommissioning asset is amortised over the life of the underlying asset on a unit of production basis over proven and probable reserves, included within depletion in the Group income statement. Any change in the present value of estimated future decommissioning costs is reflected as an adjustment to the provision and the oil and gas asset. The unwinding of the decommissioning liability is included under finance costs in the Group income statement.

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. See 'Key sources of estimation uncertainty' - Decommissioning provision in note 2.

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.

	Decommissioning provision $'000	Thistle decommissioning provision $'000	Other provisions $'000	Total $'000
At 31 December 2019	**711,898**	**39,811**	**11,250**	**762,959**
Additions during the year	**7,462**	**–**	**9,137**	**16,599**
Changes in estimates	**85,937**	**11,998**	**–**	**97,935**
Unwinding of discount	**14,512**	**796**	**–**	**15,308**
Utilisation	**(41,605)**	**–**	**(11,250)**	**(52,855)**
Foreign exchange	**–**	**461**	**–**	**461**
At 31 December 2020	**778,204**	**53,066**	**9,137**	**840,407**
Classified as:				
Current	**68,805**	**21,012**	**9,137**	**98,954**
Non-current	**709,399**	**32,054**	**–**	**741,453**
	778,204	**53,066**	**9,137**	**840,407**

Decommissioning provision

The Group's total provision represents the present value of decommissioning costs which are expected to be incurred up to 2048, assuming no further development of the Group's assets. At 31 December 2020, an estimated $329.2 million is expected to be utilised between one and five years (2019: $155.6 million), $145.1 million within six to ten years (2019: $339.8 million), and the remainder in later periods.

As described in the accounting policy above, the decommissioning provision estimates are highly dependent on future events. Sensitivities have been run on the discount rate assumption (see note 2), with a 0.5% change being considered to be a reasonable possible change, resulting in an approximate reduction and increase of $35.4 million and $38.4 million (2019: $34.7 million and $31.8 million), respectively.

The Group enters into surety bonds principally to provide security for its decommissioning obligations. The surety bond facilities which expired in December 2020 were renewed for 12 months, subject to ongoing compliance with the terms of the Group's borrowings. At 31 December 2020, the Group held surety bonds totalling $151.7 million (2019: $131.6 million).

Thistle decommissioning provision

In 2017, EnQuest had the option to receive $50.0 million from BP in exchange for undertaking the management of the physical decommissioning activities for Thistle and Deveron and making payments by reference to 7.5% of BP's share of decommissioning costs of Thistle and Deveron fields. The option was exercised in full during 2018 and the liability recognised within provisions. At 31 December 2020, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron was $53.1 million (2019: $39.8 million). Unwinding of discount of $0.8 million is included within finance income for the year ended 31 December 2020 (2019: $0.9 million).

Other provisions

During 2019, the Group finalised and settled the historical breach of warranty claims with KUFPEC, the Group's field partner in respect of Alma/Galia. The settlement completed all outstanding claims and a provision of $22.5 million was recognised for the payments to be made to KUFPEC. A total of $6.9 million had been provided in 2019, resulting in the remaining $15.6 million being taken to the Group income statement through remeasurements and exceptional items. A total of $11.3 million was paid during 2020 (2019: $11.2 million) fully utilising the provision.

During 2020, a riser at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform detached resulting in a release of gas and a subsequent fire. At 31 December 2020 the Group has provided $5.9 million with respect to required repairs to remedy the damage caused. The Group expects to complete the repairs during 2021.

Other provisions also include redundancy provision of $1.2 million in relation to the transformation programme undertaken during 2020 and $1.5 million in relation to the payment of partners' share of pipeline oil stock following cessation of production at Heather.

24. Leases

Accounting policy

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease, or, if that rate cannot be readily determined, the Group uses its incremental borrowing rate.

The incremental borrowing rate is the rate that the Group would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value. The incremental borrowing rate is determined based on a series of inputs including: the term, the risk-free rate based on government bond rates and a credit risk adjustment based on EnQuest bond yields.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently recorded at amortised cost, using the effective interest rate method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group did not make any such adjustments during the periods presented.

The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date. It also applies the low-value assets recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included within 'cost of sales' or 'general and administration expenses' in the Group income statement.

For leases within joint ventures, the Group assesses on a lease-by-lease basis the facts and circumstances. This relates mainly to leases of vessels. Where all parties to a joint operation jointly have the right to control the use of the identified asset and all parties have a legal obligation to make lease payments to the lessor, the Group's share of the right-of-use asset and its share of the lease liability will be recognised on the Group balance sheet. This may arise in cases where the lease is signed by all parties to the joint operation or the joint operation partners are named within the lease. However, in cases where EnQuest is the only party with the legal obligation to make lease payments to the lessor, the full lease liability and right-of-use asset will be recognised on the Group balance sheet. This may be the case if, for example, EnQuest, as operator of the joint operation, is the sole signatory to the lease. If the underlying asset is used for the performance of the joint operation agreement, EnQuest will recharge the associated costs in line with joint operating agreement.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head-lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head-lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

24. Leases (continued)

Right-of-use assets and lease liabilities

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets $'000	Lease liabilities $'000
As at 31 December 2018	–	708,950
Finance lease reclassification	690,742	–
IFRS 16 recognition adjustment	60,527	60,527
Additions in the period	24,587	24,587
Depreciation expense	(90,657)	–
Interest expense	–	55,686
Payments	–	(135,125)
Foreign exchange movements	–	1,541
As at 31 December 2019	**685,199**	**716,166**
Additions in the period (see note 10)	**2,812**	**2,812**
Depreciation expense (see note 10)	**(82,703)**	**–**
Impairment (see note 10)	**(108,160)**	**–**
Disposal	**(706)**	**(726)**
Interest expense	**–**	**50,851**
Payments	**–**	**(123,001)**
Foreign exchange movements	**–**	**1,744**
As at 31 December 2020	**496,442**	**647,846**
Current		**99,439**
Non-current		**548,407**
		647,846

The Group leases assets including the Kraken FPSO, property and oil and gas vessels, with a weighted average lease term of six years. The maturity analysis of lease liabilities are disclosed in note 27.

Amounts recognised in profit or loss

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Depreciation expense of right-of-use assets	**82,703**	90,657
Interest expense on lease liabilities	**50,851**	55,689
Rent expense – short-term leases	**12,736**	2,646
Rent expense – leases of low-value assets	**43**	28
Total amounts recognised in profit or loss	**146,333**	149,020

Amounts recognised in statement of cash flows

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Total cash outflow for leases	**123,001**	135,125

Leases as lessor

The Group sub-leases part of Annan House, the Aberdeen office. The sub-lease is classified as an operating lease, as all the risks and rewards incidental to the ownership of the right-of-use asset are not all substantially transferred to the lessee. Rental income recognised by the Group during 2020 was $1.7 million (2019: $1.3 million).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	2020 $'000	2019 $'000
Less than one year	**2,211**	1,635
One to two years	**2,211**	1,762
Two to three years	**2,211**	1,762
Three to four years	**2,211**	1,762
Four to five years	**1,508**	1,762
More than five years	**8,497**	1,147
Total undiscounted lease payments	**18,849**	9,830

25. Commitments and contingencies

Capital commitments

At 31 December 2020, the Group had capital commitments amounting to nil (2019: $17.9 million).

Other commitments

In the normal course of business, the Group will obtain surety bonds, letters of credit and guarantees. At 31 December 2020, the Group held surety bonds totalling $151.7 million (2019: 131.6 million) to provide security for its decommissioning obligations. See note 23 for further details.

Contingencies

The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. 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 balance sheet or profitability, nor, so far as the Company is aware, are any such proceedings pending or threatened.

26. Related party transactions

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

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

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. 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 2020 (2019: none).

Office sub-lease

During the year ended 31 December 2020, the Group recognised $0.1 million (2019: $0.1 million) of rental income in respect of an office sub-lease arrangement with Levendi Investment Management Limited, a company where 72% of the issued share capital is held by Amjad Bseisu.

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 the Executive Committee.

	2020 $'000	2019 $'000
Short-term employee benefits	**7,576**	7,584
Share-based payments	**107**	1,245
Post-employment pension benefits	**224**	199
	7,907	9,028

27. 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 the 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 2020 and 2019, 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 open at the end of 2020 are disclosed in note 19. As of 31 December 2020, the Group held financial instruments (options and swaps) related to crude oil that covered 1.0 MMbbls of 2021 production. The instruments have an effective an average floor price of around $48.9/bbl in 2021. The group utilises multiple benchmarks when hedging production to achieve optimal results for the Group. No derivatives were designated in hedging relationships at 31 December 2020.

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

	Pre-tax profit	
	+$10/bbl increase $'000	**-$10/bbl decrease $'000**
31 December 2020	**(8,020)**	**1,365**
31 December 2019	(22,894)	20,500

27. Risk management and financial instruments (continued)

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 and the retail 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 8% (2019: 6%) of the Group's sales and 86% (2019: 95%) of costs (including operating and capital expenditure and general and administration costs) 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 tables summarise the Group's financial assets and liabilities exposure to foreign currency.

Year ended 31 December 2020	**GBP $'000**	**MYR $'000**	**Other $'000**	**Total $'000**
Total Financial Assets	**32,150**	**11,735**	**2,777**	**46,662**
Total Financial Liabilities	**519,060**	**23,931**	**869**	**543,860**

Year ended 31 December 2019	GBP $'000	MYR $'000	Other $'000	Total $'000
Total Financial Assets	136,158	28,421	4,195	168,774
Total Financial Liabilities	637,042	113,901	3,091	754,034

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 2020	**(46,183)**	**46,183**
31 December 2019	(47,158)	47,158

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. 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, commodity traders and shipping companies and at 31 December 2020 there were $2.6 million of trade receivables past due (2019: $2.4 million), $2.5 million of joint venture receivables past due (2019: $0.1 million) but not impaired. Subsequent to year end, $4.4 million of these outstanding balances have been collected (2019: $2.4 million). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. The impact of ECL is disclosed in note 16.

Ageing of past due but not impaired receivables	**2020 $'000**	2019 $'000
Less than 30 days	**2,974**	381
30–60 days	**1,335**	60
60–90 days	**164**	–
90–120 days	**271**	8
120+ days	**383**	2,056
	5,127	2,505

At 31 December 2020, the Group had three customers accounting for 77% of outstanding trade receivables (2019: four customers, 84%) and one joint venture partners accounting for 16% of outstanding joint venture receivables (2019: two joint venture partners, 26%).

27. Risk management and financial instruments (continued)

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 2020, $61.2 million (2019: $68.2million) was available for drawdown under the Group's credit facilities (see note 18).

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 includes future interest payments.

The payment of contingent consideration is limited to cash flows generated from Magnus (see note 22). Therefore, no contingent consideration is payable if insufficient cash flows are generated over and above the requirements to operate the asset and there is no exposure to liquidity risk. By reference to the conditions existing at the reporting period end, the maturity analysis of the loan is disclosed below. All of the Groups liabilities are unsecured.

Year ended 31 December 2020	**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	**–**	**430,289**	**39,778**	**–**	**–**	**470,067**
Bonds(i)	**–**	**–**	**–**	**1,255,474**	**–**	**1,255,474**
Contingent considerations	**–**	**78,219**	**77,055**	**254,319**	**401,259**	**810,852**
Obligations under finance leases (IFRS 16)	**–**	**133,765**	**130,667**	**337,177**	**217,013**	**818,622**
Trade and other payables	**–**	**249,111**	**117**	**–**	**–**	**249,228**
	–	**891,384**	**247,617**	**1,846,970**	**618,272**	**3,604,243**

Year ended 31 December 2019	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	–	228,991	527,419	4,121	–	760,531
Bonds(i)	–	67,545	67,545	1,035,022	–	1,170,112
Contingent considerations	–	114,152	89,607	266,563	621,929	1,092,251
Obligations under finance leases (IFRS 16)	–	152,306	132,294	350,492	281,915	917,007
Trade and other payables	–	326,035	–	–	46,763	372,798
	–	889,029	816,865	1,656,198	950,607	4,312,699

(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 18)

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 2020	**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	**3,108**	**2,007**	**–**	**–**	**–**	**5,115**
	3,108	**2,007**	**–**	**–**	**–**	**5,115**

Year ended 31 December 2019	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	1,849	6,398	4,387	–	–	12,634
Foreign exchange derivative contracts	–	(1,932)	–	–	–	(1,932)
	1,849	4,466	4,387	–	–	10,702

27. Risk management and financial instruments (continued)

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, 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.

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.

The Group monitors capital using the gearing ratio and return on shareholders' equity as follows. Further information relating to the movement year-on-year is provided within the relevant notes and within the Financial Review (pages 10 to 16).

	2020 **$'000**	2019 $'000
Loans, borrowings and bond[i] (A) (see note 18)	**1,502,564**	1,633,441
Cash and short-term deposits (see note 14)	**(222,830)**	(220,456)
Net debt (B)	**1,279,734**	1,412,985
Equity attributable to EnQuest PLC shareholders (C)	**(207,377)**	559,061
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**(768,539)**	(449,301)
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**(28,319)**	214,340
Gross gearing ratio (A/C)	**n/a**	2.9
Net gearing ratio (B/C)	**n/a**	2.5
Shareholders' return on investment (D/C)	**n/a**	n/a
Shareholders' return on investment excluding exceptionals (E/C)	**n/a**	38%

(i) Principal amounts drawn, excludes netting off of fees (see note 18)

28. Subsidiaries

At 31 December 2020, 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%
EnQuest Forward Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest Forward 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

29. Cash flow information

Cash generated from operations

	Notes	**Year ended 31 December 2020 $'000**	Year ended 31 December 2019 $'000
Profit/(loss) before tax		**(565,975)**	(729,113)
Depreciation	5(c)	**7,616**	8,207
Depletion	5(b)	**438,247**	525,145
Exploration costs impaired and written off	4	**–**	150
Net impairment charge to oil and gas assets	4	**422,495**	812,448
Write down of inventory		**24,940**	14,588
Write down of asset	4	**–**	415
Change in fair value of investments		**4**	20
Share-based payment charge	5(f)	**3,401**	5,888
Gain on termination of Tanjong Baram risk service contract	5(d)	**(10,209)**	–
Loss on derecognition of assets related to the Seligi riser detachment	5(e)	**956**	–
Change in contingent consideration	22	**(60,991)**	72,685
Change in provisions	23	**119,642**	29,711
Amortisation of option premiums	19	**(6,226)**	(4,936)
Unrealised (gain)/loss on commodity financial instruments	5(a)	**(8,778)**	65,375
Unrealised (gain)/loss on other financial instruments	5(b)	**1,932**	378
Unrealised exchange loss/(gain)		**5,067**	15,587
Net finance expense		**163,339**	190,099
Operating profit before working capital changes		**535,460**	1,006,647
Decrease/(increase) in trade and other receivables		**185,225**	(78,056)
(Increase)/decrease in inventories		**(5,438)**	6,423
(Decrease)/increase in trade and other payables		**(147,417)**	59,604
Cash generated from operations		**567,830**	994,618

Changes in liabilities arising from financing activities

	Loans and borrowings (see note 18) $'000	**Bonds (see note 18) $'000**	**Lease liabilities (see note 24) $'000**	**Total $'000**
At 1 January 2019	(1,049,999)	(990,281)	(769,477)	(2,809,757)
Cash movements:				
Repayments of loans and borrowings	394,025	–	–	394,025
Repayment of lease liabilities	–	–	135,125	135,125
Cash interest paid in year	64,370	67,485	–	131,855
Non-cash movements:				
Additions	–	–	(24,587)	(24,587)
Interest/finance charge payable	(67,749)	(62,694)	(55,686)	(186,129)
Fee amortisation	(811)	(2,591)	–	(3,402)
Foreign exchange adjustments	(1,049)	(6,879)	(1,541)	(9,469)
Other non-cash movements	(69)	(1,023)	–	(1,092)
At 31 December 2019	**(661,282)**	**(995,983)**	**(716,166)**	**(2,373,431)**
Cash movements:				
Repayments of loans and borrowings	**210,671**	**–**	**–**	**210,671**
Repayment of lease liabilities	**–**	**–**	**123,001**	**123,001**
Cash interest paid in year	**31,056**	**–**	**–**	**31,056**
Non-cash movements:				
Additions	**–**	**–**	**(2,812)**	**(2,812)**
Interest/finance charge payable	**(32,791)**	**(73,476)**	**(50,851)**	**(157,118)**
Fee amortisation	**(849)**	**(2,261)**	**–**	**(3,110)**
Foreign exchange adjustments	**(77)**	**(7,923)**	**(1,744)**	**(9,744)**
Disposal	**–**	**–**	**726**	**726**
Other non-cash movements	**498**	**(49)**	**–**	**449**
At 31 December 2020	**(452,774)**	**(1,079,692)**	**(647,846)**	**(2,180,312)**

Reconciliation of carrying value

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
Principal	(454,209)	(1,048,355)	(647,846)	(2,150,410)
Unamortised fees	1,925	3,314	–	5,239
Accrued interest (note 17)	(490)	(34,651)	–	(35,141)
At 31 December 2020	**(452,774)**	**(1,079,692)**	**(647,846)**	**(2,180,312)**

30. Subsequent events

Bressay transaction

The Group completed the Bressay transaction on 21 January 2021. Under the agreement, EnQuest has assumed operatorship of the licenses with a participating interest of 40.81% for an initial consideration of £2.2 million, payable as a carry against 50% of Equinor's net share of costs from the point EnQuest assumed operatorship. EnQuest will also make a contingent payment of $15 million following OGA approval of a Bressay field development plan. The contingent payment increases to $30 million in the event that EnQuest sole risks Equinor in the submission of the field development plan. There are no gross assets or profit before tax associated with the assets.

Golden Eagle area transaction and Group refinancing

The Group signed an agreement with Suncor on 4 February to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area, comprising the producing Golden Eagle, Peregrine and Solitaire fields ('the Transaction').

The initial consideration is $325 million (which is subject to working capital and other adjustments), with additional contingent consideration of up to $50 million. The contingent consideration is payable in the second half of 2023, if between July 2021 and June 2023 the Dated Brent average crude price equals or exceeds $55/bbl, upon which $25 million is payable, or if the Dated Brent average crude price equals or exceeds $65/bbl, upon which $50 million is payable. A deposit of c.$3 million (being part of the initial consideration) has been provided in 2021 by EnQuest and will be forfeited in most circumstances if the Transaction does not complete.

EnQuest plans to finance the Transaction through a combination of a new secured debt facility, interim period post-tax cash flows between the economic effective date of 1 January 2021 and completion, and an equity raise (collectively the 'funding arrangements').

It is anticipated the new secured debt facility, in respect of which the Group is currently working closely with its leading lending banks BNP and DNB, will incorporate the refinancing of the existing outstanding senior credit facility. Further, the Group anticipates raising up to $50 million of equity through a placing and open offer, in which shareholders related to Amjad Bseisu are expected to participate in line with their equity holdings. Amjad Bseisu and/or persons related to him are expected to make financing commitments assuring there will be no funding shortfall in respect of this $50 million. These financing commitments constitute a related party transaction and will therefore require independent shareholder approval. J.P. Morgan Securities plc (which conducts its UK investment banking activities as J.P. Morgan Cazenove) is acting as global coordinator, bookrunner and sponsor to EnQuest in connection with the placing and open offer, as financial adviser and sponsor to EnQuest in connection with the Transaction and as sponsor to EnQuest in connection with the related party transaction.

Glossary – Non-GAAP measures

The Group uses Alternative Performance Measures ('APMs') when assessing and discussing the Group's financial performance, balance sheet and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with additional useful information by adjusting for exceptional items and certain remeasurements which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, balance sheet and cash flows.

Business performance net profit attributable to EnQuest PLC shareholders	**2020 $'000**	2019 $'000
Reported net profit/(loss) (A)	**(625,802)**	(449,301)
Adjustments – remeasurements and exceptional items (note 4):		
Unrealised (losses)/gains on oil derivative contracts (note 19)	**8,778**	(65,375)
Unrealised (gains)/losses on foreign exchange derivative contracts (note 19)	**(1,932)**	1,684
Unrealised (gains)/losses on carbon derivative contracts (note 19)	**–**	(2,062)
Net impairment (charge)/reversal to oil and gas assets (note 10, 11 and note 12)	**(422,495)**	(812,448)
Unwind of contingent consideration (note 22)	**(77,259)**	(57,165)
Change in contingent consideration (note 22)	**138,249**	(15,520)
Redundancy provision (note 23)	**(5,792)**	–
PM8/Seligi riser provision (note 23)	**(5,902)**	–
Loss on decrecognition of assets related to the Seligi riser detachment (note 5(e))	**(956)**	–
KUFPEC provision	**–**	(15,630)
Other exceptional items	**–**	(585)
Pre-tax remeasurements and exceptional items (B)	**(367,309)**	(967,101)
Tax on remeasurements and exceptional items (C)	**(232,306)**	303,460
Post-tax remeasurements and exceptional items (D = B + C)	**(599,615)**	(663,641)
Business performance net profit attributable to EnQuest PLC shareholders (A - D)	**(26,187)**	214,340

EBITDA	**2020 $'000**	2019 $'000
Reported profit/(loss) from operations before tax and finance income/(costs)	**(310,069)**	(467,768)
Adjustments:		
Remeasurements and exceptional items (note 4)	**290,050**	909,936
Depletion and depreciation (note 5(b) and note 5(c))	**445,863**	533,352
Inventory revaluation	**24,940**	14,588
Change in provision (note 23)	**95,197**	–
Net foreign exchange (gain)/loss (note 5(d) and note 5(e))	**4,625**	16,427
Business performance EBITDA (E)	**550,606**	1,006,535

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, change in provision and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure.

Total cash and available facilities	**2020 $'000**	2019 $'000
Available cash	**113,185**	144,214
Ring-fenced cash	**107,970**	73,985
Restricted cash	**1,675**	2,257
Total cash and cash equivalents (F) (note 14)	**222,830**	220,456
Available credit facilities	**450,000**	535,000
Credit facility – Drawn down (appendix)	**(360,000)**	(460,000)
Letter of credit (note 18)	**(28,778)**	(6,849)
Available undrawn facility (G)	**61,222**	68,151
Total cash and available facilities (F + G)	**284,052**	288,607

Net debt	2020 $'000	2019 $'000
Borrowings (note 18):		
Credit facility – Drawn down	**360,000**	460,000
Credit facility – PIK	**17,270**	15,097
Sculptor Capital facility	**65,776**	120,287
SVT working capital facility	**9,238**	31,899
Tanjong Baram project financing facility	**–**	31,730
Borrowings (H)	**452,284**	659,013
Bonds (note 18):		
High yield bond	**796,528**	741,573
Retail bond	**248,513**	224,658
Bonds (I)	**1,045,041**	966,231
Non-cash accounting adjustments (note 18):		
Unamortised fees on loans and borrowings	**1,925**	2,625
Unamortised fees on bonds	**3,314**	5,572
Non-cash accounting adjustments (J)	**5,239**	8,197
Debt (H + I + J) (K)	**1,502,564**	1,633,441
Less: Cash and cash equivalents (note 14) (E)	**222,830**	220,456
Net debt/(cash) (K – F) (L)	**1,279,734**	1,412,985

Net debt/EBITDA	2020 $'000	2019 $'000
Net debt (L)	**1,279,734**	1,412,985
Business performance EBITDA (E)	**550,606**	1,006,535
Net debt/EBITDA (L/E)	**2.3**	1.4

Cash capex	2020 $'000	2019 $'000
Reported net cash flows (used in)/from investing activities	**(120,597)**	(257,838)
Adjustments:		
Repayment of Magnus contingent consideration – Profit share	**41,071**	21,581
Net cash received on termination of Tanjong Baram risk service contract	**(51,054)**	–
Interest received	**(796)**	(1,225)
Cash capex	**(131,376)**	(237,482)

Free cash flow	2020 $'000	2019 $'000
Net cash flows from/(used in) operating activities	**522,085**	962,271
Net cash flows from/(used in) investing activities	**(120,597)**	(257,838)
Net cash flows from/(used in) financing activities	**(401,014)**	(729,996)
Adjustments:		
Repayment of loans and borrowings	**210,671**	394,025
Free cash flow	**211,145**	368,462

Revenue sales	2020 $'000	2019 $'000
Revenue from crude oil sales (note 5(a)) (M)	**779,865**	1,548,177
Revenue from gas and condensate sales (note 5(a)) (N)	**60,486**	120,242
Realised (losses)/gains on oil derivative contracts (note 5(a)) (P)	**(6,059)**	24,756

Barrels equivalent sales	2020 kboe	2019 kboe
Sales of crude oil (Q)	**18,758**	24,098
Sales of gas and condensate[(i)]	**3,471**	4,082
Total sales (R)	**22,229**	28,180

(i) Includes volumes related to onward sale of third-party gas purchases not required for injection activities at Magnus

Average realised prices	2020 $/Boe	2019 $/Boe
Average realised oil price, excluding hedging (M/Q)	**41.6**	64.2
Average realised oil price, including hedging ((M + P)/Q)	**41.3**	65.3
Average realised blended price, excluding hedging ((M + N)/R)	**37.8**	59.2
Average realised blended price, including hedging ((M + N + P)/R)	**37.5**	60.1

Operating costs	2020 $'000	2019 $'000
Reported cost of sales (note 5(b))	**799,081**	1,243,948
Adjustments:		
Remeasurements and exceptional items (note 5(b))	**(13,626)**	(378)
Depletion of oil and gas assets (note 5(b))	**(438,247)**	(525,145)
(Credit)/charge relating to the Group's lifting position and inventory (note 5(b))	**34,801**	(102,853)
Other cost of sales (note 5(b))	**(53,367)**	(97,459)
Operating costs	**328,642**	518,113
Less realised (gain)/loss on derivative contracts (note 5(b))	**572**	1,707
Operating costs directly attributable to production	**329,214**	516,406
Comprising of:		
Production costs (S) (note 5(b))	**265,529**	441,624
Tariff and transportation expenses (T) (note 5(b))	**63,685**	74,782
Operating costs directly attributable to production	**329,214**	516,406

Barrels equivalent produced	2020 kboe	2020 kboe
Total produced (working interest) (U)	**21,636**	25,041

Unit opex	2020 $/Boe	2019 $/Boe
Production costs (S/U)	**12.3**	17.6
Tariff and transportation expenses (T/U)	**2.9**	3.0
Total unit opex ((S + T)/U)	**15.2**	20.6